Union Bank of Taiwan

Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Union Bank of Taiwan

Opinion

We have audited the accompanying financial statements of Union Bank of Taiwan (the Bank), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants and 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 Financial Statements section of our report. We are independent of the Bank 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 financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the Bank's financial statements for the year ended December 31, 2017 are described as follows:

Accuracy of Interest Revenue from Discounts and Loans

For the year ended December 31, 2017, the amount of interest revenue from discounts and loans was $6,342,642 thousand which, represented approximately 62% of total net revenue, and was considered material to the financial statements as a whole. Refer to Note 30 to the financial statements. Therefore, we considered the accuracy of the recognition of interest revenue as a key audit matter for the year ended December 31, 2017.

The main audit procedures we performed in response to certain aspects of the key audit matter described above were as follows:

1. Understanding of the design of the Bank's computerized information system and General IT Controls, and testing of the operating effectiveness of the controls over the relevant application system and the information generated.

2. Understanding of the design of the application system for recognition of commercial loans and discounts and interest revenue. Testing of operating effectiveness of relevant automated controls in the application system.

3. Determination and verification of the classification of material loans. Verification if there is any difference in the balance of loans generated by information system and carrying amount per book.

4. Testing and assessment of the accuracy of interest revenue generated by information system. Verification if there is any difference in the interest revenue generated by information system and carrying amount per books.

<u>Possible Impairment of Discounts and Loans</u>

As of December 31, 2017, the net amount of discounts and loans of the Bank was $318,624,348 thousand which, represented approximately 57% of total assets, and was considered material to the financial statements as a whole. Refer to Note 11 to the financial statements. The Bank's management performs loan impairment assessment involving critical judgements on accounting estimates and assumptions; therefore, we determined allowance for possible losses on discounts and loans as a key audit matter for the year ended December 31, 2017.

The Bank's management performs loan impairment assessment through reviewing of portfolios of loans periodically, and makes a judgement on whether to recognize impairment loss per observable evidence indicating the probable occurrence of impairment events. The amount of impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows with consideration of collaterals and guarantees, discounted at the financial asset's original effective interest rate. In addition, the allowance provision must comply with relevant regulations issued by the authorities.

For the accounting policies and relevant information on loan impairment assessment, refer to Notes 4, 5 and 12 to the financial statements.

The main audit procedures we performed in response to certain aspects of the key audit matter described above were as follows:

1. Understanding and testing of the internal controls in respect of the Bank's loan impairment assessment process.

2. Impairment assessment of sample individual loans by:

    - Verifying the accuracy of the balance of loans.

    - Verifying the payment of principal and interest, and the classification of credit assets according to relevant regulations issued by the authorities.

    - Assessing the assumptions used to estimate future cash flows and the reasonableness of the value of collateral.

3. Impairment assessment of loans on collective basis by:

   - Verifying the classification of collectively assessed loans.

   - Understanding the assumptions on critical factors of collectively assessed loans, including the possibility of impairment and the recoverability of loan balances, used in the impairment assessment model, and verifying whether the estimates reasonably reflected the actual outcome for each loan portfolio.

   - Recalculating to confirm the amount of recognized impairment.

4. Verifying the classification of credit assets in order to assess whether the provision of allowances for possible losses complied with relevant regulations issued by the authorities.

Emphasis of Matter

As stated in Notes 1 and 15 to the financial statements, on August 1, 2016, the Bank merged with Union Insurance Broker Company, a 100% owned subsidiary of the Bank. The merger was treated as a reorganization. Thus, the Bank restated its financial statements retrospectively. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank 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 Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank'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 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 Bank to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Bank to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the 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 financial statements for the year ended December 31, 2017 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 Shiuh-Ran Cheng and Chen-Hsiu Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 29, 2018

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.

BANK OF TAIWAN

E SHEETS
BER 31, 2017 AND 2016
ands of New Taiwan Dollars)

	2017		201
	Amount	**%**	**Amount**
D CASH EQUIVALENTS (Notes 4 and 6)	$ 10,756,051	2	$ 9,974,69
M THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 7)	19,180,985	4	54,414,461
AL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	11,852,723	2	9,291,61
IES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 9)	28,215,334	5	27,845,24
BLES, NET (Notes 4, 5, 10 and 12)	17,627,438	3	17,768,361
T TAX ASSETS (Note 4)	46,909	-	183,591
TS AND LOANS, NET (Notes 4, 5, 11, 12 and 40)	318,624,348	57	284,040,72
BLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 13 and 40)	35,183,406	6	39,548,60
-MATURITY FINANCIAL ASSETS (Notes 4 and 14)	51,285,957	9	7,192,11
IENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 15)	2,981,366	1	2,910,88
NANCIAL ASSETS, NET (Notes 4, 16 and 41)	48,100,741	9	56,620,90
Y AND EQUIPMENT, NET (Notes 4 and 17)	8,061,615	2	8,136,37
BLE ASSETS (Note 4)			
ll (Note 18)	1,985,307	-	1,985,30
er software	177,528	-	179,20
tal intangible assets	2,162,835	-	2,164,51
D TAX ASSETS (Notes 4 and 38)	1,019,583	-	1,307,57
SSETS, NET (Notes 4, 19, 40 and 42)	2,102,313	-	2,230,77
	$ 557,201,604	100	$ 523,630,42
TIES AND EQUITY			
HE CENTRAL BANK AND OTHER BANKS (Note 20)	$ 8,961,290	2	$ 7,017,62
AL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	183,611	-	38,43
IES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 4 and 21)	30,273,976	5	28,874,13
TS PAYABLE (Notes 22 and 40)	7,005,686	1	6,889,25
T TAX LIABILITIES (Note 4)	70,008	-	64,78
S (Notes 23 and 40)	449,412,119	81	432,062,82
EBENTURES (Notes 4 and 24)	11,700,000	2	11,200,00
NANCIAL LIABILITIES (Note 25)	21,720	-	19,56
NS (Notes 4, 12, 26 and 27)	171,759	-	176,55
D TAX LIABILITIES (Notes 4 and 38)	911,524	-	815,251
IABILITIES (Notes 28, 40 and 42)	571,236	-	522,68
tal liabilities	509,282,929	91	487,681,111

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UNION BANK OF TAIWAN

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
NET INTEREST (Notes 4, 30 and 40)					
Interest revenues	$ 10,298,904	100	$ 10,051,894	102	2
Interest expenses	3,613,710	35	3,653,016	37	(1)
Net interest	6,685,194	65	6,398,878	65	4
NET REVENUES OTHER THAN INTEREST					
Commissions and fee revenues, net (Notes 4, 31 and 40)	2,323,616	22	2,454,451	25	(5)
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 32)	294,376	3	365,278	4	(19)
Realized gain on available-for-sale financial assets, net (Notes 4, 33 and 40)	781,919	8	449,182	4	74
Share of profit of associates (Note 4)	193,703	2	173,216	2	12
Foreign exchange loss, net (Note 4)	(138,588)	(1)	(9,514)	-	1,357
Impairment loss recognized on financial assets, net (Notes 4 and 34)	-	-	(49,283)	(1)	100
Securities brokerage fee revenues, net	75,549	1	52,172	-	45
Gain on financial assets measured at cost, net	55,482	-	57,955	1	(4)
Property loss, net (Note 4)	(4,496)	-	(3,948)	-	14
Other noninterest net gain	20,972	-	18,806	-	12
TOTAL NET REVENUES	10,287,727	100	9,907,193	100	4
PROVISIONS (Notes 4, 5 and 12)					
Provision of allowance for doubtful accounts	356,861	4	171,542	2	108
OPERATING EXPENSES					
Personnel expenses (Notes 4, 27, 35 and 40)	3,130,909	30	3,137,375	31	-
Depreciation and amortization (Notes 4 and 36)	326,509	3	305,759	3	7
Others (Notes 37 and 40)	3,160,198	31	3,066,039	31	3
Total operating expenses	6,617,616	64	6,509,173	65	2

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UNION BANK OF TAIWAN

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INCOME BEFORE INCOME TAX	$ 3,313,250	32	$ 3,226,478	33	3
INCOME TAX EXPENSE (Notes 4 and 38)	568,263	5	590,103	6	(4)
NET INCOME	2,744,987	27	2,636,375	27	4
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Note 27)	9,802	-	(16,223)	-	160
Share of the other comprehensive income of subsidiaries and associates	429	-	4,449	-	(90)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 38)	(1,666)	-	2,758	-	(160)
	8,565	-	(9,016)	-	195
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	(814,626)	(8)	(539,546)	(6)	51
Unrealized gain on available-for-sale financial assets	1,228,170	12	(60,740)	(1)	2,122
Share of other comprehensive income (loss) of subsidiaries and associates	(76,598)	(1)	5,526	-	(1,486)
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 38)	51,180	1	68,614	1	(25)
	388,126	4	(526,146)	(6)	174
Other comprehensive income (loss) for the year, net of income tax	396,691	4	(535,162)	(6)	174
TOTAL COMPREHENSIVE INCOME	$ 3,141,678	31	$ 2,101,213	21	50

(Continued)

UNION BANK OF TAIWAN

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 39)					
Basic	$1.05		$1.01		
Diluted	$1.05		$1.01		

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

(With Deloitte & Touche auditors' report dated March 29, 2018) (Concluded)

are Capital (Note 29)		Capital	Retained Earnings (Notes 4 and 29)				Other Equity (Notes 4 and 29)			
nary ares	Preference Shares	Capital Surplus (Note 29)	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations	Total	Total Equity
51,524	$ -	$ 32,413	$ 3,450,907	$ 558,842	$ 3,078,201	$ 7,087,950	$ 1,302,228	$ 416,049	$ 1,718,277	$ 34,890,164
-	-	-	923,460	-	(923,460)	-	-	-	-	-
-	-	-	-	-	(1,042,061)	(1,042,061)	-	-	-	(1,042,061)
-	-	-	-	-	2,636,375	2,636,375	-	-	-	2,636,375
-	-	-	-	-	(9,016)	(9,016)	(29,920)	(496,226)	(526,146)	(535,162)
51,524	-	32,413	4,374,367	558,842	3,740,039	8,673,248	1,272,308	(80,177)	1,192,131	35,949,316
-	-	-	790,913	-	(790,913)	-	-	-	-	-
-	-	-	-	26,364	(26,364)	-	-	-	-	-
-	-	-	-	-	(1,172,319)	(1,172,319)	-	-	-	(1,172,319)
-	-	-	-	-	2,744,987	2,744,987	-	-	-	2,744,987
-	-	-	-	-	8,565	8,565	1,073,393	(685,267)	388,126	396,691
-	2,000,000	8,000,000	-	-	-	-	-	-	-	10,000,000
51,524	$ 2,000,000	$ 8,032,413	$ 5,165,280	$ 585,206	$ 4,503,995	$ 10,254,481	$ 2,345,701	$ (765,444)	$ 1,580,257	$ 47,918,675

UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,313,250	$ 3,226,478
Adjustments for:		
Depreciation expenses	265,915	248,210
Amortization expenses	60,594	57,549
Provision of allowance for doubtful accounts	356,861	171,542
Net gain on disposal of financial assets designated as at fair value through profit or loss	(294,376)	(365,278)
Interest expenses	3,613,710	3,653,016
Interest revenues	(10,298,904)	(10,051,894)
Dividend income	(225,302)	(208,005)
Share of profit of associates	(193,703)	(173,216)
Loss on disposal of properties and equipment	4,496	3,948
Gain on disposal of investments	(612,099)	(299,132)
Impairment loss recognized on financial assets	-	50,000
Reversal of impairment losses on nonfinancial asset	-	(717)
Loss on disposal of collaterals	-	241
Changes in operating assets and liabilities		
Due from the Central Bank and call loans banks	(3,641,413)	(1,496)
Financial assets at fair value through profit or loss	(1,848,607)	127,674
Accounts receivable	(219,901)	(2,731,287)
Discounts and loans	(34,727,226)	(3,389,657)
Available-for-sale financial assets	6,205,466	(16,398,233)
Held-to-maturity financial assets	(44,498,510)	(2,974,151)
Other financial assets	9,079,422	4,423,579
Due to the Central Bank and other banks	1,943,661	3,853,638
Financial liabilities at fair value through profit or loss	(277,453)	(259,375)
Securities sold under repurchase agreements	1,399,839	1,887,201
Accounts payable	55,090	2,829,338
Deposits	17,349,295	10,316,798
Other financial liabilities	2,154	(842)
Provisions for employee benefits	(246)	(806,439)
Other liabilities	899	-
Cash used in operations	(53,187,088)	(6,810,510)
Interest received	10,304,523	9,910,845
Dividend received	267,762	241,509
Interest paid	(3,552,364)	(3,630,257)
Income tax returned	7,417	35,002
Net cash used in operating activities	(46,159,750)	(253,411)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for properties and equipment	(191,869)	(721,944)
Proceeds of the disposal of properties and equipment	22	23
Increase in settlement fund	-	(20,334)

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Decrease in settlement fund	$ 161,568	$ -
Increase in refundable deposits	(96,519)	-
Decrease in refundable fund	-	243,501
Payments for intangible assets	(62,718)	(34,669)
Proceeds of the disposal of collaterals	-	476
Increase in other assets	-	(260,541)
Decrease in other assets	63,412	-
Net cash used in investing activities	(126,104)	(793,488)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issue of bank debentures	500,000	2,500,000
Repayments of bank debentures	-	(900,000)
Increase in guarantee deposits received	-	13,889
Decrease in guarantee deposits received	(2,513)	-
Increase in other liabilities	42,773	40,314
Cash dividends paid	(1,172,319)	(1,042,061)
Issuance of preference shares	10,000,000	-
Net cash generated from financing activities	9,367,941	612,142
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(805,523)	(537,044)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,723,436)	(971,801)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	77,019,932	77,991,733
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 39,296,496	$ 77,019,932

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

Reconciliation of the amounts in the statements of cash flows with the equivalent items reported in the balance sheets as of December 31, 2017 and 2016:

	December 31	
	2017	**2016**
Cash and cash equivalents in balance sheets	$ 10,756,051	$ 9,974,690
Due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7 "Cash Flow Statements"	325,111	39,200,000
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	28,215,334	27,845,242
Cash and cash equivalents in statements of cash flows	$ 39,296,496	$ 77,019,932

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

(With Deloitte & Touche auditors' report dated March 29, 2018) (Concluded)

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

The Union Bank of Taiwan (the Bank) obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law, which cover deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bills transactions, investments, foreign exchange transactions, savings, trust, etc.

On the Bank's merger with Chung Shing Bank on March 19, 2005, the Bank took over all of the assets, liabilities and operating units of Chung Shing Bank.

The Bank merged with the Union Bills Finance Corporation (UBF) on August 16, 2010, with the Bank as the survivor entity.

On August 26, 2015, the board of directors of the Bank resolved to merge UIB in order to integrate the resources, strengthen management and business synergy. The merger is approved by FSC (Rule No. 10502022990). The effective date of this merger is August 1, 2016.

As of December 31, 2016, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance, Bills Finance, International Banking Department of the Head Office, Union Insurance Brokerage agency, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 90 domestic branches (including Business Department).

The operations of the Bank's Trust Department are (1) trust business planning, managing and operating; and (2) custody of nondiscretionary trust funds in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares are traded on the Taiwan Stock Exchange.

The Bank's financial statements are presented in New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 14, 2018.

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 Public Banks and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the FSC

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Bank's accounting policies:

1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Bank is required to disclose the fair value hierarchy. If the fair value measurements are categorized within (Level 2/Level 3), the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards, including IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments", were amended in this annual improvement.

The amended IFRS 8 requires the Bank to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker.

When the amended IFRS 13 became effective in 2017, the short-term receivables and payables with no stated interest rate are measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 "Related Party Disclosures" was amended to clarify that a management entity providing key management personnel services to the Bank is a related party of the Bank. Consequently, the Bank is required to disclose as related party transactions the amounts incurred for the services paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. When the amendment became effective in 2017, a company which provides key management personnel services to the Bank, is classified retrospectively as a related party and disclosed accordingly (refer to Note 40).

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 "Investment Property", were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself. The amendment is applied prospectively starting from January 1, 2017.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a Bank of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts which do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and the application of both standards may be required to determine whether the investment property acquired is an acquisition of an asset or a business combination. The amendment is applied prospectively to acquisitions of investment property on or after January 1, 2017.

4) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 “Property, Plant and Equipment” stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 “Intangible Assets” clarifies there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances when:

a) The intangible asset is expressed as a measure of revenue (for example, when there is a contract that specifies the entity’s use of the intangible asset will expire upon the achievement of a revenue threshold); or

b) It can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

5) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards, including IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IFRS 5 was amended to clarify that reclassification between non-current assets (or disposal Bank) “held for sale” and non-current assets “held for distribution to owners” does not constitute a change to a plan of sale or distribution. Therefore, the previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for “held for distribution to owners” and do not meet the criteria for “held for sale” should be treated in the same way as assets that cease to be classified as held for sale. The amendment is applied prospectively to transactions that occur on or after January 1, 2017.

6) Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"

   The amendments clarify that when the Bank (a non-investment entity) applies the equity method to an associate or a joint venture that is an investment entity, the Bank may retain the fair value measurements that the associate or joint venture used for its subsidiaries. Prior to the amendments, the associate or joint venture measures its interest in subsidiaries at fair value but the fair value is unwound, and instead, those subsidiaries are consolidated in the associate's or joint venture's result in order to be equity-accounted by the Bank. When the amendments are applied retrospectively starting from January 1, 2017, the Bank elects to retain the measurement applied by the associate or joint venture to its interest in subsidiaries.

7) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

   The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

   The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Bank, or is the spouse or second immediate family of the chairman of the board of directors or president of the Bank, are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Bank has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Bank's respective total transaction or balance, such transactions should be separately disclosed by the name of each related party.

   The amendments also require additional disclosure if there is a significant difference between the actual operation conditions after a business combination and the expected benefits at the acquisition date.

   When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and impairment of goodwill are enhanced. Refer to Note 40.

b. The Regulations Governing the Preparation of Financial Reports by Public Banks and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2018

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019

(Continued)

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 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

(Concluded)

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures," were amended in this annual improvement.

The amendment to IFRS 12 clarifies that when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale in accordance with IFRS 5. The Group will apply the aforementioned amendment retrospectively.

2) IFRS 9 "Financial Instruments" and related amendments

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Bank's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Bank may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Bank analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss. Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides this, unlisted shares measured at cost will be measured at fair value instead;

b) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments; and

c) Debt investments classified as held-to-maturity financial assets/debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows/will be classified as at fair value through other comprehensive income under IFRS 9, because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets/will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding but the objective of the Bank's business model is not to collect contractual cash flows and neither is it achieved both by collecting contractual cash flows and selling financial assets/will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

The Bank has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets. In relation to debt instrument investments and financial guarantee contracts, the Bank will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Bank anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The bank elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2018**
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss	$ 11,852,723	$ 990,357	$ 12,843,080
Financial assets at fair value through other comprehensive income	-	35,526,034	35,526,034
Receivable, net	17,627,438	(16,737)	17,610,701
Available-for-sale financial assets, net	35,183,406	(35,183,406)	-
Held-to-maturity financial assets	51,285,957	(51,285,957)	-
Investments accounted for using the equity method, net	2,981,366	(634)	2,980,732
Financial assets measured at amortized cost - current	-	96,662,116	96,662,116
Debt investments with no active market	45,734,754	(45,734,754)	-
Financial assets measured at cost	507,614	(507,614)	-
Total effect on assets		$ 449,405	
Provisions	171,759	$ 27,308	199,067
Deferred tax liability	911,524	1,262	912,786
Total effect on liabilities		$ 28,570	
Retained earnings	10,254,481	$ (68,668)	10,185,813
Other equity	1,580,257	489,503	2,069,760
Total effect on equity		$ 420,835	

3) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Bank regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

Under IFRS 15, the Bank will allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. Under current standard, the Bank applies residual value method to allocate the amount of revenue to be recognized.

Incremental costs of obtaining a contract will be recognized as an asset to the extent the Bank expects to recover those costs. Such asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This will lead to the later recognition of charges for certain customer-obtaining costs.

The Bank chooses to apply IFRS 15 only to contracts that have not yet been completed on January 1, 2018, and the relevant cumulative effect will be adjusted to retained earnings on that date.

4) Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Bank expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Bank should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Bank's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Bank will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the Bank currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendments will be applied retrospectively in 2018.

5) Amendments to IAS 40 "Transfers of Investment Property"

The amendments clarify that the Bank should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

6) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Bank will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the interpretation.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
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 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Bank shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

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 Bank 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 bank 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 Bank 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 unrelated investors’ interest in the associate or joint venture, i.e. the Bank’s share of the gain or loss is eliminated. Also, when the Bank 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 unrelated investors’ interest in the associate or joint venture, i.e. the Bank’s share of the gain or loss is eliminated.

2) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Bank is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Bank may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the statements of comprehensive income, the Bank should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the 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.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Bank as lessor.

When IFRS 16 becomes effective, the Bank may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

3) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Bank should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Bank concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Bank should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Bank should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Bank expects to better predict the resolution of the uncertainty. The Bank has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Bank shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

4) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explained that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

When the amendments become effective, the Bank shall apply the amendments retrospectively. However, the Bank may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

5) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

6) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Bank is continuously assessing the possible impact that the application of other standards and interpretations will have on the Bank’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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

When preparing its financial statements, the Bank used the equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Bank in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries, associates and related equity items, as appropriate, in the financial statements.

Foreign Currencies

In preparing the financial statements of each group entity, transactions in currencies other than the Bank'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 in which they arise except for: Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

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 from 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 cases, the exchange differences are also recognized in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purposes of presenting financial statements, the assets and liabilities of the Bank's foreign operations (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Bank) are translated into the presentation currency, the New Taiwan dollars, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

Investments Accounted for Using the Equity Method

The Bank uses the equity method to account for its investments in subsidiaries and associates.

a. Investments in subsidiaries

   A subsidiary is an entity (including a structured entity) that is controlled by the Bank.

   Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Bank's share of the profit or loss and other comprehensive income of the subsidiary. The Bank also recognizes the changes in the Bank's share of equity of subsidiaries attributable to the Bank.

Changes in the Bank's ownership interest in a subsidiary that do not result in the Bank losing control of the subsidiary are equity transactions. The Bank recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Bank's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Bank's net investment in the subsidiary), the Bank continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of a subsidiary 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 Bank's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Bank assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Bank recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Bank loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Bank accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Bank had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent Bank's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent Bank's financial statements only to the extent of interests in the subsidiaries that are not related to the Bank.

b. Investment in associates

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

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

Any excess of the cost of acquisition over the Bank'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 Bank'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 Bank subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Bank's proportionate interest in the associate. The Bank records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Bank's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate 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 using the equity method is insufficient, the shortage is debited to retained earnings.

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

The entire carrying amount of an 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 Bank discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Bank accounts for all amounts previously recognized in other comprehensive income in relation to that associate 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 Bank continues to apply the equity method and does not remeasure the retained interest.

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

Financial Instruments

Financial assets and financial liabilities are recognized when a Bank entity 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 an acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) 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 fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

a. Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

1) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such financial assets are either held for trading or designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

b) The financial asset forms part of the Bank of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

c) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets 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 incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 44.

Investments in equity instruments under financial assets at fair value through profit or loss that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of such unquoted equity instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

2) Held-to-maturity investments

Corporate bonds, government bonds and asset backed securities which the Bank has the positive intent and ability to hold to maturity held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

The Bank holds government bonds, corporate bonds, listed stocks, mutual funds, negotiable certificates of deposit and commercial paper in an active market that are classified as trading and available-for-sale financial assets and are stated at fair value at each balance sheet date. Fair value is determined in the manner described in Note 44.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Bank's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

4) Loans and receivables

Loans and receivables (including trade loans, receivables, cash and cash equivalent, debt investments with no active market, and nonperforming loans) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits 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.

b. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

Certain categories of financial assets, such as loans, receivables, nonperforming loans and debt investments with no active market, are assessed for impairment collectively even if they are assessed as not impaired individually. Objective evidence of impairment of a portfolio of discounts and loans, receivables and nonperforming loans could include the significant financial difficulty of the debtor, economic or legal reasons relating to the debtor's financial difficulties, a counterparty's compromise on or breach of a contract, and an asset becoming more than three months overdue.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For any available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and other receivables that are written off against the allowance account.

c. Derecognition of financial assets

The Bank 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Equity instruments

Debt and equity instruments issued by the Bank 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.

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

The repurchase of the Bank'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, issuance or cancellation of the Bank's own equity instruments.

Financial liabilities

a. Subsequent measurement

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

   1) Financial liabilities at fair value through profit or loss

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

      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:

      a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

      b) The financial liability forms part of a Bank of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

      c) A contract contains one or more embedded derivatives so that the entire hybrid (combined) contract 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 it will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which incorporates any interest or dividend 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 liabilities are 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 44.

   2) Financial guarantee contracts

      Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the best estimate of the obligation under the contract or the amount initially recognized less cumulative amortization recognized.

b. Derecognition of financial liabilities

   The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative financial instruments

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 hedging 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 non-derivative host contracts 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 contracts are not measured at fair value through profit or loss.

Nonperforming Loans

Under the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the authorities, loans and other credits (including the accrued interests) that remain unpaid on their maturity are transferred immediately to nonperforming loans if the transfer is approved by the board of directors.

Nonperforming loans transferred from loans are recognized as discounts and loans, and those transferred from other credits are recognized as other financial assets.

Allowance for Doubtful Accounts and Reserve for Losses on Guarantees

In determining the allowance for credit losses and the reserve for losses on guarantees, the Bank assesses the balances of discounts and loans, receivables, nonperforming loans, and other financial assets as well as guarantees and acceptances for their collectability and their specific risks or general risks as of the balance sheet date.

Under the regulations issued by the Ministry of Finance (MOF), the Bank evaluates credit balances on the basis of their estimated collectability.

The MOF regulations also require the grouping of loans into these five classes: Normal, special mention, substandard, with doubtful collectability and uncollectable; the minimum allowances for doubtful accounts and for losses on guarantees for these loans should be 1%, 2%, 10%, 50% and 100%, respectively, of outstanding credits.

Later, the MOF issued a guideline stating that, within three years from January 1, 2011, the normal loans should have a minimum allowance of 1%, with the allowances for the four non-normal loans remaining the same. The Bank believes it can meet this new allowance requirement within three years from January 1, 2011.

Rule No. 10300329440 issued by FSC, stipulated the minimum the allowance for mortgage and improvement loans should be 1.5% by the end of 2016.

Credits deemed uncollectable may be written off if the write-off is approved by the board of directors. Recoveries of amounts previously written off are credited to the allowance account.

Repurchase and Resell Transactions

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

Property and Equipment

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

Freehold land is not depreciated.

Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If a lease term is shorter than the assets' useful lives, such assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

For a contract where an owner of land provides land for construction of buildings by a property developer in exchange for a certain percentage of the buildings, any exchange gain or loss is recognized when the exchange transaction occurs, if the buildings acquired are classified as property, plant and equipment and the exchange transaction has commercial substance.

On derecognition of an item of property and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized 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 Bank's cash-generating units or Bank of cash-generating units (referred to as "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 attributed 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 pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized on 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 which is 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

Separate acquisition

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 losses. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

Derecognition

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

Foreclosed Collaterals

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and evaluated at the lower of cost or net realizable value as of the balance sheet date.

Impairment of Tangible and Intangible Assets (Excluded Goodwill)

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any 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 Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to 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 or cash-generating unit 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 for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Leasing

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

a. The Bank as lessor

   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.

   Lease incentives included in an operating lease are recognized as an asset. The aggregate cost of incentives is recognized as a reduction of rental income on a straight-line basis.

   Lease incentives are recognized as income in the period in which they are incurred.

b. Bank as lessee

   Lease payments under an operating lease are expensed on a straight-line basis over the lease period. Under operating lease, contingent rentals are recognized as expenses at current period.

   Lease incentives received under operating leases are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Provisions

Provisions, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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 service entitling them to the contributions.

   Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past 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, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), 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 liability (asset) represents the actual deficit (surplus) in the Bank's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Other long-term employee benefits

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

d. Termination benefits

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

Income Tax

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 at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the 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 in the financial statements 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 difference and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank can 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 use the benefits of the temporary differences and these differences 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 assets and liabilities are measured at the amounts expected to be paid to (recovered from) taxation authorities, using the rates or laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets should reflect the tax consequences of how the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the period

For transactions recognized in profit or loss, current and deferred taxes are also recognized in profit or loss; for transactions recognized outside profit or loss, i.e., in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity. 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.

Interest Revenue and Service Fees

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on these loans/credits is recognized upon collection. Under a Ministry of Finance regulation, the interest revenue on credits covered by agreements that extend their repayment periods is recorded as deferred revenue and recognized as revenue upon collection

Revenue from brokerage is recognized when the earnings process has been completed.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank'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 to be 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.

a. Estimated impairment of loans and receivables

When there is objective evidence of impairment loss, the Bank takes into consideration the estimation of future cash flows. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If the actual future cash flows are less than expected, a material impairment loss may arise.

b. Recognition and measurement of defined benefit plans

Net defined benefit liabilities (assets) and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	$ 5,775,427	$ 5,817,939
Checks for clearing	4,042,078	3,563,014
Due from banks	938,546	593,737
	$ 10,756,051	$ 9,974,690

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2017	2016
Deposit reserve - checking account	$ 7,342,004	$ 3,985,664
Required deposit reserve	11,439,250	11,164,239
Deposit reserve - foreign-currency deposits	74,620	64,558
Call loans to banks	325,111	-
Deposit account in Central Bank	-	39,200,000
	$ 19,180,985	$ 54,414,461

Under a directive issued by the Central Bank of the ROC, the Bank determines monthly the New Taiwan dollar (NTD)-denominated deposit reserves at prescribed rates based on the average balances of customers' NTD-denominated deposits, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at rates prescribed for balances of foreign-currency deposits. These reserves may be withdrawn anytime and are noninterest earning.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Financial assets held for trading		
Commercial paper	$ 10,389,618	$ 8,300,747
Government bonds	-	151,223
Domestic quoted stocks	42,757	68,371
Mutual funds	883,014	5,662
	11,315,389	8,526,003
Derivative instrument		
Forward exchange contracts	311,723	418,515
Currency swap contracts	177,358	15,982
Option contracts	48,253	8,145
	537,334	442,642
	11,852,723	8,968,645
Financial assets designated as at fair value through profit or loss		
Principal guaranteed notes	-	322,968
	$ 11,852,723	$ 9,291,613
Financial liabilities held for trading		
Derivative instrument		
Forward exchange contracts	$ 14,246	$ 23,924
Option contracts	48,259	8,135
Currency swap contracts	121,106	6,371
	$ 183,611	$ 38,430

The Bank engaged in derivative transactions mainly to accommodate customers' needs and manage its exposure positions. The financial risk management objective of the Bank was to minimize risks due to changes in fair value or cash flows.

The contract amounts (notional amounts) of the derivative transactions for accommodating customers' needs and managing its exposure positions as of December 31, 2017 and 2016 were as follows:

	December 31	
	2017	2016
Currency swap contracts	$ 6,348,016	$ 3,090,128
Forward exchange contracts	32,026,895	11,612,082
Option contracts		
Buy	2,465,312	1,684,467
Sell	2,465,312	1,684,467

As of December 31, 2017 and 2016, financial instruments at fair value through profit and loss in the amount of $8,552,033 thousand and $7,054,785 thousand were under agreement to repurchase agreements.

9. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	December 31	
	2017	2016
Commercial paper	$ 12,094,964	$ 14,867,255
Government bonds	300,229	940,707
Corporate bonds	15,820,141	12,037,280
	$ 28,215,334	$ 27,845,242
Date of the resell agreement	2018.01-2018.02	2017.01-2017.02
Amount of the resell	$ 28,226,473	$ 27,852,409

The securities purchased under resell agreements had not been sold under repurchase agreements.

10. RECEIVABLES, NET

	December 31	
	2017	2016
Notes and accounts receivable	$ 14,725,496	$ 14,391,672
Interest receivable	835,648	832,976
Interbank clearing fund receivable	800,470	800,493
Accounts receivable factoring without recourse	396,449	799,844
Redemption of convertible bond receivable	-	513,962
Investment receivable	398,156	438,998
Acceptances receivable	186,974	135,531
Collections receivable	123,276	68,197
Others	349,268	154,934
	17,815,737	18,136,607
Less: Allowance for doubtful accounts	188,299	368,246
	$ 17,627,438	$ 17,768,361

Please refer to Note 45 for the impairment loss analysis of receivables.

The Bank has accrued an allowance for doubtful accounts on receivables. Please refer to Note 12 for the movements of allowance for doubtful accounts.

11. DISCOUNTS AND LOANS, NET

		December 31	
		2017	2016
Discounts and overdraft		$ 212,176	$ 43,283
Accounts receivable - financing		14,290	29,690
Loans			
Short-term	- unsecured	61,312,117	48,432,945
	- secured	60,714,827	54,147,371
Medium-term	- unsecured	18,561,250	15,783,090
	- secured	49,686,071	45,771,509
Long-term	- unsecured	5,682,256	4,792,014
	- secured	125,557,881	118,036,010
Import and export negotiations		37,962	22,985
Overdue loans		247,336	179,120
		322,026,166	287,238,017
Less: Allowance for doubtful accounts		3,401,818	3,197,294
		$ 318,624,348	$ 284,040,723

As of December 31, 2017 and 2016, the balances of nonaccrual loans were $247,336 thousand and $179,120 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $6,751 thousand in 2017 and $5,241 thousand in 2016.

In 2017 and 2016, the Bank wrote off certain credits after completing the required legal procedures.

Please refer to Note 45 for impairment loss analysis of discounts and loans. The Bank had set up an allowance for doubtful accounts on discounts and loans. Please refer to Note 12 for the movements in the allowance for doubtful accounts.

12. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The movements in the allowance for doubtful accounts and reserve for losses on guarantees liabilities for the years ended December 31, 2017 and 2016 are summarized as follows:

	Year Ended December 31, 2017			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2017	$ 368,246	$ 3,197,294	$ 134,621	$ 3,700,161
Provision of allowance for doubtful accounts	208,906	133,955	14,000	356,861
Write-offs	(665,750)	(296,290)	-	(962,040)
Recovery of written-off credits	299,327	363,071	-	662,398
Reclassification	-	9,500	(9,500)	-
Effects of exchange rate changes	(22,430)	(5,712)	(146)	(28,288)
Balance at December 31, 2017	$ 188,299	$ 3,401,818	$ 138,975	$ 3,729,092

	Year Ended December 31, 2016			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2016	$ 113,358	$ 2,796,860	$ 194,006	$ 3,104,224
Provision (reversal) of allowance for doubtful accounts	100,436	130,467	(59,361)	171,542
Write-offs	(173,535)	(74,220)	-	(247,755)
Recovery of written-off credits	327,987	345,452	-	673,439
Effects of exchange rate changes	-	(1,265)	(24)	(1,289)
Balance at December 31, 2016	$ 368,246	$ 3,197,294	$ 134,621	$ 3,700,161

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Overseas corporate bonds	$ 10,105,102	$ 12,979,154
Overseas financial bonds	6,302,487	8,473,037
Domestic corporate bonds	4,150,714	4,424,558
Overseas government bonds	5,966,611	5,377,258
Domestic quoted stocks	3,583,369	3,179,665
Mutual funds	917,253	1,791,542
Overseas quoted stocks	3,206,175	2,375,111
Domestic government bonds	951,695	948,277
	$ 35,183,406	$ 39,548,602

The available-for-sale financial assets amounting to $10,837,361 thousand and $14,636,448 thousand as of December 31, 2017 and 2016, respectively, had been sold under repurchase agreements.

14. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2017	2016
Convertible deposits	$ 42,300,000	$ -
Domestic government bonds	8,660,289	6,864,356
Domestic corporate bonds	300,000	300,000
Asset-based securities	25,668	27,759
	$ 51,285,957	$ 7,192,115

The held-to-maturity investments had not been sold under repurchase agreements.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

	December 31	
	2017	2016
Investments in subsidiaries	$ 2,928,245	$ 2,857,442
Investments in associates	53,121	53,447
	$ 2,981,366	$ 2,910,889

a. Investments in subsidiaries

	December 31	
	2017	2016
Union Finance and Leasing International Corporation (UFLIC)	$ 2,664,239	$ 2,604,833
Union Securities Investment Trust Corporation (USITC)	144,248	144,920
Union Finance International (H.K.) Limited	99,514	72,936
Union Information Technology Corporation (UIT)	20,244	34,753
	$ 2,928,245	$ 2,857,442

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Bank were as follows:

	December 31	
	2017	2016
Union Finance and Leasing International Corporation (UFLIC)	100.00%	100.00%
Union Securities Investment Trust Corporation (USITC)	35.00%	35.00%
Union Finance International (H.K.) Limited	99.99%	99.99%
Union Information Technology Corporation (UIT)	99.99%	99.99%

The Bank have the ability to control over finance, operating and personnel policy of USITC and therefore USITC be included in financial statements.

The Bank merged with Union Insurance Broker Company (UIB) on August 1, 2016 under the approval of the FSC. The merger should be treated as a reorganization. In addition, the Bank should recognize all the assets and liabilities of UIB at carrying amount and retrospectively restate the Bank's prior year's financial statements in the comparative financial statements. The Bank acquired UIB's assets and liabilities amounting to $49,592 thousand on August 1, 2016.

b. Investment in as associates

	December 31	
	2017	2016
None individually material		
Union Real-Estate Management Corporation	$ 53,121	$ 53,447

The summarized financial information in respect of the Bank's associates was set below:

	For the Year Ended December 31	
	2017	2016
Net loss	$ (326)	$ (347)

The Bank's share of the associate's profit and other comprehensive income for 2017 and 2016 was based on the associate's audited financial statements for the same reporting periods as those of the Bank.

16. OTHER FINANCIAL ASSETS, NET

	December 31	
	2017	2016
Debt instruments with no active markets, net	$ 45,734,754	$ 51,433,548
Pledged assets (Note 41)	594,026	4,207,784
Due from banks - certificate of deposit	937,964	464,500
Financial assets carried at cost, net	507,614	507,614
Call loans to securities	298,480	-
Non-overdue loans	25,105	3,765
Others	2,798	3,695
	$ 48,100,741	$ 56,620,906

a. Debt instruments with no active markets

As of December 31, 2017 and 2016, debt instruments with no active markets and amounting to $15,415,779 thousand and $10,163,828 thousand, respectively, were under repurchase agreements.

b. Financial assets carried at cost, net

	December 31	
	2017	2016
Unquoted stocks		
I Pass Corporation	$ 123,320	$ 123,320
Financial Information Service Company	118,782	118,782
Taiwan Asset Management Corporation	75,000	75,000
Taiwan Future Exchange Corporation	71,250	71,250
Taiwan Financial Asset Service Corporation	50,000	50,000
Other	69,262	69,262
	$ 507,614	$ 507,614

Financial assets carried at cost were unlisted common stocks with no quoted market prices in an active market and with fair values that could not be reliably measured. Thus, these assets were measured at cost less accumulated impairment.

c. Due from banks - certificate of deposit

The amount of due from banks - time deposits with maturities longer than three months or certificate of deposits that cannot be cancelled or used.

17. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Cost							
Balance at January 1, 2016	$ 3,421,707	$ 5,087,227	$ 1,404,868	$ 274,070	$ 193,648	$ 44,395	$ 10,425,915
Additions	423,916	30,931	124,197	12,349	46,389	84,162	721,944
Disposals	-	-	(176,847)	(1,728)	(672)	-	(179,247)
Reclassification	-	20,900	6,951	1,394	8,404	(84,764)	(47,115)
Balance at December 31, 2016	3,845,623	5,139,058	1,359,169	286,085	247,769	43,793	10,921,497
Accumulated depreciation							
Balance at January 1, 2016	-	1,288,319	1,119,885	240,864	63,121	-	2,712,189
Depreciation	-	120,473	77,594	9,700	40,443	-	248,210
Disposals	-	-	(172,920)	(1,684)	(672)	-	(175,276)
Balance at December 31, 2016	-	1,408,792	1,024,559	248,880	102,892	-	2,785,123
Balance at December 31, 2016, net	$ 3,845,623	$ 3,730,266	$ 334,610	$ 37,205	$ 144,877	$ 43,793	$ 8,136,374
Cost							
Balance at January 1, 2017	$ 3,845,623	$ 5,139,058	$ 1,359,169	$ 286,085	$ 247,769	$ 43,793	$ 10,921,497
Additions	-	10,869	79,654	11,994	42,302	47,050	191,869
Disposals	-	(66)	(128,799)	(5,737)	(856)	-	(135,458)
Reclassification	-	4,847	6,475	4,821	24,855	(37,193)	3,805
Balance at December 31, 2017	3,845,623	5,154,708	1,316,499	297,163	314,070	53,650	10,981,713
Accumulated depreciation							
Balance at January 1, 2017	-	1,408,792	1,024,559	248,880	102,892	-	2,785,123
Depreciation	-	123,754	92,699	10,404	39,058	-	265,915
Disposals	-	(18)	(124,960)	(5,273)	(689)	-	(130,940)
Balance at December 31, 2017	-	1,532,528	992,298	254,011	141,261	-	2,920,098
Balance at December 31, 2017, net	$ 3,845,623	$ 3,622,180	$ 324,201	$ 43,152	$ 172,809	$ 53,650	$ 8,061,615

The above items of property and equipment are depreciated on a straight-line basis over the useful lives of the assets, estimated as follows:

Buildings	
Main buildings	50-55 years
Equipment installed in buildings	5 years
Machinery and computer equipment	3-5 years
Transportation equipment	3-5 years
Lease improvements	5 years

In August 2016, the Bank acquired a piece of land in Tucheng Dist. from New Taipei City through the public auction in order to construct business operation office for $423,916 thousand. The Bank completed the payment and obtained the ownership of the land in October 2016. On November 9, 2016, the board of directors of the Bank and UFLIC, the property developer, resolved respectively to enter into a cooperation contract with each other to cooperatively construct a building. Upon completion of the building, the ownership thereof will be attributed to the Bank and UFLIC. Per contract, the Bank will provide its land (estimated cost amounting to $439,626 thousand) in Tucheng District, New Taipei City for constructing the building, and UFLIC will render funds and donate a piece of land originally reserved for the public facilities to the government in exchange for transfer development rights (TDR) to increase the building area. The funds and the TDR in the aggregate amount to $447,614 thousand. The building area increased due to the exercise of the TDR belongs to UFLIC.

18. GOODWILL

The Bank acquired Chung Shing Bank (Chung Shing) on March 19, 2005 and recognized goodwill amounting to $3,309,000 thousand. The goodwill amortization period was five years, and the amortization expense in 2005 was $551,500 thousand. However, the amortization of goodwill became no longer required from January 1, 2006.

The Bank merged with Union Bills Finance Corporation on August 16, 2010, with the Bank as the survivor entity, and recognized goodwill amounting to $130,498 thousand.

For the impairment test on Chung Shing, the Bank treated individual business units as cash-generating units (CGUs). Goodwill resulting from the merger was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the cash flow forecast for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of Chung Shing's present operations and will be adjusted depending on the business outlook and economic trends.

As of December 31, 2017 and 2016, the balances of accumulated impairment both were $902,691 thousand.

19. OTHER ASSETS, NET

	December 31	
	2017	2016
Refundable deposits	$ 1,702,663	$ 1,767,712
Prepaid expenses	399,484	462,906
Others	166	156
	$ 2,102,313	$ 2,230,774

20. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2017	2016
Due to Chunghwa Post Co., Ltd.	$ 1,233,370	$ 1,339,430
Call loans from banks	7,500,000	5,565,207
Due to the Central Bank and other banks	87,635	51,577
Overdraft	140,285	61,415
	$ 8,961,290	$ 7,017,629

21. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	December 31	
	2017	2016
Commercial paper	$ 8,557,700	$ 6,908,529
Asset-based securities	12,042,309	8,166,461
Corporate bonds	6,110,732	7,514,752

(Continued)

	December 31	
	2017	2016
Government bonds	3,317,499	5,459,089
Financial bonds	245,736	825,306
	$ 30,273,976	$ 28,874,137
Date of repurchase agreement	2018.01-2018.05	2017.01-2017.06
Amount of repurchase agreement	$ 30,311,830	$ 28,907,147

(Concluded)

22. PAYABLES

	December 31	
	2017	2016
Notes and checks in clearing	$ 4,042,080	$ 3,563,016
Accrued expenses	657,149	693,018
Interest payable	715,666	654,320
Stock funds payable	-	284,614
Reimbursed for settlement	51,771	283,907
Investments payable	426,104	191,923
Collections payable	179,160	163,857
Bank acceptances payable	188,076	135,531
Tax taxable	92,580	84,393
Others	653,100	834,671
	$ 7,005,686	$ 6,889,250

23. DEPOSITS AND REMITTANCES

	December 31	
	2017	2016
Checking deposits	$ 5,402,312	$ 5,489,110
Demand deposits	72,976,860	67,195,542
Savings deposits	290,040,825	285,095,150
Time deposits	80,626,779	73,959,307
Negotiable certificates of deposit	238,300	250,700
Inward and outward remittances	127,043	73,015
	$ 449,412,119	$ 432,062,824

24. BANK DEBENTURES

	December 31 2017	December 31 2016
First issue of subordinated bank debentures in 2009; fixed rate at 2.95%; maturity: June 2016	$	$ -
First issue of subordinated bank debentures in 2011; fixed rate at 2.78%; maturity: June 2018	2,000,000	2,000,000
First issue of subordinated bank debentures in 2012; fixed rate at 2.32%; maturity: March 2019	1,500,000	1,500,000
First issue of subordinated bank debentures in 2013; fixed rate at 2.10%; maturity: December 2020	3,000,000	3,000,000
First issue of subordinated bank debentures in 2015; fixed rate at 2.08%; maturity: April 2022	2,200,000	2,200,000
First issue of subordinated bank debentures in 2016; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	2,500,000	2,500,000
First issue of subordinated bank debentures in 2017; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	500,000	-
	$ 11,700,000	$ 11,200,000

25. OTHER FINANCIAL LIABILITIES

	December 31 2017	December 31 2016
Principals of structured products	$ 20,358	$ 14,953
Funds obtained from the government - intended for specific types of loans	1,362	4,613
	$ 21,720	$ 19,566

26. PROVISIONS

	December 31 2017	December 31 2016
Provisions for employee benefits	$ 5,606	$ 15,654
Reserve for losses on guarantees (Note 12)	138,975	134,621
Others	27,178	26,279
	$ 171,759	$ 176,554

27. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Bank adopted a pension plan under the Labor Pension Act (LPA), a state-managed defined contribution plan. Under LPA, the Bank makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Bank adopted the defined benefit plan under the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement.

The Bank contributes amounts equal to 2% 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 and in the Bank's Business Department in the committee's name.

The fund is deposited in the Bank of Taiwan under management of Bureau of Labor Funds, Ministry of Labor. The Bank has no right to influence the investment policy and strategy. Before the end of each year, the Bank 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 Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year.

The amounts included in the balance sheets in respect of the Bank's defined benefit plans were as follows:

	December 31	
	2017	**2016**
Present value of defined benefit obligation	$ (1,536,301)	$ (1,544,965)
Fair value of plan assets	1,530,695	1,529,311
Deficit (surplus)	(5,606)	(15,654)
Net defined benefit liability	$ (5,606)	$ (15,654)

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Total**
Balance at January 1, 2016	$ (1,514,365)	$ 708,495	$ (805,870)
Service cost			
Current service cost	(17,840)	-	(17,840)
Net interest expense (income)	(22,715)	10,850	(11,865)
Recognized in profit or loss	(40,555)	10,850	(29,705)

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Total
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ (3,673)	$ (3,673)
Actuarial loss - changes in financial assumptions	(21,652)	-	(21,652)
Actuarial gain - experience adjustments	9,102	-	9,102
Recognized in other comprehensive income	(12,550)	(3,673)	(16,223)
Contributions from the employer	-	836,144	836,144
Benefits paid	22,505	(22,505)	-
Balance at December 31, 2016	$ (1,544,965)	$ 1,529,311	$ (15,654)
Balance at January 1, 2017	$ (1,544,965)	$ 1,529,311	$ (15,654)
Service cost			
Current service cost	(16,436)	-	(16,436)
Net interest expense (income)	(21,243)	21,028	(215)
Recognized in profit or loss	(37,679)	21,028	(16,651)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	9,799	9,799
Actuarial loss - changes in financial assumptions	(26,491)	-	(26,491)
Actuarial gain - experience adjustments	26,494	-	26,494
Recognized in other comprehensive income	3	9,799	9,802
Contributions from the employer	-	16,897	16,897
Benefits paid	46,340	(46,340)	-
Balance at December 31, 2017	$ (1,536,301)	$ 1,530,695	$ (5,606)

(Concluded)

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

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor 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 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.

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

	December 31	
	2017	2016
Discount rate	1.225%	1.375%
Expected rates of future salary increase	3.00%	3.00%

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:

	December 31	
	2017	2016
Discount rate(s)		
0.25% increase	$ (46,572)	$ (48,617)
0.25% decrease	$ 48,603	$ 50,824
Expected rate(s) of salary increase		
0.25% increase	$ 46,996	$ 49,217
0.25% decrease	$ (45,285)	$ (47,343)

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	
	2017	2016
The expected contributions to the plan for the next year	$ 24,000	$ 24,000
The average duration of the defined benefit obligation	13 years	13 years

28. OTHER LIABILITIES

	December 31	
	2017	2016
Advance receipts	$ 369,925	$ 335,971
Guarantee deposits received	97,293	99,806
Others	104,018	86,909
	$ 571,236	$ 522,686

29. EQUITY

a. Capital stock

Common stock

	December 31	
	2017	2016
Number of shares authorized (in thousands)	4,500,000	3,000,000
Amount of shares authorized	$ 45,000,000	$ 30,000,000
Number of shares issued and fully paid (in thousands)	2,605,152	2,605,152
Amount of shares issued	$ 26,051,524	$ 26,051,524

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

Preferred stock

Due to the capital needs of the Bank for future long-term business development and operational scale expansion, the Bank's shareholders approved and authorized the board of directors to issue ordinary shares or special shares for domestic cash capital increase (one or both, as appropriate) in accordance with the provisions of the Articles of Incorporation or the relevant laws and regulations, in order to raise the long-term funds. The total funds to be raised through issuing new shares as authorized this time shall not be more than NT$10 billion (inclusive) as the principle. The number of shares for issue shall not be more than 800,000,000 shares (inclusive) as the principle. On June 28, 2017, the Banks's board of directors resolved to issue preferred stock - A totaling 200,000 thousand shares, with a par value of NT$10, at NT$50 per share in the total amount of NT$10,000,000 thousand on December 28, 2017. The issuance of shares has been approved by the FSC under Order No. 1060033586 issued on September 1, 2017.

On October 24, 2017, the capital from issue of preferred stock - A amounted to NT$10,000,000 thousand. The preferred stock - A was listed on Taiwan Stock Exchange on December 1, 2017.

The rights and other important conditions of issuance of the preferred stock - A are as follows:

1) Tenor: Perpetual.

2) Dividend Yield: An annual dividend yield is set at 4.8% (5-year IRS 0.89125%+3.90875%) per annum of the issue price at the pricing day. The 5-year IRS will be reset on the next business day after each 5.5 anniversary day after issuance thereafter. The pricing date for reset is the second business day of financial industry in Taipei immediately preceding each reset date. The 5-year IRS rate is the arithmetic mean of 5-year IRS rates appearing on Reuters pages "PYTWDFIX" and "COSMOS3" at 11:00 a.m. (Taipei time) on the relevant pricing date for reset. If such rate cannot be obtained, the Bank will determine the rate based on reasonable market price with good faith.

3) Dividend Payment: Whereas the Company makes profit in a fiscal year, the profit shall be first utilized for paying taxes, offset losses of previous years, and from the remaining profit set aside amount as legal reserve, and set aside or reverse special reserve in accordance with the laws and regulations, and distribute dividends to the preferred shareholders. The Bank has the sole discretion on the distribution of dividends of preferred stocks - A, which includes but not limited to the Bank's discretion to resolve not to distribute dividends to the preferred shareholders if there is no surplus, or if earnings in the fiscal year are insufficient to fully pay off dividends to the shareholders of the preferred stocks, or if the distribution of dividends of preferred stocks may cause Total Capital Adequacy Ratio to be less than the authority's minimum requirement, or if the Bank has other essential considerations. If the Bank resolves not to distribute dividends to the

preferred shareholders, the shareholders of preferred stock- A shall raise no objection. The unpaid dividend will not be carried forward to years with earnings. The stock dividends of preferred stocks - A are distributed by cash in one payment annually. After the shareholders, in their meeting, approved the appropriation of the earnings of the fiscal year as proposed by the board of directors and resolved to distribute from the earnings cash dividends, the board of directors sets the record date of preferred stock - A for payment of dividends. Dividend is calculated based on the proportion of the number of days that the stocks are issued in a fiscal year, starting from the date of issuance to the record date(or redemption date) of dividend. The amount of dividends distributed should be listed on the Dividend Statements.

4) Restrictions on Payment of Dividends to Common Shares: Except for the dividends prescribed in the preceding subparagraphs herein, the shareholders of preferred stock - A are not entitled to participate in the distribution of cash or stock dividends with regard to the ordinary shares derived from earnings or capital reserves.

5) Redemption: After 5.5 years from the issue date, the bank may, subject to the competent authority's approval, redeem a portion or all of the outstanding shares of preferred stock - A at any time at the issue price. The rights and obligations associated with any remaining outstanding shares of preferred stock - A shall continue as specified herein. If the stockholders' meeting approves the distribution of dividends in the year the Bank redeems the outstanding shares of preferred stock - A, the dividends payable shall be calculated at the ratio of the number of days outstanding from beginning of year to the redemption date to total days in a fiscal year.

6) Liquidation Preference: In the event of liquidation, except when the competent authority assigned officials to take receivership over the Bank, order the Bank to suspend and wind up business, or liquidate the Bank, in accordance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks", the order of priority for the distribution of the earnings and assets of the shareholders of preferred stock - A is the same as that of a common stockholder, the shareholders of preferred stock - A shall be given priority to claim on the Bank's remaining assets over the shareholders of common stocks, and equal to shareholders of other preferred stock issued by the Bank, but subordinate to the holders of Tier 2 capital, depositors, and other general creditors, and not more than the issuance amount of outstanding shares of preferred stock - A.

7) Voting Rights or Election Rights: The shareholders of preferred stock - A are not entitled to any voting rights or election rights in shareholders' meeting. However, they may vote in preferred stock - A shareholders' meetings and in general shareholder meetings with regard to agenda items concerning rights and obligations of the shareholders of preferred stock - A.

8) Preferred stock - A shall not be converted into common stocks. The shareholders of the preferred stocks shall not require the Bank to redeem the rights of the preferred stocks - A.

9) When the bank issues new shares in cash, the shareholders of preferred stock - A and the common stock shall be entitled to equivalent preemptive rights on the new shares.

b. Capital surplus

	December 31	
	2017	2016
Issuance of preference shares	$ 8,000,000	$ -
Treasury stock transactions	32,413	32,413
	$ 8,032,413	$ 32,413

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, preference shares and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Bank has no deficit, this capital surplus may be distributed in cash or mar be capitalized within a certain percentage of the Bank's paid-in capital once a year.

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

c. Legal reserve

Legal reserve should be appropriated until it equals the Bank's paid-in-capital. Legal reserve may be used to offset deficit. If the Bank has no deficit and the legal reserve has exceeded 25% of its paid-in capital, the excess may be transferred to capital or distributed in cash. In addition, based on the Banking Act, if the legal reserve is less than the Bank's paid-in capital, the amount that may be distributed in cash should not exceed 15% of the Bank's paid-in-capital.

d. Special reserve

Items referred to under Rule No. 1010012865, Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Bank.

If a special reserve appropriated on the first-time adoption of IFRSs relates to investment properties other than land, the special reserve may be reversed continuously over the period of use. The special reserve relating to land may be reversed on the disposal or reclassification of the related assets.

The above special reserve may be used to offset a deficit; if the reserve has reached at least 50% of the paid-in capital, half of this special reserve may be capitalized.

According to Order No. 10510001510 issued by the FSC, a special reserve should be appropriated between 0.5% and 1% of net income after tax when banks appropriate earnings of 2016 through 2018. Since 2017, the Bank is allowed to reverse the special reserve at the amount of the costs of employee transfer and arrangement in connection with the development of financial technology.

According to Order No. 1010012865 and No. 10510001510 issued by FSC that should appropriate special reserves.

	December 31	
	2017	**2016**
Balance at January 1, 2017	$ 558,842	$ 558,842
Special reserves appropriated	26,364	-
Balance at December 31, 2017	$ 585,206	$ 558,842

e. 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 stockholders and do not include employees. The stockholders held their regular meeting on June 8, 2016 and, in that meeting, had resolved amendments to the Bank's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to Employee benefits expense in Note 35.

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

1) 30% as legal reserve;

2) Special reserve, as deemed proper;

3) Remainder plus prior year's unappropriated earnings: Dividends;

These appropriations should be approved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

The board of directors decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In principle, when the Bank of International Settlement ratio is lower than the ratio approved by the authorities plus 1%, primarily stock dividends will be declared. If the legal reserve has not reached the Bank's paid-in capital, cash dividends are limited to 15% of the Bank's paid-in capital. The plan on employees' bonus and remuneration to directors and supervisors is proposed by the board of directors.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank.

The appropriations from the earnings of 2016 and 2015 were approved in stockholders' meetings on June 20, 2017 and June 8, 2016, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 790,913	$ 923,460		
Special reserve	26,364	-		
Cash dividends on ordinary shares	1,172,319	1,042,061	$ 0.45	$ 0.40

The appropriations from the 2017 earnings were proposed by the board of directors on March 14, 2018. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 823,496	
Special reserve	27,450	
Cash dividends on ordinary shares	1,042,061	$0.40
Stock dividends on ordinary shares	781,546	0.30
Cash dividends on preference shares	90,740	0.45369863 (Note)

Note: 69 days of outstanding in 2017 and 4.8% dividend yield.

About the appropriation of earnings of 2017 will be approved in stockholders' meetings in June 2018.

f. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (80,177)	$ 416,049
Exchange differences arising on translating the foreign operations	(814,626)	(539,546)
Income tax on related from translating the net assets of foreign operations	192,461	58,664
Share of exchange difference of subsidiaries accounted for using the equity method	(63,102)	(15,344)
Balance at December 31	$ (765,444)	$ (80,177)

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 1,272,308	$ 1,302,228
Unrealized gain from the revaluation of available-for-sale financial assets	1,840,269	238,392
Income tax on unrealized gain from the revaluation of available-for-sale financial assets	(141,281)	9,950
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	(612,099)	(299,132)
Share of exchange difference of subsidiaries accounted for using the equity method	(13,496)	20,870
Balance at December 31	$ 2,345,701	$ 1,272,308

30. NET INTEREST

	For the Year Ended December 31	
	2017	2016
Interest revenue		
Discounts and loans	$ 6,342,642	$ 6,189,110
Debt instruments with no active market	1,722,890	1,715,733
Credit card	726,838	706,213
Due from the Central Bank and call loans to other banks	329,176	392,886
Available-for-sale financial assets	953,877	845,680
Securities purchased under resell agreements	115,813	119,833
Held-to-maturity financial assets	84,481	63,214
Others	23,187	19,225
	10,298,904	10,051,894

(Continued)

	For the Year Ended December 31	
	2017	2016
Interest expense		
Deposits	$ 2,922,401	$ 3,113,462
Securities sold under repurchase agreements	331,824	214,377
Bank debentures	322,024	291,833
Due to Chunghwa Post Co., Ltd.	12,115	14,366
Others	25,346	18,978
	3,613,710	3,653,016
	$ 6,685,194	$ 6,398,878

(Concluded)

31. COMMISSION AND FEE REVENUES, NET

	For the Year Ended December 31	
	2017	2016
Commission and fee revenues		
Insurance commission	$ 820,626	$ 1,220,848
Credit cards and cash cards	1,084,776	1,029,415
Trust business	382,052	255,903
Loan business	235,023	207,199
Interbank service fee	162,258	143,489
Underwriting business	65,963	105,940
Guarantee business	85,012	82,908
Others	236,348	217,014
	3,072,058	3,262,716
Commission and fee expense		
Credit card	590,427	663,369
Verification of credit	33,462	30,588
Interbank service fee	22,653	17,687
Acquiring liquidation deal	14,259	14,340
Agency fee	13,934	13,748
Others	73,707	68,533
	748,442	808,265
	$ 2,323,616	$ 2,454,451

32. GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2017	**2016**
Realized gain or loss on financial assets at fair value through profit or loss		
Forward exchange contracts	$ (22,909)	$ 6,434
Interest revenue	111,951	163,896
Currency swap contracts	224,482	188,186
Convertible corporate bonds	-	19,160
Commercial paper	18,600	22,037
Option contracts	6,535	1,534
Beneficial securities and stocks	4,049	(28,113)
Government bonds	(5,695)	(734)
Dividend	4,507	5,335
	341,520	377,735
Unrealized gain or loss on financial assets at fair value through profit or loss		
Derivative financial assets and liabilities	(49,801)	63,013
Government bonds and corporate bonds	5,788	(88,726)
Beneficial securities and stocks	(3,384)	14,666
Commercial paper	253	(1,410)
	(47,144)	(12,457)
	$ 294,376	$ 365,278

33. REALIZED GAIN FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

	For the Year Ended December 31	
	2017	**2016**
Net income (loss) on disposal - beneficial securities	$ 165,990	$ (1,999)
Dividend	169,820	150,050
Net income on disposal - stocks	342,848	213,461
Net income on disposal - government bonds	26,496	-
Net income on disposal - corporate bonds	48,445	42,678
Net income on disposal - financial bonds	28,320	44,992
	$ 781,919	$ 449,182

34. IMPAIRMENT LOSS ON ASSETS (REVERSAL)

	For the Year Ended December 31	
	2017	**2016**
Other financial assets	$ -	$ 50,000
Foreclosed collaterals	-	(717)
	$ -	$ 49,283

35. EMPLOYEE BENEFIT EXPENSES

	For the Year Ended December 31	
	2017	2016
Salaries and wages	$ 1,994,645	$ 1,959,049
Bonus	679,296	734,364
Pension		
Defined contribution plans	117,785	116,886
Defined benefit plans	16,651	29,705
Labor insurance and national health insurance	250,389	243,088
Others	72,143	54,283
	$ 3,130,909	$ 3,137,375

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Bank approved by the stockholders in their meeting on June 8, 2016, the Bank accrued employees' compensation and remuneration of directors at the rates of between 1% to 5% and no higher than 0.1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2017 and 2016 which have been approved by the Bank's board of directors on March 14, 2018 and March 22, 2017, respectively, were as follows:

Accrual Rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	1.84%	1.84%
Remuneration of directors	0.09%	0.09%

Amount

	For the Year Ended December 31			
	2017		2016	
	Cash	Share	Cash	Share
Employees' compensation	$ 62,164	$ -	$ 60,602	$ -
Remuneration of directors and supervisors	3,041	-	2,964	-

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and paid and the amounts recognized in the financial statements in 2017 and 2016.

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

36. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2017	2016
Property and equipment	$ 265,915	$ 248,210
Intangible assets	60,594	57,549
	$ 326,509	$ 305,759

37. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2017	2016
Rental	$ 648,039	$ 608,604
Outsourcing service	295,866	314,283
Taxation and government fee	509,799	534,009
Advertisement	489,766	413,792
Postage/cable charge	243,678	231,534
Computer operating	165,376	161,181
Deposit insurance	131,783	127,965
Maintenance charge	90,969	89,916
Marketing	77,459	71,117
Donation	24,279	32,869
Printing and binding	44,513	42,648
Others	438,671	438,121
	$ 3,160,198	$ 3,066,039

38. INCOME TAX

a. Income tax recognized in profit or loss

The main components of income tax expense were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
Current year	$ 70,709	$ 27,731
Prior year's adjustments	4	(8,122)
Additional tax of unappropriated earnings	63,776	110,488
	134,489	130,097
Deferred tax		
Current year	433,774	460,006
Income tax expense recognized in profit or loss	$ 568,263	$ 590,103

A reconciliation of accounting profit and current income tax expenses for the years ended December 31, 2017 and 2016 is as follows:

	For the Year Ended December 31	
	2017	**2016**
Income before tax	$ 3,313,250	$ 3,226,478
Income tax expense at the 17% statutory rate	$ 563,252	$ 548,501
Nondeductible expenses in determining taxable income	1,021	201
Additional income tax under the Alternative Minimum Tax Act	70,709	21,432
Unrecognized deductible temporary differences	53,657	42,934
Additional tax of unappropriated earnings	63,776	110,488
Tax-exempt income	(184,156)	(125,331)
Adjustments for prior year's tax	4	(8,122)
Income tax expense recognized in profit or loss	$ 568,263	$ 590,103

The applicable tax rate used by the Bank was 17%.

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 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by $179,926 thousand and $160,857 thousand, respectively, in 2018.

As the manner of the 2018 appropriation of the 2017 earnings is uncertain, the income tax consequences on the 2017 unappropriated earnings cannot be reliably determined.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	**2016**
Deferred tax		
Recognized in other comprehensive income:		
Unrealized gains on available-for-sale financial assets	$ 141,281	$ (9,950)
Exchange differences on the translation of financial statements of foreign operations	(192,461)	(58,664)
Actuarial gains and losses on defined benefit plans	1,666	(2,758)
Total income tax expenses recognized in other comprehensive income	$ (49,514)	$ (71,372)

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Impairment loss of financial instruments	$ 46,454	$ -	$ -	$ 46,454
Employee benefit plan	142,779	2,579	(1,666)	143,692
Payable for annual leave	2,137	3,653	-	5,790
Allowance for possible losses and reserve for losses on guarantees	49,579	(17,773)	-	31,806
Exchange difference on foreign operations	-	(53,974)	188,496	134,522
Others	15,243	(5,692)	-	9,551
	256,192	(71,207)	186,830	371,815
Loss carryforwards	1,051,378	(403,610)	-	647,768
	$ 1,307,570	$ (474,817)	$ 186,830	$ 1,019,583

Deferred tax liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Exchange difference on foreign operations	$ (3,965)	$ -	$ 3,965	$ -
Available-for-sale finance assets	(347,441)	-	(141,281)	(488,722)
Amortization of goodwill impairment loss	(337,502)	-	-	(337,502)
Others	(126,343)	41,043	-	(85,300)
	$ (815,251)	$ 41,043	$ (137,316)	$ (911,524)

For the year ended December 31, 2016

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Impairment loss of financial instruments	$ 37,954	$ 8,500	$ -	$ 46,454
Employee benefit plan	135,559	4,462	2,758	142,779
Payable for annual leave	5,310	(3,173)	-	2,137

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Allowance for possible losses and reserve for losses on guarantees	$ 13,175	$ 36,404	$ -	$ 49,579
Others	15,385	(142)	-	15,243
	207,383	46,051	2,758	256,192
Loss carryforwards	1,542,767	(491,389)	-	1,051,378
	$ 1,750,150	$ (445,338)	$ 2,758	$ 1,307,570
Deferred tax liabilities				
Temporary differences				
Exchange difference on foreign operations	$ (62,629)	$ -	$ 58,664	$ (3,965)
Available-for-sale finance assets	(357,391)	-	9,950	(347,441)
Amortization of goodwill impairment loss	(337,502)	-	-	(337,502)
Others	(111,675)	(14,668)	-	(126,343)
	$ (869,197)	$ (14,668)	$ 68,614	$ (815,251)

(Concluded)

d. Information about loss carryforwards

The Bank's loss carryforwards as of December 31, 2017 were as followed:

Unused Amount	Expiry Year
$ 115,278	2018
3,654,948	2019
40,176	2020
$ 3,810,402	

e. Information on the Bank's integrated income tax

	December 31	
	2017	2016
Imputation credits accounts	Note	$ 114,475

The Bank has no unappropriated earnings generated on before January 1, 1998.

	For the Year Ended December 31	
	2017	2016
The creditable ratios for the distribution of the earnings	Note	6.29%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

Under the Income Tax Law, for the distribution of earnings generated from January 1, 1998, the imputation credits allocable to ROC resident stockholders of the Bank are calculated on the basis of the creditable ratio as of the date of dividend distribution. The actual imputation credits allocable to stockholders of the Bank are based on the balance of the imputation credit accounts as of the date of dividend distribution.

f. The Bank's income tax returns through 2015 were examined and cleared by the tax authorities. The Bank disagreed with the tax authorities' assessment of the ending balance of imputation credits account (ICA) for 2012 and applied for a re-examination. The tax authorities replied in March 2017 that the balance shall be re-examined. The Bank expects that there will be no major difference between the applied amount and the approved amount.

39. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Earnings Per Share (NT$)	
	Pretax	**After Tax**		**Pretax**	**After Tax**
2017					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,313,250	$ 2,744,987	2,605,152	$ 1.27	$ 1.05
Bonus to employees	-	-	8,135		
Diluted EPS	$ 3,313,250	$ 2,744,987	2,613,287	$ 1.27	$ 1.05
2016					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,226,478	$ 2,636,375	2,605,152	$ 1.24	$ 1.01
Bonus to employees	-	-	8,328		
Diluted EPS	$ 3,226,478	$ 2,636,375	2,613,480	$ 1.23	$ 1.01

If the Bank offered to settle compensation or bonuses paid to employees in cash or shares, the Bank assumed the entire amount of the compensation or bonus 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.

40. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other footnotes, significant transactions between the Bank and related parties are summarized as follows:

a. Related parties and their relationships with the Bank

Related Party	Relationship with the Bank
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Information Technology Corporation (UIT)	Subsidiary
Union Finance International (H.K.) Limited	Subsidiary
Union Securities Investment Trust Corporation (USITC)	Subsidiary
Union Capital (Cayman) Corp. (UCCC)	Subsidiary of UFLIC
New Asian Ventures Ltd. (New Asian)	Subsidiary of UFLIC
Union Capital (Singapore) Holding Pte. Ltd. (UCSH)	Subsidiary of Cayman
Uflc Capital (Singapore) Holding Pte. Ltd. (UFLC)	Subsidiary of Cayman
Kabushiki Kaisha UCJ1 (KK)	Subsidiary of UCSH and UFLC
Tokutei Mokuteki Kaisha SSG15 (TMK SSG15)	Subsidiary of UCSH and KK
Tokutei Mokuteki Kaisha SSG12 (TMK SSG12)	Subsidiary of UFLC and KK
Tokutei Mokuteki Kaisha SSG16 (TMK SSG16)	Subsidiary of UFLC and KK
Union Real-Estate Management Corporation	Associates
Hung-Kou Construction Inc., Ltd. (Hung-Kou)	Related party in substance
The Liberty Times Co., Ltd. (Liberty Times)	Related party in substance
Long Shan Lin Corporation	Related party in substance
Yong-Xuan Co., Ltd. (Yong-Xuan)	Related party in substance
Union Enterprise Construction Co., Ltd. (UECC)	Related party in substance
Yu-Pang Co., Ltd. (Yu-Pang)	Related party in substance
Union Recreation Enterprise Corporation	Related party in substance
Union Optronics Co., Ltd. (Union Optronics)	Related party in substance
Securities Investment Trust Funds	Issued by Union Securities Investment Trust
Others	Directors, managers and their relatives and affiliates

b. Significant transactions with related parties:

1) Loans

December 31, 2017

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2017	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	13	$ 16,719	$ 13,679	$ 13,679	$ -	Land, buildings and cars	None
Self-used housing mortgage loans	18	162,034	117,965	117,965	-	Real estate	None
Others	UFLIC	1,934,751	1,895,359	1,895,359	-	Land and buildings	None
Others	9	1,108,800	62,850	62,850	-	Land, plant, buildings, quoted stock and time deposits	None

December 31, 2016

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2016	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonper-forming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	7	$ 9,602	$ 4,353	$ 4,353	$ -	Land and buildings	None
Self-used housing mortgage loans	17	129,901	96,949	96,949	-	Real estate	None
Others	UFLIC	2,311,542	1,623,773	1,623,773	-	Land and buildings	None
Others	4	1,102,950	1,096,150	1,096,150	-	Land, plant, buildings, quoted stock and time deposits	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2017	$ 2,089,853	0.66	1.06%-3.06%	$ 42,681	0.41
2016	2,821,225	0.99	1.06%-3.00%	58,109	0.58

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate (Note)	Amount	%
2017	$ 5,584,191	1.24	0%-4.80%	$ 36,517	1.01
2016	5,450,753	1.26	0%-4.80%	33,158	0.91

Note: Including foreign currency interest rate.

3) Guarantees and letters of credit

December 31, 2017

Name	Highest Balance in the Year Ended December 31, 2017	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 19,316	$ 19,316	$ -	0.5%	Time deposits
The Liberty Times Co., Ltd.	2,524	2,483	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.5%	Time deposits
Union Optronics Corporation	76,709	76,709	-	0.75%	Time deposits

December 31, 2016

Name	Highest Balance in the Year Ended December 31, 2016	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 39,874	$ 19,316	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	11,484	-	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.5%	Time deposits

Note: Reserve for guarantee loss is provided on the basis of the estimated unrecoverable amount.

4) Leases

a) The Bank as lessee

Under operating lease agreements with terms of one year to five years, the Bank rents from related parties' office spaces for use by the Head Office, Trust, International Banking Department, Wealth Management, Information Technology Department, Consumer Banking Department, Credit Card Department, the Northern Collateral Appraisal Center, and five branches. Rentals are payable quarterly, with some contracts allowing placement with the lessors of lease deposits in lieu of rental payments. Rental expenses and lease deposits were as follows:

	Lease Deposit (Part of Other Assets)		**Rental Expense (Part of Other Operating Expense)**	
	Amount	**%**	**Amount**	**%**
2017				
Yu-Pang	$ 454,888	26.72	$ 15,980	2.47
Hung-Kuo	218,768	12.85	101,476	15.66
Yong-Xuan	14,292	0.84	58,974	9.10
UECC	4,384	0.26	9,410	1.45
UFLIC	1,158	0.07	3,462	0.53
2016				
Yu-Pang	454,888	25.73	15,251	2.51
Hung-Kuo	218,768	12.38	101,476	16.69
Yong-Xuan	13,979	0.79	58,207	9.58
UECC	4,384	0.25	9,410	1.55
UFLIC	1,158	0.07	3,470	0.57

The Bank rented cars for business use from UFLIC; the rental expenses were $10,467 thousand in 2017 and $10,582 thousand in 2016. Rentals payable as of December 31, 2017 and 2016 were $49 thousand and $48 thousand, respectively.

b) The Bank as lessor

The Bank's South Taoyuan Branch, Kaohsiung Branch, Minchuan Branch, Chiayi Branch and Fucheng Branch leased part of their office premises to UFLIC under operating lease agreements starting from December 2014 to August 2019, from January 2016 to December 2020, from November 2011 to September 2017, from July 2014 to October 2016 (no extension), from June 2013 to June 2018, from May 2017 to April 2022, and from November 2017 to October 2022, respectively. The leasing revenues received were $1,432 thousand and $1,171 thousand in 2017 and 2016, respectively. The lease deposits received (included in other liabilities) were $423 thousand and $269 thousand in 2017 and 2016, respectively.

5) Available-for-sale financial assets

As of December 31, 2017 and 2016, the Bank had purchased 0 thousand units and 85,608 thousand units, respectively, of beneficial certificates issued by USITC, which amounted to $0 thousand and $1,018,028 thousand and gain on disposal of investment were $93,546 thousand and $4,343 thousand in 2017 and 2016, respectively.

6) UIT sold computers and related materials and software and provided network services to the Bank. The purchase and service fees were $107,958 thousand in 2017 and $105,137 thousand in 2016.

7) Derivative financial instruments

December 31, 2017						
			Notional	Unrealized	Balance Sheets	
Related Party	Contract	Period	Amount	Gain (Loss)	Account	Balance
UCCC	Currency swap contracts	2017.01.25-2018.01.22	JPY1,480,000/ US$13,174	$ (658)	Financial liabilities at fair value through profit or loss	$ (658)

December 31, 2016						
			Notional	Unrealized	Balance Sheets	
Related Party	Contract	Period	Amount	Gain (Loss)	Account	Balance
UCCC	Currency swap contracts	2016.12.27-2017.01.25	JPY1,480,000/ US$12,626	$ (9)	Financial liabilities at fair value through profit or loss	$ (9)

	2017	2016
Gain (loss) on financial instruments at fair value through profit or loss		
UFLIC	$ -	$ (3,917)
UCCC	(4,869)	(4,503)
	$ (4,869)	$ (8,420)

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

For transactions between the Bank and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates offered to Bank employees for savings and loans within prescribed amounts.

c. Compensation of directors, supervisors and management personnel:

	For the Year Ended December 31	
	2017	2016
Short-term employment benefits		
Salaries	$ 31,503	$ 32,177
Transportation expenses	1,218	1,140
	32,721	33,317
Post-employment benefits	6,055	2,167
	$ 38,776	$ 35,484

Compensation of directors and management personnel is determined by the remuneration committee on the basis of individual performance and market trends.

41. PLEDGED ASSETS

As of December 31, 2017 and 2016, government bonds and bank debentures, which amounted to $286,705 thousand and $154,405 thousand (all amounts included in other financial assets), respectively, had been provided to the courts and the Bank of Taiwan as guarantee deposits on provisional seizures against the debtors' properties, as reserve for credit card receivables, as guarantee deposits on bills finance operations, brokering life insurance, property and casualty insurance, and as trust reserve. In addition, as of December 31, 2017 and 2016, negotiable certificates of deposit, which amounted to $0 thousand and $3,800,000 thousand, respectively (all amounts included in other financial assets), had been provided to the Central Bank as collateral for day-term overdraft.

As of December 31, 2017 and 2016, the Bank pledged a time deposit of $300,000 thousand and $300,000 thousand (part of other financial assets) to Mega International Commercial Bank to be part of the latter's online bank-to-bank payment system.

42. CONTINGENCIES AND COMMITMENTS

a. As of December 31, 2017 and 2016, the Bank's commitments consisted of the following:

	December 31	
	2017	**2016**
Irrevocable standby loan commitment	$ 85,654,457	$ 109,697,387
Unused credit card commitment	257,495,390	238,271,865
Unused letters of credit	1,241,648	860,155
Other guarantees	13,804,083	10,270,804
Collections for customers	28,800,426	30,941,654
Travelers' checks consigned-in	116,832	115,788
Guarantee notes payable	570,700	4,265,400
Trust assets	68,285,472	59,974,657
Marketable securities under custody	5,180,415	4,262,547

b. The Bank as lessee

The Bank rents several office premises for its branches under operating leases with terms ranging between 2 and 20 years. All operating lease contracts over 5 years contain clauses for market rental reviews for every five years. The Bank does not have a bargain purchase option to acquire the leased premises at the expiration of the lease period.

As of December 31, 2017 and 2016, refundable deposits paid under operating leases were $799,182 thousand and $797,483 thousand, respectively (included in other assets - refundable deposits).

The Bank's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2017	**2016**
Within 1 year	$ 411,532	$ 423,831
Over 1 year up to 5 years	808,818	1,086,397
Over 5 years	345,302	380,035
	$ 1,565,652	$ 1,890,263

c. The Bank as lessor

The Bank rents out properties under operating leases with the terms ranging between 3 and 6 years. All operating lease contracts contain market review clauses so that the lessee has an option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiration of the lease period.

As of December 31, 2017 and 2016, refundable deposits paid under operating leases were $3,807 thousand and $3,653 thousand, respectively (included in other liabilities - guarantee deposits received).

The Bank's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2017	2016
Within 1 year	$ 8,072	$ 10,481
Over 1 year up to 5 years	13,466	20,747
	$ 21,538	$ 31,228

d. Computer equipment purchase contracts

As of December 31, 2017 and 2016, the Bank had contracts to buy computer equipment and software for $95,805 thousand and $403,463 thousand, respectively, of which $56,260 thousand and $250,408 thousand had been paid as of December 31, 2017 and 2016, respectively.

43. TRUST BUSINESS UNDER THE TRUST LAW

Balance Sheet of Trust Accounts
December 31, 2017

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 3,506,155	Management fee payable	$ 5
Investments		Income tax payable	423
Mutual funds	39,371,966	Marketable securities payable	10,430,388
Common stock	616,218	Trust capital	57,741,842
Short-term bills and securities purchased under resell agreements	153,414	Reserve and deficit	112,814
Accounts receivable	5,693		
Stock in custody	10,430,388		
Real estate - land and building	14,201,638		
Total	$ 68,285,472	Total	$ 68,285,472

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2017.

Balance Sheet of Trust Accounts
December 31, 2016

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 3,045,051	Management fee payable	$ -
Investments		Income tax payable	25
Mutual funds	38,199,360	Marketable securities payable	7,189,491
Common stock	269,587	Trust capital	52,866,325
Short-term bills and securities purchased under resell agreements	132,635	Reserve and deficit	(81,184)
Accounts receivable	1,825		
Stock in custody	7,189,491		
Real estate - land and building	11,136,708		
Total	$ 59,974,657	Total	$ 59,974,657

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2016.

Income Statement of Trust Accounts
Year Ended December 31, 2017

	Amount
Trust income	
Interest revenue - demand accounts	$ 521
Interest revenue - time deposits	10,051
Interest revenue - short-term bills and securities purchased under resell agreements	211
Cash dividends - common stock	17,336
Service fee allowances - common stock	2
Income from beneficial certificates	532
Realized capital gain - fund	448
Unrealized capital gain - common stock	160,012
Unrealized capital gain - fund	1,243
Total trust income	190,356
Trust expense	
Management expense	8,509
Supervisor fee	80
Taxation	64,060
Agency fees	2,669
Realized capital loss - fund	177
Unrealized capital loss - common stock	2,367
Unrealized capital loss - fund	833
Others	120
Total trust expense	78,815
Loss before tax	111,541
Income tax expense	(2,255)
Net income	$ 109,286

Note: The above trust income statements were not included in the Bank’s income statements.

Income Statement of Trust Accounts
Year Ended December 31, 2016

	Amount
Trust income	
Interest revenue - demand accounts	$ 593
Interest revenue - time deposits	9,206
Interest revenue - short-term bills and securities purchased under resell agreements	246
Cash dividends - common stock	13,599
Income from beneficial certificates	271
Realized capital gain - fund	149
Unrealized capital gain - common stock	10,403
Unrealized capital gain - fund	482
Total trust income	34,949
Trust expense	
Management expense	7,590
Supervisor fee	160
Lawyer fee	100
Taxation	86,014
Agency fees	1,212
Realized capital loss - fund	406
Unrealized capital loss - common stock	6,031
Unrealized capital loss - fund	663
Others	383
Total trust expense	102,559
Loss before tax	(67,610)
Income tax expense	(1,332)
Net loss	$ (68,942)

Note: The above trust income statements were not included in the Bank's income statements.

Trust Property and Equipment Accounts
December 31, 2017

Investment Portfolio	Amount
Bank deposits	$ 3,506,155
Investments	
Mutual funds	39,371,966
Common stock	616,218
Short-term bills and securities purchased under resell agreements	153,414
Accounts receivable	5,693
Stock in custody	10,430,388
Real estate - land and buildings	14,201,638
	$ 68,285,472

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2017.

Trust Property and Equipment Accounts
December 31, 2016

Investment Portfolio	Amount
Bank deposits	$ 3,045,051
Investments	
Mutual funds	38,199,360
Common stock	269,587
Short-term bills and securities purchased under resell agreements	132,635
Accounts receivable	1,825
Stock in custody	7,189,491
Real estate - land and buildings	11,136,708
	$ 59,974,657

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2016.

44. FINANCIAL INSTRUMENTS

a. Three-level fair value hierarchy

The definitions of each level of the fair value hierarchy are shown below:

1) Level 1

Level 1 financial instruments are traded in an active market in which there are quoted prices for identical assets and liabilities. An active market has the following characteristics:

a) All financial instruments in the market are homogeneous.

b) There are willing buyers and sellers in the market all the time.

c) The public can access the price information easily.

The products in this level, such as listed stocks and beneficial securities, usually have high liquidity or are traded in futures market or exchanges.

2) Level 2

The products in this level have fair values that can be inferred from either directly or indirectly observable inputs other than quoted prices in an active market. Examples of these inputs are:

a) Quoted prices from the similar products in an active market. This means the fair value can be derived from the current trading prices of similar products, and whether they are similar products should be judged on the characteristics and trading rules. The fair price valuation in this circumstance may be adjusted due to time differences, trading rule’s differences, interested parties’ prices, and the correlation of price between itself and the similar goods;

b) Quoted prices for identical or similar financial instruments in inactive markets;

c) For the marking-to-model method, the inputs to this model should be observable (such as interest rates, yield curves and volatilities). The observable inputs mean that they can be obtained from the market and can reflect the expectation of market participants;

d) Inputs that are derived from observable market data through correlation or other means.

The fair values of products categorized in this level are usually calculated using a valuation model generally accepted by the market. Examples are forward contracts, cross-currency swap, simple interest bearing bonds, convertible bonds and commercial paper.

3) Level 3

The fair values of the products in this level are typically based on management assumptions or expectations other than the direct market data. For example, historical volatility used in valuing options is an unobservable input because it cannot represent the entire market participants' expectation on future volatility.

The products in this level are complex derivate financial instruments or products with prices that are provided by brokers. Examples are complex foreign exchange options.

b. The fair value hierarchies of the Bank's financial instruments as of December 31, 2017 and 2016 were as follows:

(In Thousands of New Taiwan Dollars)

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 42,757	$ 42,757	$ -	$ -
Beneficial certificates	883,014	883,014	-	-
Commercial paper	10,389,618	-	10,389,618	-
Available-for-sale financial assets				
Stock	6,789,544	6,789,544	-	-
Debt instruments	27,476,609	-	27,476,609	-
Beneficial certificates	917,253	917,253	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	537,334	-	489,081	48,253
Liabilities				
Financial liabilities at FVTPL	183,611	-	135,352	48,259

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 68,371	$ 68,371	$ -	$ -
Debt instruments	151,223	-	151,223	-
Beneficial certificates	5,662	5,662	-	-
Commercial paper	8,300,747	-	8,300,747	-
Financial assets designated as at FVTPL on initial recognition				
Principal guaranteed notes	322,968	-	322,968	-
Available-for-sale financial assets				
Stock	5,554,776	5,554,776	-	-
Debt instruments	32,202,284	-	32,202,284	-
Beneficial certificates	1,791,542	1,791,542	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	442,642	-	434,497	8,145
Liabilities				
Financial liabilities at FVTPL	38,430	-	30,295	8,135

c. The financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants with full understanding of the sale or transfer transaction. The fair values of financial instruments at fair value, available-for-sale financial assets and hedging derivative financial instruments with quoted price in an active market are based on their market prices; financial instruments with no quoted prices in an active market are estimated by valuation methods.

1) Marking to market

This method should be used first to determine fair value. Following are the principles to follow in marking to market:

a) Ensure the consistency and integrity of market data.

b) The source of market data should be transparent and easy to access and can be referred to by independent resources.

c) Listed securities with tradable prices should be valued at closing prices.

d) Evaluating unlisted securities that lack tradable closing prices should use quoted prices from independent brokers.

2) Marking to model

The use of marking to model is suggested if marking to market is infeasible. This valuation methodology is based upon model inputs that are used to derive the value of the trading positions. The Bank uses the same estimations and assumptions as those used by market participants to determine the fair value.

The Bank uses the forward rates provided by Reuters to estimate the fair values of forward contracts, foreign exchange swap contracts, interest rate swap and cross-currency swap contacts and the discounted cash flow method to calculate the fair values of each contract. For foreign exchange option transactions, the Bank uses the option pricing models which are generally used by other market participants (e.g., the Black-Scholes model) to calculate the fair value of the contracts.

For debt instruments with no active market, the Bank estimates fair values based on prices quoted by counterparties and adjusted in accordance with the results of the evaluation of a debtor's credit.

3) Transfer between Level 1 and Level 2

There was no material transfer between Level 1 and Level 2 for 2017 and 2016.

4) Reconciliation of Level 3 items of financial instruments

a) Reconciliation of Level 3 items of financial assets

For the year ended December 31, 2017

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehen-sive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss Derivative financial assets	$ 8,145	$ 26,551	$ -	$ 45,673	$ -	$(32,116)	$ -	$ 48,253

For the year ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehen-sive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss Derivative financial assets	$ 24,194	$(13,284)	$ -	$ 28,978	$ -	$(31,743)	$ -	$ 8,145

b) Reconciliation of Level 3 items of financial liabilities

For the year ended December 31, 2017

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehen-sive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss Derivative financial liabilities	$ 8,135	$ 25,151	$ -	$ 51,515	$ -	$(36,542)	$ -	$ 48,259

For the year ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss								
Derivative financial liabilities	$ 24,190	$ (12,039)	$ -	$ 32,520	$ -	$ (36,536)	$ -	$ 8,135

5) The quantification information of Level 3

Item	Product	Fair Value	Valuation Technique	Significant Unobservable Inputs	Interval (Weighted-average)	Relation Between Input and Fair Value
Derivative financial Instruments						
Financial assets at fair value through profit or loss	Foreign exchange options	$ 48,253	Option pricing model	Ratio	AUD/USD 5.82%-7.66% EUR/GBP 6.60%-6.85% EUR/USD 6.34%-6.41% GBP/AUD 6.78%-7.24% NZD/USD 7.35%-8.12% USD/JPY 7.29% USD/TWD 4.4%-4.86% USD/ZAR 14.48%-14.99%	The higher the ratio is, the higher fair value
Derivative financial instruments						
Financial liabilities at fair value through profit or loss	Foreign exchange options	48,259	Option pricing model	Ratio	AUD/USD 5.82%-7.66% EUR/GBP 6.60%-6.85% EUR/USD 6.34%-6.41% GBP/AUD 6.78%-7.24% NZD/USD 7.35%-8.12% USD/JPY 7.29% USD/TWD 4.4%-4.86% USD/ZAR 14.48%-14.99%	The higher the ratio is, the higher fair value

6) Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions used

The Bank’s Level 3 financial instruments are foreign exchange options. When engaging in foreign exchange option transactions, the Bank makes a match for other banks and customers. Thus, the Bank does not hold positions, and its source of profit and loss is from receiving and paying premiums. The sensitivity analysis has no effect on profit and loss since the Bank does back-to-back transactions and the assets offset the liabilities.

d. Fair value of financial instruments that are not measured at fair value

Except for the financial instruments shown in the following table, the management believes that the financial assets and financial liabilities recognized in the financial statements either have carrying amounts that approximate their fair values or have fair values that cannot be reasonably measured.

1)

	December 31			
	2017		2016	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets				
Held-to-maturity financial assets	$ 51,285,957	$ 51,388,334	$ 7,192,115	$ 7,088,803
Debt instruments with no active market	45,734,754	46,737,536	51,433,548	53,015,036
Financial liabilities				
Bank debentures	11,700,000	11,887,884	11,200,000	11,445,952

2) Fair value hierarchy

Items	**December 31, 2017**			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-to-maturity financial assets	$ 51,388,334	$ -	$ 51,388,334	$ -
Debt instruments with no active market	46,737,536	-	46,737,536	-
Financial liabilities				
Bank debentures	11,887,884	-	11,887,884	-

Items	**December 31, 2016**			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-to-maturity financial assets	$ 7,088,803	$ -	$ 7,088,803	$ -
Debt instruments with no active market	53,015,036	-	53,015,036	-
Financial liabilities				
Bank debentures	11,445,952	-	11,445,952	-

45. FINANCIAL RISK MANAGEMENT

a. Overview

To deal with any expected or unexpected business risk, the Bank has established a comprehensive risk management system to allocate resources effectively and efficiently, strengthen business competitiveness, mitigate operational risk to a tolerable or acceptable level, and maintain the capital adequacy ratio to meet the minimum requirements of the authorities and the Basel Accord framework.

b. Risk management framework

The Board of Directors, which occupies the highest level in the Bank's risk management framework, reviews risk management policies, the overall risk management framework and organization structure for carrying out responsibilities and exercising accountability. The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division. The Risk Management Division is an independent unit that is in charge of reviewing the risk management system designed by business units and the compliance with risk management requirements; this division also submits risk management reports to the authorities and develops a series of risk management tools to assess the risks identified. Business units establish risk control procedures, manage and monitor the implementation of those controls in operation units. Operation units perform daily risk management work and internal controls to ensure the accuracy and completeness of the risk management information generated.

c. Credit risk

1) Credit risk definitions and sources

Credit risk refers to the risk of losses caused by borrowers, debtors, or counterparties' failure to fulfill their contractual obligations due to deteriorating financial position or other factors. It arises principally from transactions involving discounts, loans, credit cards, due from or call loans to banks, debt investments and derivatives etc., and also from off-balance sheet products such as guarantees, acceptance, letters of credit and commitments.

2) Strategy/objectives/policies and processes

a) Credit risk management strategy: The Bank has established "Credit Risk Management Standards of Union Bank of Taiwan" as the basis of planning, implementing, and managing credit risk management system.

b) Credit risk management objective: The objectives are to establish and implement an effective credit risk management mechanism to mitigate credit risk, archive operational and management goals, and balance business development and risk control.

c) Credit risk management policy: The policies are meant to ensure that credit risk falls within an acceptable range and that adequate capital is maintained to meet credit risk management objectives and create maximum risk-adjusted returns.

d) Credit risk management process: The Bank carries out credit risk identification, credit risk measurement, credit risk mitigation, credit risk monitoring and control and credit risk reporting process as part of its credit risk management mechanism.

3) Credit risk management framework

a) The Board of Directors: The Board of Directors, the top risk supervisor of the Bank, reviews risk management policies, operational risk limits and the design and change of credit risk management framework.

b) Asset/Liability Management Committee: This committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit that is in charge of the work related to three pillars of Basel and reviews the risk management system designed by business units and the compliance with risk management requirements; the division also submits risk management reports to the authorities and develops risk management tools to assess the risk identified.

d) Business units: Business units are responsible for establishing risk management regulations and risk control procedures and managing and monitoring the implementation of those controls in operation units.

e) Operation units: Under the risk management regulations and procedures set by business units, operation units perform daily risk management work and internal controls and prepares reports on these tasks.

4) Credit risk measurement, control and reporting

a) The range of credit risk reporting:

i. Each business unit will regularly report the promotion of the business and the allocation of risk assets to the Assets/Liability Management Committee (ALMC).

ii. The Bank's risk management department regularly monitors the credit limit control situations and reports to the ALMC the credit concentration and the status of each business' achieving BIS (Bank for International Settlements) goals. The department also presents the volume of business NPL situation, credit concentration and the execution of credit risk control to the Board.

b) Measurement system:

The Bank's credit risk management adopts the use of the standardized approach to calculate capital charge and regularly submits related reports to the government. The risk management division and business units implement the Bank's management system and monitors the credit exposure of the business, industry, and countries as well as the concentration of credit and collateral to effectively measure and manage investment portfolio.

5) Mitigation of risks or hedging of credit risk

The Bank is exposed to loss on each credit risk faced by its business. Thus, depending on the nature of the business and the cost considerations, the Bank will take appropriate measures to control risk. The Bank's information systems provide information that can be used in managing risk control procedures, and the risk management division reports to the board every six months the business risk management status.

6) Maximum exposure to credit risk

The maximum credit exposures of assets in the balance sheet are almost equivalent to their carrying values. These off-balance sheet maximum credit exposures (excluding collaterals and other credit enhancement instruments) are shown as follows:

Off-Balance Sheet Items	The Maximum Credit Exposure	
	December 31, 2017	December 31, 2016
Irrevocable standby loan commitment	$ 2,199,776	$ 9,482,533
Unused letters of credit	1,241,648	860,155
Other guarantees	13,804,083	10,270,804
Unused credit card commitments	257,495,390	238,271,865

December 31, 2017	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 250,557,922	$ -	$ -	$ 250,557,922

December 31, 2016	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 228,403,708	$ -	$ -	$ 228,403,708

7) Concentrations of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

There can be credit risk concentrations in a bank's assets, liabilities, or off-balance sheet items through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. These exposures can cover credits, loans and deposits, call loans to banks, investments, receivables and derivatives. To minimize its credit risk, the Bank maintains a diversified portfolio; limits its exposure to any one geographic region, country or individual creditor; and closely monitors its exposures. The Bank's most significant concentrations of credit risk are summarized as follows:

a) By industry

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Private enterprises	$ 84,654,639	25.19	$ 71,596,120	24.05
Public enterprises	5,000,000	1.49	5,000,000	1.68
Government organizations	42,032,219	12.51	33,036,805	11.10
Nonprofit organizations	694,719	0.21	917,924	0.31
Private organizations	202,610,903	60.30	186,430,171	62.64
Foreign enterprises	1,024,743	0.30	663,332	0.22
Total	336,017,223	100.00	297,644,352	100.00

b) By geographical area

The Bank's operations are mainly in Taiwan.

c) By collaterals

	December 31, 2017		December 31, 2016	
	Amount	**%**	**Amount**	**%**
Unsecured	$ 80,394,252	23.92	$ 63,101,890	21.20
Secured				
Financial instruments	8,134,418	2.42	7,229,286	2.43
Stocks	9,397,235	2.80	9,284,626	3.12
Properties	213,097,461	63.42	194,540,140	65.36
Movables	16,925,126	5.04	15,813,134	5.31
Guarantees	6,288,007	1.87	5,520,845	1.86
Others	1,780,724	0.53	2,154,431	0.72
Total	336,017,223	100.00	297,644,352	100.00

8) Credit quality and impairment assessment

Some financial assets - cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, repos and debt securities, refundable deposits, guaranty bonds and clearing and settlement fund - are regarded as having very low credit risk because of the good credit ratings of counterparties. Other financial assets not regarded as having low credit risk are summarized as follows:

a) Discounts, loans and receivables

December 31, 2017	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 8,756,311	$ 4,596,438	$ 37,114	$ -	$ 13,389,863	$ 190,760	$ 1,205,206	$ 14,785,829	$ 63,838	$ 27,863	$ 14,694,128
Acceptances receivable	123,578	63,396	-	-	186,974	-	-	186,974	-	1,000	185,974
Accounts receivable factoring without recourse	-	396,449	-	-	396,449	-	-	396,449	-	3,964	392,485
Others	2,187,816	116,026	26,294	3,980	2,334,116	3,081	109,288	2,446,485	90,711	923	2,354,851
Overdue guarantee loans	-	-	-	-	-	-	25,105	25,105	-	-	25,105
Discounts and loans											
Consumer finance	82,148,042	59,308,582	23,229,244	3,282,059	167,967,927	563,963	205,953	168,737,843	71,261	1,708,041	166,958,541
Corporate banking	110,245,661	39,278,948	2,045,235	186,763	151,756,607	157,307	1,374,409	153,288,323	162,389	1,460,127	151,665,807

December 31, 2016	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 8,705,928	$ 3,932,822	$ 40,380	$ -	$ 12,679,130	$ 200,846	$ 1,287,067	$ 14,167,043	$ 62,126	$ 34,319	$ 14,070,598
Acceptances receivable	97,552	37,979	-	-	135,531	-	-	135,531	-	476	135,055
Accounts receivable factoring without recourse	-	799,844	-	-	799,844	-	-	799,844	-	3,504	796,340
Others	2,374,863	104,684	23,120	3,819	2,506,486	1,815	525,888	3,034,189	267,780	41	2,766,368
Overdue guarantee loans	-	-	-	-	-	-	3,765	3,765	-	-	3,765
Discounts and loans											
Consumer finance	88,535,794	42,291,881	20,657,009	2,930,474	154,415,158	331,607	134,205	154,880,970	63,497	1,656,388	153,161,085
Corporate banking	76,411,238	53,177,163	806,354	219,925	130,614,680	17,379	1,724,988	132,357,047	227,124	1,250,285	130,879,638

b) Credit quality analysis of securities

December 31, 2017	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 25,733,292	$ 1,743,317	$ -	$ 27,476,609	$ -	$ -	$ 27,476,609	$ -	$ -	$ 27,476,609
Investments in stocks	6,534,669	254,875	-	6,789,544	-	-	6,789,544	-	-	6,789,544
Others	-	-	917,253	917,253	-	-	917,253	-	-	917,253
Held-to-maturity financial assets										
Investments in bonds	8,985,957	-	-	8,985,957	-	-	8,985,957	-	-	8,985,957
Others	42,300,000	-	-	42,300,000	-	-	42,300,000	-	-	42,300,000
Other financial assets										
Investments in bonds	45,734,754	-	-	45,734,754	-	258,245	45,992,999	-	258,245	45,734,754
Investments in stocks	-	-	507,614	507,614	-	-	507,614	-	-	507,614

December 31, 2016	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 30,660,942	$ 1,541,342	$ -	$ 32,202,284	$ -	$ -	$ 32,202,284	$ -	$ -	$ 32,202,284
Investments in stocks	5,311,930	242,846	-	5,554,776	-	-	5,554,776	-	-	5,554,776
Others	500,007	-	1,291,535	1,791,542	-	-	1,791,542	-	-	1,791,542
Held-to-maturity financial assets										
Investments in bonds	7,192,115	-	-	7,192,115	-	-	7,192,115	-	-	7,192,115
Other financial assets										
Investments in bonds	51,433,548	-	-	51,433,548	-	279,278	51,712,826	-	279,278	51,433,548
Investments in stocks	-	-	507,614	507,614	-	-	507,614	-	-	507,614

Note: The definitions are as follows:

1. Investment grade: Credit rating is BBB - or higher or 1-5 TCRI corporate rating of TEJ if it is a publicly traded company.
2. Non-investment grade: Credit rating is BB + or higher or 6-9 TCRI corporate rating of TEJ if it is a publicly traded company.
3. No ratings: No external ratings.

9) Aging analysis of overdue but not yet impaired financial assets

Delays in processing payments by borrowers and other administrative reasons could result in financial assets becoming overdue but unimpaired. Based on the Bank's internal risk management policies, financial assets that are 90 days overdue are not considered impaired unless evidences show otherwise.

The aging analysis of overdue but unimpaired financial assets was as follows:

	December 31, 2017			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 148,259	$ 42,501	$ -	$ 190,760
Others	1,529	1,552	-	3,081
Discounts and loans				
Consumer finance	368,306	195,657	-	563,963
Corporate banking	96,066	61,241	-	157,307

	December 31, 2016			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 157,031	$ 43,815	$ -	$ 200,846
Others	1,118	697	-	1,815
Discounts and loans				
Consumer finance	247,672	83,935	-	331,607
Corporate banking	11,270	6,109	-	17,379

10) Analysis of impairment for financial assets

The Bank's assessment of loans and receivables for impairment indicated no impairment loss on due from other banks, due from the Central Bank and call loans to other banks. The assessment of the other loans and receivables was as follows:

<u>Discounts and loans</u>

Type of Impairment		**December 31, 2017**		**December 31, 2016**	
		Discounts and Loans	**Allowance for Doubtful Accounts**	**Discounts and Loans**	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Assessment of individual impairment	$ 1,271,517	$ 129,051	$ 1,666,013	$ 201,768
	Assessment of collective impairment	406,929	104,599	310,587	88,853
With no objective evidence of impairment	Assessment of collective impairment	320,347,720	3,168,168	285,261,417	2,906,673

Note: The loans are those originated by the Bank, and are not net of the allowance for doubtful accounts and adjustments for discount (premium).

Receivables

Type of Impairment		December 31, 2017		December 31, 2016	
		Discounts and Loans	Allowance for Doubtful Accounts	Discounts and Loans	Allowance for Doubtful Accounts
With objective evidence of impairment	Individually assessed for impairment	$ 127,247	$ 88,419	$ 543,382	$ 265,653
	Collectively assessed for impairment	1,214,203	66,562	1,292,073	64,253
With no objective evidence of impairment	Collectively assessed	16,474,287	33,318	16,301,152	38,340

Note: The receivables are those originated by the Bank, and are not net of the allowance for doubtful accounts and adjustments for discount (premium).

11) Analysis of impairment for financial assets

On the basis of the result of a credit evaluation, the Bank may require collaterals before drawings are made on the credit facilities. For minimized credit risk, appropriate collaterals are required on the basis of the borrowers' financials and debt service capabilities. All guarantees and appraisal procedures follow the authorities' relevant regulations and the Bank's internal rules. The Bank's internal rules describe the acceptable types of collaterals, appraisal methods, appraisal process, and post-approval collateral management, which require the close monitoring of the value of collaterals to ensure repayment security. The main collateral types are summarized as follows:

a) Real estate
b) Other property
c) Securities/stock
d) Deposits/certificates of deposits
e) Credit guarantee fund or government guarantee

d. Liquidity risk

1) Source and definition of liquidity risk

Liquidity risk means banks cannot provide sufficient funding for asset size growth and for meeting obligations on matured liabilities or have to make late payments to counterparties or raise emergency funding to cover funding gaps.

2) Liquidity risk management strategy and principles

a) The Board of Directors, the top risk supervisor of the Bank, regularly reviews liquidity risk management policies. The Asset/Liability Management Committee, the top liquidity risk executive of the Bank, supervises the implementation of liquidity risk monitoring and control procedures and is responsible for taking any needed remedial measures.

b) In making internal transfer pricing, performance evaluation and new product development decisions, the operation units take liquidity cost and product effectiveness and risks into consideration and align their decisions with the Bank's overall liquidity risk management policies.

c) The fund procurement department implements funding strategies in accordance with the conservatism principle to diversify the funding sources and negotiate reasonable repayment periods to ensure continuing participation in the lending market, and maintains a close relationship with fund providers to strengthen financing channels and ensure the stability and reliability of fund sources.

d) To strengthen liquidity risk management, the Bank has regulations requiring the daily execution of risk management procedures and the monitoring of implementation to maintain sufficient liquidity.

e) The risk management units report the Bank's liquidity position to the Asset/Liability Management Committee monthly and report the Bank's liquidity risk management to the Board of Directors regularly.

3) The liquidity risk analysis of the cash inflow and outflow of assets and liabilities held for liquidity risk refers to the amounts of the obligations for the remaining maturity periods, i.e., from the reporting date to the contract maturity dates. The maturity analysis of financial assets and liabilities was as follows:

a) For maintaining solvency and meeting the needs of emergency assistance arrangements, the Bank holds cash and high-quality, liquid interest-bearing assets. The assets held for liquidity risk management include cash and cash equivalents, due from Central Bank and call loans to other banks, financial assets at fair value through profit or loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets, and debt instruments with no active market, etc.

b) The Bank disclosed the analysis of cash outflows from nonderivative financial liabilities by the residual maturities as of the balance sheet dates. The amounts of cash outflows are based on contractual cash flows, so some amounts may not correspond to those that shown in the balance sheets.

i. The maturity analysis of financial liabilities

	December 31, 2017					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Call loans and due to banks	$ 7,727,920	$ 193,320	$ 1,025,050	$ 15,000	$ -	$ 8,961,290
Securities sold under repurchase agreements	29,401,925	865,759	6,292	-	-	30,273,976
Payables	5,145,607	1,093,734	559,327	186,882	20,136	7,005,686
Deposits and remittance	37,978,485	56,761,648	63,566,801	132,744,399	158,360,786	449,412,119
Bank debentures	-	-	2,000,000	-	9,700,000	11,700,000
Other liabilities	28,101	114	170	341	90,287	119,013

	December 31, 2016					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Call loans and due to banks	$ 5,194,014	$ 758,665	$ 1,036,650	$ 28,300	$ -	$ 7,017,629
Securities sold under repurchase agreements	28,239,364	589,823	44,950	-	-	28,874,137
Payables	5,202,637	926,228	573,736	164,487	22,162	6,889,250
Deposits and remittance	38,197,460	46,204,095	52,523,343	108,635,052	186,502,874	432,062,824
Bank debentures	-	-	-	-	11,200,000	11,200,000
Other liabilities	29,531	384	577	1,153	87,727	119,372

ii. The maturity analysis of derivatives financial liabilities - forward exchange contracts and currency swap contracts

	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 9,182,329	$ 14,086,845	$ 180,444	$ 76,408	$ -	$ 23,526,026
Cash inflow	9,130,874	14,004,333	179,429	75,817	-	23,390,453
	51,455	82,512	1,015	591	-	135,573
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 51,455	$ 82,512	$ 1,015	$ 591	$ -	$ 135,573

	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 3,058,981	$ 662,483	$ 421,300	$ 176,211	$ -	$ 4,318,975
Cash inflow	3,038,160	652,804	416,978	173,221	-	4,281,163
	20,821	9,679	4,322	2,990	-	37,812
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 20,821	$ 9,679	$ 4,322	$ 2,990	$ -	$ 37,812

iii. The maturity analysis of derivatives financial liabilities - option contracts

	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ 3,560	$ 7,482	$ 2,380	$ 2,480	$ -	$ 15,902

	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ (1,318)	$ (3,018)	$ (2,567)	$ (3,924)	$ -	$ (10,827)

e. Market risk

1) Source and definition of market risk

Market risk is defined as an unfavorable change in market prices (such as interest rates, exchange rates, stock prices and commodity prices), which may cause financial instruments classified in the trading book to give rise to a potential loss on or off the balance sheet.

2) Market risk management strategy and processes

The Bank implements the “Market Risk Management Standards of Union Bank of Taiwan,” which had been approved by the Board of Directors, as the basis of market risk management.

The market risk management processes are risk identification, risk measurement, risk monitoring and control, risk reporting and risk mitigation.

a) Risk identification: For balance sheet and off-balance sheet items, the Bank identifies and assesses market risk factors of products and the investment business and subjects them to risk management, monitoring and control procedures.

b) Risk measurement: In principle, each investment or transaction has at least one risk measurement tool - such as sensitivity analysis, value at risk and stress testing, which can be applied to variables, such as fair market value and notional amounts, to quantify market risk.

c) Risk monitoring and control: Each operation unit observes the risk limit regulation stated in its operating manual and regularly monitors risk control. The department of risk management is responsible for summarizing and reporting the Bank's overall market risk monitoring.

d) Risk reporting: The risk management reports are classified as regular report, over-limit report and exception report. Regular reports are the management statements sent to the appropriate level in accordance with certain requirements. Over-limit reports are about situations in which risk limits are exceeded. Exception reports contain operation units' recommendations on how to meet temporary business needs.

e) Risk mitigation: An operation unit may take certain action to reduce risk, such as hedging, investment combination adjustment, position adjustment, setting a break-even point, halting new transactions, etc.

3) Market risk management framework

a) The Board of Directors: The Board of Directors, the Bank's top market risk supervisor, reviews risk management policies, operational risk limits and the design and change of the credit risk management framework.

b) Asset/Liability Management Committee: The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit in charge of the work related to three pillars of Basel and of the development of market risk management tools to assess and control the risk identified through setting risk limits.

d) Operation units: Operation units perform daily market risk management work and report the market risk of investment positions and related information to the authorities.

4) Market risk measurement, control and reporting

a) The market risk of the trading book financial instruments is measured in accordance with the fair market value or evaluation model and the profit and loss situation is evaluated regularly.

b) The business units and the risk management division prepares management reports periodically and report to the appropriate level.

c) The market risk management system combines the evaluation of the front and middle offices to generate information that will assist management in risk monitoring. Moreover, the system supports the capital accrual method being used by the Bank through generating internal and external reports for management's decision, making.

5) Market risk measurement of trading book

The Bank assesses the market risk exposure of the trading book in conformity with an assessment model using publicly quoted market prices or other measurement methods, including interest rate sensitivity analysis (DV01 value) and stress tests. The interest rate sensitivity analysis (DV01 value) refers to changes in market interest by 1 basis point (0.01%); the abnormal stress test system deals with market volatility and involves the regular estimation of possible losses (stress loss) and of the impact of stress test scenarios on major asset portfolios and the Bank's profit and loss.

6) Banking book market risk

a) Interest rate risk

The loans and deposits and other interest rate-related items in the Bank's balance sheet, including interest rate sensitive assets and interest rate sensitive liabilities, are measured from the viewpoint of earnings because there is a risk of decrease in earnings due to adverse changes in interest rates for loans and deposits.

The earnings viewpoint mainly emphasizes the impact of interest rates on earnings, especially short-term earnings. For 2017 and 2016, assuming all market risk indicators, except interest rates, remained constant, an interest rate increase or decrease by 100bps would result in an increase or decrease in profit before tax by $393,900 thousand and $(98,890) thousand, respectively.

b) Exchange rate risk

The exchange rate risk of the banking book refers to the business operation of the International Banking Department of the Bank's Head Office and the operating funds in foreign currencies required by the ROC or local regulations; if there are adverse exchange rate changes, the income statement or cumulative translation adjustments in equity would be negatively affected.

The International Banking Department (IBD) of the Bank's Head Office is a going concern, and its operating funds are foreign currencies for business needs. However, the exchange rate risk on these funds is not significant because the percentage of the operating funds to the Bank's total assets is small, as shown by the immaterial ratio of the IBD's cumulative translation adjustment to the Banks' net worth.

7) Foreign currency rate risk information

The information on significant foreign financial assets and liabilities is as follows:

Unit: Each Foreign Currency (Thousands)/NT$(Thousands)

	December 31, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,600,794	32.279	$ 83,951,022
JPY	4,425,352	0.2757	1,220,070
GBP	2,149	39.6192	85,123
AUD	117,932	23.3087	2,748,838
HKD	125,055	4.1622	520,509
CAD	15,701	23.9281	375,698
CNY	468,192	4.6219	2,163,913
SGD	2,547	22.3075	56,808
ZAR	740,320	2.6379	1,952,854
CHF	1,229	31.5533	38,774
THB	507	0.9011	456
NZD	23,878	7.1955	171,814
EUR	26,141	33.9091	886,431

(Continued)

	December 31, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial liabilities			
USD	$ 2,367,763	29.848	$ 70,672,999
JPY	6,990,969	0.2650	1,852,341
GBP	5,479	40.2053	220,266
AUD	131,390	23.2635	3,056,585
HKD	190,889	3.8189	728,991
CAD	15,163	23.7795	360,568
CNY	719,522	4.5790	3,294,719
SGD	1,445	22.3246	32,255
ZAR	853,645	2.4191	2,065,015
CHF	1,650	30.5507	50,402
THB	89	0.9153	81
NZD	26,955	21.2010	571,476
EUR	46,206	35.6773	1,648,507

(Concluded)

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,809,313	29.848	$ 83,852,383
JPY	4,740,622	0.2650	1,256,085
GBP	1,409	40.2053	56,652
AUD	128,377	23.2635	2,986,498
HKD	190,976	3.8189	729,325
CAD	15,168	23.7795	360,685
CNY	706,005	4.5790	3,232,822
SGD	1,507	22.3246	33,654
ZAR	853,238	2.4191	2,064,030
CHF	1,687	30.5507	51,529
THB	331	0.9153	303
NZD	26,935	21.2010	571,041
EUR	32,026	35.6773	1,142,605
Financial liabilities			
USD	2,179,910	32.279	70,365,313
JPY	7,577,941	0.2757	2,089,238
GBP	7,184	39.6192	284,610
AUD	117,806	23.3087	2,745,893
HKD	125,660	4.1622	523,027
CAD	15,758	23.9281	377,068
CNY	471,818	4.6219	2,180,670
SGD	2,611	22.3075	58,234
ZAR	739,785	2.6379	1,951,442
CHF	1,234	31.5533	38,941
NZD	23,918	7.1955	172,103
EUR	37,181	33.9091	1,206,766

f. Transfers of financial assets.

Most of the transferred financial assets of the Bank that are not derecognized in their entirety are securities sold under repurchase agreements. According to these transactions, the right on cash flow of the transferred financial assets would be transferred to other entities and the associated liabilities of the Bank's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Bank is restricted to use, sell or pledge the transferred financial assets throughout the term of transaction, and is still exposed to interest rate risks and credit risks on these instruments, the transferred financial assets are not derecognized in their entirety. The details of financial assets that are not derecognized in their entirety and the associated financial liabilities are as following:

December 31, 2017					
Category of Financial Assets	**Carrying Amount of Transferred Financial Asset**	**Carrying Amount of Associated Financial Liability**	**Fair Value of Transferred Financial Asset**	**Fair Value of Associated Financial Liability**	**Fair Value of Net Position**
Financial instruments at fair value through profit or loss Securities sold under repurchase agreements	$ 8,552,033	$ 8,557,700	$ 8,552,033	$ 8,557,700	$ (5,667)
Available-for-sale financial assets Securities sold under repurchase agreements	10,837,361	9,673,967	10,837,361	9,673,967	1,163,394
Debt instruments with no active market Securities sold under repurchase agreements	15,415,779	12,042,309	15,716,202	12,042,309	3,673,893

December 31, 2016					
Category of Financial Assets	**Carrying Amount of Transferred Financial Asset**	**Carrying Amount of Associated Financial Liability**	**Fair Value of Transferred Financial Asset**	**Fair Value of Associated Financial Liability**	**Fair Value of Net Position**
Financial instruments at fair value through profit or loss Securities sold under repurchase agreements	$ 7,054,785	$ 7,073,524	$ 7,054,785	$ 7,073,524	$ (18,739)
Available-for-sale financial assets Securities sold under repurchase agreements	14,636,448	13,634,152	14,636,448	13,634,152	1,002,296
Debt instruments with no active market Securities sold under repurchase agreements	10,163,828	8,166,461	10,438,839	8,166,461	2,272,378

g. Offsetting financial assets and financial liabilities.

The Bank is eligible to present certain derivative assets and derivative liabilities on a net basis on the balance sheet since the offsetting criteria are met. Cash collateral has also been paid by part of counterparties for the net amount of the derivative assets and derivative liabilities. The cash collateral does not meet the offsetting criteria, but it can be set off against the net amount of the derivative assets and derivative liabilities in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

The tables below present the quantitative information on financial assets and financial liabilities that have been offset in the balance sheet or that are covered by enforceable master netting arrangements or similar agreements.

December 31, 2017						
Financial Assets	**Gross Amount of Recognized Financial Asset (a)**	**Gross Amount of Recognized Financial Assets Offset in the Balance Sheet (b)**	**Net Amount of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instrument	**Cash Collateral Pledged**	
Derivatives	$ 537,334	$ -	$ 537,334	$ 158,636	$ -	$ 378,698

December 31, 2017						
Financial Liabilities	**Gross Amount of Recognized Financial Liabilities (a)**	**Gross Amount of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial instrument	**Cash Collateral Pledged**	
Derivatives	$ 183,611	$ -	$ 183,611	$ 49,868	$ -	$ 133,743

December 31, 2016						
Financial Assets	**Gross Amount of Recognized Financial Asset (a)**	**Gross Amount of Recognized Financial Assets Offset in the Balance Sheet (b)**	**Net Amount of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instrument	**Cash Collateral Pledged**	
Derivatives	$ 442,642	$ -	$ 442,642	$ 6,187	$ -	$ 436,455

December 31, 2016						
Financial Liabilities	**Gross Amount of Recognized Financial Liabilities (a)**	**Gross Amount of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial instrument	**Cash Collateral Pledged**	
Derivatives	$ 38,430	$ -	$ 38,430	$ 1,639	$ -	$ 36,791

46. CAPITAL MANAGEMENT

a. Strategies to maintain capital adequacy

Under the regulations set by the authorities, the Bank complies with the requirements set each year for the minimum consolidated capital adequacy ratios, including the common equity Tier I capital ratio; the Bank's leverage ratio is also in accordance with the requirements of the relevant authorities. These ratios are applied in accordance with the regulations announced by the authorities.

b. Capital assessment program

The capital ratios and leverage ratios are applied, analyzed, monitored and reported regularly, and are assigned to each business unit as the target capital adequacy ratios. The business units' compliance with the ratio requirements is tracked regularly, and remedial action is taken if the capital and leverage ratio requirements are not met.

(Unit: In Thousands of New Taiwan Dollars, %)

Items (Note 2)			Year: December 31, 2017 Own Capital Adequacy Ratio	December 31, 2017 Consolidated Capital Adequacy Ratio
Eligible capital	Common equity Tier 1 Ratio		31,867,478	31,226,900
	Other Tier 1 capital		12,146,864	12,878,925
	Tier 2 capital		5,726,391	8,534,948
	Eligible capital		49,740,733	52,640,773
Risk-weighted assets	Credit risk	Standard	262,318,162	271,978,233
		Internal rating-based approach	-	-
		Asset securitization	11,794,762	11,794,762
	Operational risk	Basic indicator approach	17,986,588	20,976,363
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	24,757,659	25,883,018
		Internal model approach	-	-
	Total risk-weighted assets		316,857,171	330,632,376
Capital adequacy rate			15.70%	15.92%
Ratio of common stockholders' equity to risk-weighted assets			10.06%	9.44%
Ratio of Tier 1 capital to risk-weighted assets			13.89%	13.34%
Leverage ratio			7.30%	7.21%

Items (Note 2)			Year: December 31, 2016 Own Capital Adequacy Ratio	December 31, 2016 Consolidated Capital Adequacy Ratio
Eligible capital	Common equity Tier 1 Ratio		$ 30,419,225	$ 29,751,735
	Other Tier 1 capital		1,664,565	2,378,925
	Tier 2 capital		6,851,336	9,629,432
	Eligible capital		38,935,126	41,760,092
Risk-weighted assets	Credit risk	Standard	248,206,553	258,443,901
		Internal rating-based approach	-	-
		Asset securitization	919,153	919,153
	Operational risk	Basic indicator approach	17,384,500	19,969,925
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	22,483,575	23,893,763
		Internal model approach	-	-
	Total risk-weighted assets		288,993,781	303,226,742
Capital adequacy rate			13.47%	13.77%
Ratio of common stockholders' equity to risk-weighted assets			10.53%	9.81%
Ratio of Tier 1 capital to risk-weighted assets			11.10%	10.60%
Leverage ratio			5.68%	5.57%

Note 1: Eligible capital and risk-weighted assets are calculated under the "Regulations Governing the Capital Adequacy Ratio of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks."

Note 2: Formulas used were as follows:

1) Eligible capital = Common equity Tier 1 capital + Other Tier 1 capital + Tier 2 capital.

2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.

3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.

4) Ratio of Common equity Tier 1 capital to risk-weighted assets = Common equity Tier 1 capital ÷ Risk-weighted assets.

5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity Tier 1 capital + Other Tier 1 capital) ÷ Risk-weighted assets.

6) Leverage ratio = Tier 1 capital ÷ Exposure Measurement

The Banking Law and related regulations require that the Bank maintain its unconsolidated and consolidated CARs at a minimum of 9.25%, the Tier 1 Capital Ratio at a minimum of 7.25% and the Common Equity Tier 1 Ratio at a minimum of 5.75%. In addition, if the Bank's CAR falls below the minimum requirement, the authorities may impose certain restrictions on the amount of cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

47. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Union Bank of Taiwan

a. Credit risk

1) Asset quality

See Table 5.

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2017			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Company B - other financial intermediation	$ 1,895,359	3.96
2	Group U - real estate development	1,583,550	3.30
3	Group H - retail of other food and beverages	1,476,000	3.08
4	Company T - real estate development	1,172,543	2.45
5	Company K - other financial, insurance and real estate	1,115,000	2.33
6	Company Q - telecommunications	996,449	2.08
7	Company W - real estate development	930,000	1.94
8	Company R - computer manufacturing	892,442	1.86
9	Company I - banking	805,896	1.68
10	Company C - instant food manufacturing	768,580	1.60

December 31, 2016			
Rank (Note 1)	Company Name	Credit Extension Balance	% to Net Asset Value
1	Group U - real estate development	$ 1,728,080	4.81
2	Company B - other financial intermediation	1,623,773	4.52
3	Company V - other telecommunications market	1,499,844	4.17
4	Group D - real estate development	1,495,115	4.16
5	Group H - retail of other food and beverages	1,248,800	3.47
6	Company T - real estate development	891,380	2.48
7	Company O - financial intermediation	865,000	2.41
8	Company T - real estate development	708,000	1.97
9	Group F - manufacture of chemical material	630,185	1.75
10	Company P - renting and leasing of other transport equipment	618,000	1.72

b. Market risk

Interest Rate Sensitivity
December 31, 2017

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 376,966,538	$ 9,601,587	$ 11,136,138	$ 38,825,399	$ 436,529,662
Interest rate-sensitive liabilities	197,693,904	153,613,569	58,382,557	19,977,717	429,667,747
Interest rate-sensitive gap	179,272,634	(144,011,982)	(47,246,419)	18,847,682	6,861,915
Net worth					47,621,711
Ratio of interest rate-sensitive assets to liabilities					101.60%
Ratio of interest rate sensitivity gap to net worth					14.41%

December 31, 2016

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 303,648,998	$ 13,621,567	$ 16,719,210	$ 65,246,623	$ 399,236,398
Interest rate-sensitive liabilities	163,766,946	148,972,674	66,453,129	20,884,794	400,077,543
Interest rate-sensitive gap	139,882,052	(135,351,107)	(49,733,919)	44,361,829	(841,145)
Net worth					36,171,130
Ratio of interest rate-sensitive assets to liabilities					99.79%
Ratio of interest rate sensitivity gap to net worth					(2.33%)

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank's Head Office and branches (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 are 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).

Interest Rate Sensitivity
December 31, 2017

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 727,760	$ 144,129	$ 512,407	$ 1,667,860	$ 3,052,156
Interest rate-sensitive liabilities	1,226,308	300,065	475,541	352,259	2,354,173
Interest rate-sensitive gap	(498,548)	(155,936)	36,866	1,315,601	697,983
Net worth					49,704
Ratio of interest rate-sensitive assets to liabilities					129.65%
Ratio of interest rate sensitivity gap to net worth					1,404.28%

December 31, 2016

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 89,734	$ 53,035	$ 118,086	$ 2,290,955	$ 2,551,810
Interest rate-sensitive liabilities	978,992	248,275	376,550	337,223	1,941,040
Interest rate-sensitive gap	(889,258)	(195,240)	(258,464)	1,953,732	610,770
Net worth					33,054
Ratio of interest rate-sensitive assets to liabilities					131.47%
Ratio of interest rate sensitivity gap to net worth					1,847.79%

Note 1: The above amounts included only U.S. dollar amounts held by the Bank's Head Office, domestic branches, OBU and overseas branches 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 are 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)

c. Liquidity risk

1) Profitability

(%)

Items		For the Year Ended December 31, 2017	For the Year Ended December 31, 2017
Return on total assets	Before income tax	0.61	0.63
	After income tax	0.51	0.51
Return on equity	Before income tax	7.90	9.11
	After income tax	6.55	7.44
Net income ratio		26.68	26.61

Note 1: Return on total assets = Income before (after) income tax ÷ Average total assets

Note 2: Return on equity = Income before (after) income tax ÷ Average equity

Note 3: Net income ratio = Income after income tax ÷ Total net revenues

Note 4: Income before (after) income tax represents income for the years ended December 31, 2017 and 2016.

2) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2017

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 480,358,390	$ 115,895,675	$ 33,432,390	$ 46,879,896	$ 86,634,132	$ 197,516,297
Main capital outflow on maturity	560,344,544	64,889,855	69,540,305	73,713,185	149,777,827	202,423,372
Gap	(79,986,154)	51,005,820	(36,107,915)	(26,833,289)	(63,143,695)	(4,907,075)

December 31, 2016

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 437,112,956	$ 111,586,563	$ 28,350,870	$ 38,197,116	$ 74,328,205	$ 184,650,202
Main capital outflow on maturity	529,154,086	55,838,927	52,344,727	62,887,509	137,719,453	220,363,470
Gap	(92,041,130)	55,747,636	(23,993,857)	(24,690,393)	(63,391,248)	(35,713,268)

Note: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance sheet amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

Maturity Analysis of Assets and Liabilities
December 31, 2017

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 3,323,479	$ 483,526	$ 466,456	$ 168,450	$ 512,438	$ 1,692,609
Main capital outflow on maturity	2,929,180	1,135,576	510,754	343,293	532,066	407,491
Gap	394,299	(652,050)	(44,298)	(174,843)	(19,628)	1,285,118

December 31, 2016

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 2,734,149	$ 126,023	$ 91,909	$ 59,878	$ 115,787	$ 2,340,552
Main capital outflow on maturity	2,346,293	1,059,256	245,393	269,163	401,994	370,487
Gap	387,856	(933,233)	(153,484)	(209,285)	(286,207)	1,970,065

Note: The above amounts are book value of the assets and liabilities held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

48. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau for the Bank and its investees:

a. Related information of significant transactions and investees and (b) proportionate share in investees:

1) Financing provided to other parties: The Bank - not applicable; investee - Table 1 (attached)

2) Endorsement/guarantee provided: The Bank - not applicable; investee: None

3) Marketable securities held: The Bank - not applicable; investee - Table 2 (attached)

4) Marketable securities acquired and disposed of at costs or prices of at least $300 million or 10% of the paid-in capital: None

5) Acquisition of individual real estate at costs of at least $300 million or 10% of the paid-in capital: Table 3 (attached)

6) Disposal of individual real estate at costs of at least $300 million or 10% of the paid-in capital: None

7) Allowance of service fees to related parties amounting to at least $5 million: None

8) Receivables from related parties amounting to at least $300 million or 10% of the paid-in capital: Table 4 (attached)

9) Sale of nonperforming loans: None

10) Asset securitization under the "Regulations for Financial Asset Securitization": None

11) Other significant transactions which may affect the decisions of users of financial reports: Table 5 (attached)

12) Names, locations and other information of investees on which the Bank exercises significant influence: Table 6 (attached)

13) Derivative transactions: Note 8

b. Investment in Mainland China: None

49. INFORMATION SEGMENTS

The Bank has disclosed the segment information in the consolidated financial statements. Thus, no segment information is presented herein.

ancial nt Account	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
									Item	Value		
f receivable	$ 2,119,696 (JPY 8,000,000)	$ 2,119,696 (JPY 8,000,000)	$ 1,716,636 (JPY 5,639,163) (US$ 7,453)	1.50	Business transaction	$ 2,119,696 (JPY 8,000,000)	-	$ -	-	$ -	$ 2,664,239	$ 2,664,239
f receivable	980,359 (JPY 3,700,000)	980,359 (JPY 3,700,000)	709,363 (JPY 2,677,225)	1.50	Business transaction	980,359 (JPY 3,700,000)	-	-	-	-	2,664,239	2,664,239
f receivable	1,722,253 (JPY 6,500,000)	1,722,253 (JPY 6,500,000)	1,464,978 (JPY 5,523,808) (US$ 46)	1.50	Business transaction	1,722,253 (JPY 6,500,000)	-	-	-	-	2,664,239	2,664,239
f receivable	503,428 (JPY 1,900,000)	503,428 (JPY 1,900,000)	388,398 (JPY 1,465,865)	2.75	Business transaction	503,428 (JPY 1,900,000)	-	-	-	-	2,664,239	2,664,239
f receivable	874,375 (JPY 3,300,000)	874,375 (JPY 3,300,000)	596,907 (JPY 2,252,804)	2.75	Business transaction	874,375 (JPY 3,300,000)	-	-	-	-	2,664,239	2,664,239

elationship	Limits on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	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	Note
ancial and Leasing ional Corporation sidiaries	$ 2,664,239	$ 746,200 (US$ 25,000)	$ 746,200 (US$ 25,000)	$ -	$ -	28.01	$ 2,664,239	Yes	No	No	

pe and Issuer/ Marketable Security	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2017 Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	Note
es Corporation.	-	Available-for-sale financial assets	931	$ 8,101	0.06	$ 8,101	Note 4
rporation	-	Available-for-sale financial assets	356	6,646	0.12	6,646	Note 4
tion	-	Available-for-sale financial assets	4,551	143,129	1.13	143,129	Note 4
yman) Corp.	Subsidiary	Equity investment - equity method	50	517,572	100.00	517,572	Note 1
es Ltd.	Subsidiary	Equity investment - equity method	-	85,652	100.00	85,652	Note 1
ons Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33	1,415	Note 1
tes							
Global FI Portfolio Fund	-	Available-for-sale financial assets	6,614	100,088		100,088	Note 4
nce Fund	-	Available-for-sale financial assets	854	19,603		19,603	Note 4
Co., Ltd.	-	Unquoted equity instruments	2,646	23,411	14.70	29,319	Note 3
Co., Ltd.	-	Unquoted equity instruments	566	7,235	0.94	6,534	Note 2
tes							
Global FI Portfolio Fund	-	Financial assets at fair value through profit or loss	1,068	17,478		17,478	Note 4
sia Bond A	-	Financial assets at fair value through profit or loss	486	5,539		5,539	Note 4
ket	-	Financial assets at fair value through profit or loss	1,230	16,154		16,154	Note 4
nce Fund	-	Financial assets at fair value through profit or loss	575	13,215		13,215	Note 4
rich Countries HYBd A	-	Financial assets at fair value through profit or loss	800	8,894		8,894	Note 4
	-	Financial assets at fair value through profit or loss	1,006	24,919		24,919	Note 4
Fund	-	Financial assets at fair value through profit or loss	1,460	18,266		18,266	Note 4
nced A	-	Financial assets at fair value through profit or loss	1,001	12,326		12,326	Note 4
Fund	-	Financial assets at fair value through profit or loss	513	5,403		5,403	Note 4
Yield Bond A		Financial assets at fair value through profit or loss	1,451	15,194		15,194	Note 4
ding LP	-	Available-for-sale financial assets	900 units	US$ 917		US$ 917	Note 4

(Continued)

arketable Security	with Holding Company		Units (In Thousands)	Carrying Value	Ownership (%)	of Net Asset Value	
c.	-	Financial assets at fair value through profit or loss	17	US$ 2,945		US$ 2,945	Note 4
	-	Financial assets at fair value through profit or loss	12	US$ 658		US$ 658	Note 4
	-	Financial assets at fair value through profit or loss	14	US$ 516		US$ 516	Note 4
	-	Financial assets at fair value through profit or loss	119	US$ 148		US$ 148	Note 4
	-	Financial assets at fair value through profit or loss	5	US$ 320		US$ 320	Note 4
	-	Financial assets at fair value through profit or loss	10	US$ 389		US$ 389	Note 4
	-	Financial assets at fair value through profit or loss	18	US$ 15		US$ 15	Note 4
ling Limited	-	Unquoted equity instruments	1,667	$ 64,320	0.81	US$ 2,714	Note 2
gapore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 58,927	100.00	JPY 58,927	Note 5
pore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 66,975	100.00	JPY 66,975	Note 5
JCJ1	Subsidiary	Equity investment - equity method	9	JPY 470,173	30.55	JPY 470,173	Note 5
Kaisha SSG15	Subsidiary	Equity investment - equity method	Note 7	JPY 700,750	49.00	JPY 700,750	Note 5
Kaisha SSG15	Subsidiary	Equity investment - equity method	Preferred stock 15	JPY 729,300	51.00	JPY 729,300	Note 5
Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 9	JPY 1,013,159	51.00	JPY 1,013,159	Note 5
Kaisha SSG16	Subsidiary	Equity investment - equity method	Preferred stock 26	JPY 1,290,300	51.00	JPY 1,290,300	Note 5
JCJ1	Subsidiary	Equity investment - equity method	21	JPY 1,068,923	69.45	JPY 1,068,923	Note 5
Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 8	JPY 973,477	49.00	JPY 973,477	Note 5
Kaisha SSG16	Subsidiary	Equity investment - equity method	Note 6	JPY 1,239,750	49.00	JPY 1,239,750	Note 5

aving no quoted market prices. The net asset values of these companies were based on the following:

ents of stockholders' equity as of December 31, 2016.
n) Corp. - the audited statements of stockholders' equity as of December 31, 2017.

:

stockholders' equity as of December 31, 2017.

f stockholders' equity as of December 31, 2017.

al (Singapore) Holding Pte. Ltd. and Tokutei Mokuteki Kaisha SSG15, SSG12 and SSG16 - the audited statements of stockholders' equity as of September 30, 2017.

olders' equity as of September 30, 2017.

shares.

shares.

shares.

(Concluded)

G TO AT LEAST NT$300 MILLION OR 10% OF THE PAID-IN CAPITAL

se)

ed Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
				Amount	Actions Taken		
ayman) Corp.	Subsidiary	$ 1,716,636 (JPY 5,639,163) (US$ 7,453)	-	$ -	-	$ -	$ -
ingapore) Holding	Subsidiary	709,363 (JPY 2,677,225)	-	-	-	-	-
gapore) Holding Pte.	Subsidiary	1,464,978 (JPY 5,523,808) (US$ 46)	-	-	-	-	-
a UCJ1 (Japan)	Subsidiary	388,398 (JPY 1,465,865)	-	-	-	-	-
a UCJ1 (Japan)	Subsidiary	596,907 (JPY 2,252,804)	-	-	-	-	-

December 31, 2017					December 31, 2016				
Nonperforming Loan (Note 1)	Loan	Ratio of Nonperforming Loan (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
$ 126,078	$ 82,684,315	0.15%	$ 1,331,768	884.88%	$ 94,244	$ 75,045,075	0.13%	$ 1,276,561	1,056.99%
24,424	70,604,009	0.03%			26,529	57,311,972	0.05%		
151,347	132,069,243	0.11%	1,654,526	1,093.20%	57,784	122,449,989	0.05%	1,543,728	2,671.55%
682	45,043	1.51%	2,153	315.69%	1,047	60,542	1.73%	2,579	246.32%
61,359	17,032,760	0.36%	208,107	339.16%	64,924	13,535,125	0.48%	167,511	258.01%
18,868	16,886,175	0.11%	205,264	1,051.72%	28,153	15,998,751	0.18%	206,915	713.04%
649	2,704,621	0.02%			866	2,836,563	0.03%		
383,407	322,026,166	0.12%	3,401,818	887.26%	273,547	287,238,017	0.10%	3,197,294	1,168.83%
Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)	Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
42,074	14,575,314	0.29%	91,701	217.95%	40,754	13,959,135	0.29%	98,445	241.56%
-	396,449	-	3,964	-	-	799,844	-	3,504	-

disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans."

e authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Outstanding loan balance.
rforming credit card receivables ÷ Outstanding credit card receivables balance.

for loans ÷ Nonperforming loans.
or possible losses for credit card receivables ÷ Nonperforming credit card receivables.

nd is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

9, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

ured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance
n these accounts.

(Continued)

erforming eivable	Nonperforming Loan	Nonperforming Receivable
178,460	$ 56,493	$ 234,830
768,034	67,968	798,500
946,494	124,461	1,033,330

are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

rance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref.

(Concluded)

NVESTEES

Main Business and Product	Percentage of Ownership (%)	Carrying Value	Investment Gain (Loss)	Proportionate Share of the Bank and Its Subsidiaries in Investees				Note
				Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
						Shares (Thousands)	Percentage of Ownership (%)	
llment, leasing and accounts receivable factoring	100.00	$ 2,664,239	$ 148,356	117,000	-	117,000	100.00	Note 3
rt and export accommodation	99.99	99,514	33,476	30,000	-	30,000	99.99	Note 3
rities investment trust	35.00	144,248	11,333	10,500	-	10,500	35.00	Note 3
ware and hardware product retail and distribution, stem programming development, system velopment outsourcing, website design, commerce, etc.	99.99	20,244	864	1,000	-	1,000	99.99	Note 3
rd	16.25	123,320	-	13,000	-	13,000	16.25	
hase, sale and management of nonperforming loans om financial institutions	0.57	75,000	-	7,500	-	7,500	0.57	
erty auction	2.94	50,000	-	5,000	-	5,000	2.94	
rities finance	0.53	20,055	-	2,103	-	2,103	0.53	
hase, sell and manage nonperforming loans from ancial institution	6.44	3,864	-	386	-	386	6.44	
gn exchange brokering	0.81	2,113	-	160	-	160	0.81	
mation service	2.39	118,782	-	12,498	-	12,498	2.39	
ncial service	0.25	13,916	-	899	-	899	0.25	
res clearing	2.04	71,250	-	6,422	-	6,422	2.04	
national trade, data processing service	1.00	6,000	-	600	-	600	1.00	
truction plan review and consulting	40.00	53,121	(326)	2,000	-	2,000	40.00	Note 3
stments	5.00	9,852	-	990	-	990	5.00	
stment	4.76	5,837	-	607	-	607	4.76	
rity service	5.00	1,501	-	125	-	125	5.00	
ricity-related business	0.0012	6,124	-	395	-	395	0.0012	

ited financial reports as of December 31, 2017.

vertible bonds, warrants, etc., or derivative contracts such as stock options, are converted to shares

Union Bank of Taiwan and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The Bank and its subsidiaries required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2017 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

UNION BANK OF TAIWAN

By:

____

March 29, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Union Bank of Taiwan

Opinion

We have audited the accompanying consolidated financial statements of Union Bank of Taiwan (the Bank) and its subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, 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 Company as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and 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 of Financial Institutions 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 Company 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, 2017. 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.

The key audit matters of the Company's consolidated financial statements for the year ended December 31, 2017 are described as follows:

Accuracy of Interest Revenue from of Discounts and Loans

For the year ended December 31, 2017, the amount of interest revenue from discounts and loans was $6,307,257 thousand which, represented approximately 51% of total net revenue, and was considered material to the financial statements as a whole. Refer to Note 33 to the consolidated financial statements. Therefore, we considered the accuracy of the recognition of interest revenue as a key audit matter for the year ended December 31, 2017.

The main audit procedures we performed in response to certain aspects of the key audit matter described above were as follows:

1. Understanding of the design of the Company's computerized information system and General IT Controls, and testing of the operating effectiveness of the controls over the relevant application system and the information generated.

2. Understanding of the design of the application system for recognition of commercial loans and discounts and interest revenue. Testing of operating effectiveness of relevant automated controls in the application system.

3. Determination and verification of the classification of material loans. Verification if there is any difference in the balance of loans generated by information system and carrying amount per books.

4. Testing and assessment of the accuracy of interest revenue generated by information system. Verification if there is any difference in the interest revenue generated by information system and carrying amount on per books.

Possible Impairment of Discounts and Loans

As of December 31, 2017, the net amount of discounts and loans of the Company was $316,728,989 thousand which, represented approximately 56% of total consolidated assets, and was considered material to the financial statements as a whole. Refer to Note 11 to the consolidated financial statements. The Company's management performs loan impairment assessment involving critical judgements on accounting estimates and assumptions; therefore, we determined allowance for possible losses on discounts and loans a key audit matter for the year ended December 31, 2017.

The Company's management performs loan impairment assessment through reviewing of portfolios of loans periodically, and makes a judgement on whether to recognize impairment loss per observable evidence indicating the probable occurrence of impairment events. The amount of impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows, with consideration of collaterals and guarantees, discounted at the financial asset's original effective interest rate. In addition, the allowance provision must comply with relevant regulations issued by the authorities.

For the accounting policies and relevant information on loan impairment assessment, refer to Notes 4, 5 and 12 to the financial statements.

The main audit procedures we performed in response to certain aspects of the key audit matter described above were as follows:

1. Understanding and testing of the relevant internal controls in respect of the Bank's loan impairment assessment process.

2. Impairment assessment of sample individual loans by:

    - Verifying the accuracy of the balance of loans.

    - Verifying the payment of principal and interest, and the classification of credit assets according to relevant regulations issued by the authorities.

    - Assessing the assumptions used to estimate future cash flows and the reasonableness of the value of collateral.

3. Impairment assessment of loans on collective basis by:

    - Verifying the classification of collectively assessed loans.

    - Understanding the assumptions on critical factors of collectively assessed loans, including the possibility of the impairment and the recoverability of loan balances, used in the impairment assessment model, and verifying whether the estimates reasonably reflected the actual outcome for each loan portfolio.

    - Recalculating to confirm the amount of recognized impairment.

4. Verifying the classification of credit assets in order to assess whether the provision of allowance for possible losses complied with relevant regulations issued by the authorities.

Other Matter

We have also audited the separate financial statements of Union Bank of Taiwan as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and IFRS, IAS, IFRIC, and 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 Company'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 Company 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 Company'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 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 Company'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 Company'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 Company 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 Company 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, 2017 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 Shiuh-Ran Cheng and Chen-Hsiu Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 29, 2018

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.

I BANK OF TAIWAN AND SUBSIDIARIES

IDATED BALANCE SHEETS
BER 31, 2017 AND 2016
ands of New Taiwan Dollars)

	2017 Amount	2017 %	2016 Amount
D CASH EQUIVALENTS (Notes 4 and 6)	$ 12,136,172	2	$ 10,971,118
M THE CENTRAL BANK AND CALL LOANS TO BANKS (Note 7)	19,180,985	4	54,414,461
AL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	12,136,325	2	9,538,090
IES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 9)	28,234,334	5	27,855,242
BLES, NET (Notes 4, 5, 10 and 12)	17,751,420	3	17,888,230
T TAX ASSETS (Note 4)	52,134	-	186,231
TS AND LOANS, NET (Notes 4, 5, 11, 12 and 43)	316,728,989	56	282,416,950
BLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 13 and 43)	35,489,633	6	39,978,425
-MATURITY FINANCIAL ASSETS (Notes 4 and 14)	51,285,957	9	7,192,115
IENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 16)	53,121	-	53,447
INANCIAL ASSETS, NET (Notes 4, 17 and 44)	48,267,839	9	57,403,743
Y AND EQUIPMENT, NET (Notes 4 and 18)	8,081,729	2	8,156,305
IENT PROPERTIES, NET (Notes 4, 19 and 27)	5,284,434	1	5,415,376
BLE ASSETS (Notes 4 and 20)			
ll	1,985,307	-	1,985,307
er software	184,137	-	182,423
tal intangible assets	2,169,444	-	2,167,730
ED TAX ASSETS (Notes 4 and 41)	1,172,974	-	1,447,039
SSETS, NET (Notes 4, 21, 30, 43 and 45)	7,590,797	1	7,622,068
	$ 565,616,287	100	$ 532,706,570
TIES AND EQUITY			
THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 22)	$ 9,249,185	2	$ 8,389,312
AL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	183,384	-	39,523
IES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 4 and 23)	30,273,976	5	28,874,137
TS PAYABLE (Note 24)	7,108,824	1	6,981,464
T TAX LIABILITIES (Note 4)	77,173	-	97,549
S AND REMITTANCES (Notes 25 and 43)	449,049,470	79	431,618,915
EBENTURES (Note 26)	11,700,000	2	11,200,000
YABLE (Note 27)	1,409,598	-	1,135,884
INANCIAL LIABILITIES (Note 28)	4,291,441	1	4,235,138
ONS (Notes 4, 29 and 30)	182,262	-	189,572
ED TAX LIABILITIES (Notes 4 and 41)	937,196	-	834,410
IABILITIES (Notes 31 and 45)	2,967,213	1	2,892,210

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
NET INTEREST (Notes 33 and 43)					
Interest revenues	$ 10,268,804	82	$ 10,014,337	83	3
Interest expenses	3,677,756	29	3,709,965	31	(1)
Net interest	6,591,048	53	6,304,372	52	5
NET REVENUES OTHER THAN INTEREST					
Commissions and fee revenues, net (Notes 34 and 43)	2,298,017	18	2,423,489	20	(5)
Gain on financial assets and liabilities at fair value through profit or loss, net (Note 35)	356,479	3	382,758	3	(7)
Realized gain from available-for-sale financial assets, net (Notes 36 and 43)	830,130	7	461,840	4	80
Foreign exchange loss, net	(159,723)	(1)	(16,025)	-	897
Loss from asset impairment, net (Notes 4 and 37)	(799)	-	(49,283)	-	(98)
Share of loss of associates (Notes 4 and 16)	(326)	-	(347)	-	(6)
Gain on financial assets measured at cost, net	57,416	-	68,135	-	(16)
Securities brokerage fee revenues, net	203,732	2	198,476	2	3
Rental revenue	2,231,092	18	2,140,487	18	4
Other noninterest net gain	64,299	-	97,758	1	(34)
TOTAL NET REVENUES	12,471,365	100	12,011,660	100	4
PROVISIONS (Note 12)					
Provision of allowance for doubtful accounts	356,861	3	171,542	2	108
OPERATING EXPENSES					
Employee benefit expenses (Notes 4, 30 and 38)	3,352,574	27	3,345,749	28	-
Depreciation and amortization (Note 39)	1,937,510	15	1,820,860	15	6
Others (Notes 40 and 43)	3,437,849	28	3,362,722	28	2
Total operating expenses	8,727,933	70	8,529,331	71	2

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INCOME BEFORE INCOME TAX	$ 3,386,571	27	$ 3,310,787	27	2
INCOME TAX EXPENSE (Notes 4 and 41)	620,536	5	649,166	5	(4)
CONSOLIDATED NET INCOME	2,766,035	22	2,661,621	22	4
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Note 30)	10,474	-	(11,073)	-	195
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 41)	(1,781)	-	1,883	-	(195)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	(890,651)	(7)	(558,033)	(5)	60
Unrealized gain on available-for-sale financial assets	1,214,673	10	(39,870)	-	3,147
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 41)	64,104	-	71,757	1	(11)
Other comprehensive income (loss) for the year, net of income tax	396,819	3	(535,336)	(4)	174
TOTAL COMPREHENSIVE INCOME	$ 3,162,854	25	$ 2,126,285	18	49
NET INCOME ATTRIBUTABLE TO:					
Owners of the Bank	$ 2,744,987	22	$ 2,636,375	22	4
Non-controlling interests	21,048	-	25,246	-	(17)
	$ 2,766,035	22	$ 2,661,621	22	4

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of the Bank	$ 3,141,678	25	$ 2,101,213	18	50
Non-controlling interests	21,176	-	25,072	-	(16)
	$ 3,162,854	25	$ 2,126,285	18	49
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 42)					
Basic	$1.05		$1.01		
Diluted	$1.05		$1.01		

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

Equity Attributable Owners of the Company											
Note 32)		Retained Earnings (Notes 4 and 32)				Other Equity					
Preference Shares	Share Capital (Note 32)	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations	Total	Total	Non-controlling Interests (Note 32)	Total Equity
$ -	$ 32,413	$ 3,450,907	$ 558,842	$ 3,078,201	$ 7,087,950	$ 1,302,228	$ 416,049	$ 1,718,277	$ 34,890,164	$ 260,253	$ 35,150,417
-	-	923,460	-	(923,460)	-	-	-	-	-	-	-
-	-	-	-	(1,042,061)	(1,042,061)	-	-	-	(1,042,061)	-	(1,042,061)
-	-	-	-	2,636,375	2,636,375	-	-	-	2,636,375	25,246	2,661,621
-	-	-	-	(9,016)	(9,016)	(29,920)	(496,226)	(526,146)	(535,162)	(174)	(535,336)
-	-	-	-	-	-	-	-	-	-	(16,185)	(16,185)
-	32,413	4,374,367	558,842	3,740,039	8,673,248	1,272,308	(80,177)	1,192,131	35,949,316	269,140	36,218,456
-	-	790,913	-	(790,913)	-	-	-	-	-	-	-
-	-	-	26,364	(26,364)	-	-	-	-	-	-	-
-	-	-	-	(1,172,319)	(1,172,319)	-	-	-	(1,172,319)	-	(1,172,319)
-	-	-	-	2,744,987	2,744,987	-	-	-	2,744,987	21,048	2,766,035
-	-	-	-	8,565	8,565	1,073,393	(685,267)	388,126	396,691	128	396,819
2,000,000	8,000,000	-	-	-	-	-	-	-	10,000,000	-	10,000,000
-	-	-	-	-	-	-	-	-	-	(22,426)	(22,426)
$ 2,000,000	$ 8,032,413	$ 5,165,280	$ 585,206	$ 4,503,995	$ 10,254,481	$ 2,345,701	$ (765,444)	$ 1,580,257	$ 47,918,675	$ 267,890	$ 48,186,565

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UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,386,571	$ 3,310,787
Adjustments for:		
Depreciation expenses	1,873,385	1,760,952
Amortization expenses	64,125	59,908
Provision of allowance for doubtful accounts	356,861	171,542
Gain on disposal of financial assets designated as at fair value through profit or loss	(356,479)	(382,758)
Interest expenses	3,677,756	3,709,965
Interest revenues	(10,268,804)	(10,014,337)
Dividend income	(241,044)	(220,255)
Share of loss of associates	326	347
Gain on disposal of properties and equipment	(17,565)	(27,242)
Gain on disposal of investments	(645,405)	(299,132)
Impairment loss recognized on financial assets	799	50,000
Reversal of impairment losses on nonfinancial assets	-	(717)
Loss on disposal of collaterals	-	241
Changes in operating assets and liabilities		
Due from the Central Bank and call loans to banks	(3,641,413)	(1,496)
Financial assets at fair value through profit or loss	(1,823,629)	142,775
Accounts receivable	(224,260)	(2,779,464)
Discounts and loans	(34,455,640)	(3,746,390)
Available-for-sale financial assets	6,348,871	(16,399,445)
Held-to maturity financial assets	(44,498,510)	(2,957,960)
Other financial assets	9,694,362	3,809,276
Due to the Central Bank and other banks	859,873	4,607,336
Financial liabilities at fair value through profit or loss	(278,773)	(259,375)
Securities sold under repurchase agreements	1,399,839	1,887,201
Accounts payable	65,695	2,895,895
Deposits	17,430,555	10,600,809
Other financial liabilities	2,155	(843)
Provisions for employee benefits	(2,089)	(806,649)
Other liabilities	899	-
Cash used in operations	(51,291,539)	(4,889,029)
Interest received	10,274,544	9,874,024
Dividends received	245,551	225,590
Interest paid	(3,615,966)	(3,686,394)
Income tax returned (paid)	(67,642)	1,012
Net cash generated from (used in) operating activities	(44,455,052)	1,525,203

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for properties and equipment	$ (200,903)	$ (735,637)
Proceeds of the disposal of properties and equipment	21	416
Payments for investment properties	(15,077)	(1,741,278)
Increase in settlement fund	-	(20,334)
Decrease in settlement fund	161,568	-
Increase in refundable deposits	(96,985)	-
Decrease in refundable deposits	-	225,554
Payments for intangible assets	(66,476)	(28,298)
Proceeds of the disposal of collaterals	-	476
Increase in other assets	(1,574,695)	(2,095,105)
Net cash used in investing activities	(1,792,547)	(4,394,206)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in commercial paper	54,148	1,556,543
Proceeds of the issue of bonds payable	317,955	529,344
Proceeds of the issue of bank debentures	500,000	2,500,000
Repayments of bank debentures	-	(900,000)
Increase in guarantee deposits received	2,312	250,255
Increase in other liabilities	64,401	59,160
Dividends paid to non-controlling interests	(22,426)	(16,185)
Cash dividends paid	(1,172,319)	(1,042,061)
Issuance of preference shares	10,000,000	-
Net cash generated from financing activities	9,744,071	2,937,056
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(827,215)	(560,639)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,330,743)	(492,586)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	78,026,360	78,518,946
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 40,695,617	$ 78,026,360

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

Reconciliation of the cash and cash equivalents reported in the consolidated statements of cash flows with those reported in the consolidated balance sheets as of December 31, 2017 and 2016:

	December 31	
	2017	**2016**
Cash and cash equivalents in the consolidated balance sheets	$ 12,136,172	$ 10,971,118
Due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7 "Cash Flow Statements"	325,111	39,200,000
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	28,234,334	27,855,242
Cash and cash equivalents in consolidated statements of cash flows	$ 40,695,617	$ 78,026,360

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

UNION BANK OF TAIWAN AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

The Union Bank of Taiwan (the Bank) obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law, which cover deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bills transactions, investments, foreign exchange transactions, savings, trust, etc.

On the Bank's merger with Chung Shing Bank on March 19, 2005, the Bank took over all of the assets, liabilities and operating units of Chung Shing Bank.

The Bank merged with the Union Bills Finance Corporation (UBF) on August 16, 2010, with the Bank as the survivor entity.

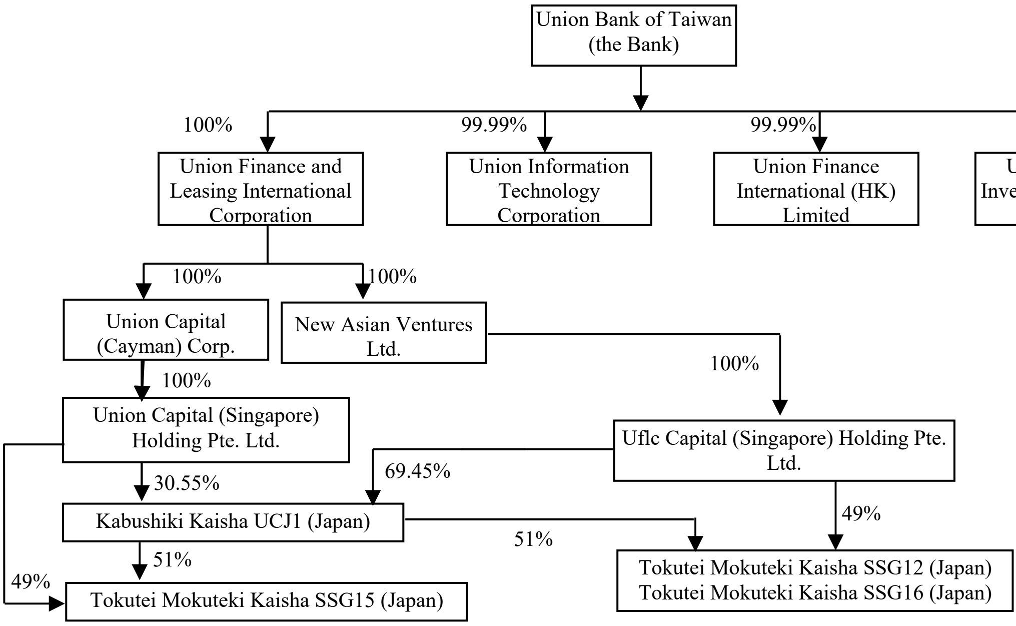
On August 26, 2015, the board of directors of the Bank resolved to merge UIB in order to integrate the resources, strengthen management and business synergy. The merger is approved by FSC (Rule No. 10502022990). The effective date of this merger is August 1, 2016.

As of December 31, 2017, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance, Bills Finance, International Banking Department of the Head Office, Union Insurance Brokerage agency, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 90 domestic branches (including Business Department).

The operations of the Bank's Trust Department are (1) trust business planning, managing and operating; and (2) custody of nondiscretionary trust funds in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares are traded on the Taiwan Stock Exchange.

The following chart presents the relationship between the Bank and its subsidiaries (collectively, the Company) and percentage of ownership as of December 31, 2017:



Union Finance and Leasing International Corporation (UFLIC) was established under the Company Law on November 11, 1996. UFLIC trades and leases real estates, motor vehicles and machinery and equipment and does accounts receivable factoring. UFLIC holds 100% equity interests each in Union Capital (Cayman) Corp. and New Asian Ventures Ltd., which were incorporated in the British West Indies and the British Virgin Islands, respectively, in July 1997 and October 1997, respectively; these investees mainly engage in financial investment.

Union Capital (Singapore) Holding Pte. Ltd. and Uflc Capital (Singapore) Holding PTE. Ltd. were established in September 2014 and March 2016 by Union Capital (Cayman) Corp. It mainly engages business of investments, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable, etc.

Kabushiki Kaisha UCJ1 (limited corp.) mainly buys, sells, and leases real estate.

Tokutei Mokuteki Kaisha SSG15, SSG12 and SSG16 is a special purpose entity that securitizes real estate.

Union Finance International (HK) Limited was incorporated in Hong Kong in April 23, 1996. It mainly engages in financial services and financial investments.

Union Information Technology Corporation (UIT), which was incorporated on August 10, 1998, mainly renders software services, wholesales and retails information software and telecommunications equipment, does enterprise management consulting, etc.

Union Securities Investment Trust Corporation (USITC) was incorporated on November 20, 1998. It obtained a securities investment trust enterprise license and started operations on February 26, 1999; it mainly establishes securities investment trust funds by issuing beneficial certificates.

The Company’s consolidated financial statements are presented in the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Bank's board of directors and authorized for issue on March 14, 2018.

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 Public Banks and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the FSC

   Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Company's accounting policies:

   1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

      The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within (Level 2/Level 3), the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique.

   2) Annual Improvements to IFRSs: 2010-2012 Cycle

      Several standards, including IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments", were amended in this annual improvement.

      The amended IFRS 8 requires the Company to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker.

      When the amended IFRS 13 became effective in 2017, the short-term receivables and payables with no stated interest rate are measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

      IAS 24 "Related Party Disclosures" was amended to clarify that a management entity providing key management personnel services to the Company is a related party of the Company. Consequently, the Company is required to disclose as related party transactions the amounts incurred for the services paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. When the amendment becomes effective in 2017, Company which provides key management personnel services to the Company, should be classified retrospectively as a related party and disclosed accordingly (refer to Note 40).

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself. The amendment is applied prospectively starting from January 1, 2017.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of the Company of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts which do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and the application of both standards may be required to determine whether the investment property acquired is an acquisition of an asset or a business combination. The amendment is applied prospectively to acquisitions of investment property on or after January 1, 2017.

4) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 “Property, Plant and Equipment” stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 “Intangible Assets” clarifies there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances when:

a) The intangible asset is expressed as a measure of revenue (for example, when there is a contract that specifies the entity’s use of the intangible asset will expire upon the achievement of a revenue threshold); or

b) It can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

5) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards, including IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IFRS 5 was amended to clarify that reclassification between non-current assets (or disposal Company) “held for sale” and non-current assets “held for distribution to owners” does not constitute a change to a plan of sale or distribution. Therefore, the previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for “held for distribution to owners” and do not meet the criteria for “held for sale” should be treated in the same way as assets that cease to be classified as held for sale. The amendment is applied prospectively to transactions that occur on or after January 1, 2017.

6) Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"

   The amendments clarify that when the Company (a non-investment entity) applies the equity method to an associate or a joint venture that is an investment entity, the Company may retain the fair value measurements that the associate or joint venture used for its subsidiaries. Prior to the amendments, the associate or joint venture measures its interest in subsidiaries at fair value but the fair value is unwound, and instead, those subsidiaries are consolidated in the associate's or joint venture's result in order to be equity-accounted by the Company. When the amendments are applied retrospectively starting from January 1, 2017, the Company elects to retain the measurement applied by the associate or joint venture to its interest in subsidiaries.

7) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

   The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

   The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Company, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company, are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Company has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Company's respective total transaction or balance, such transactions should be separately disclosed by the name of each related party.

   The amendments also require additional disclosure if there is a significant difference between the actual operation conditions after a business combination and the expected benefits at the acquisition date.

   When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and impairment of goodwill are enhanced. Refer to Note 40.

b. The Regulations Governing the Preparation of Financial Reports by Public Banks and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2018

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Concluded)

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

The amendment to IFRS 12 clarifies that when an entity’s interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale in accordance with IFRS 5. The Group will apply the aforementioned amendment retrospectively.

2) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Company’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss. Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides this, unlisted shares measured at cost will be measured at fair value instead;

b) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments; and

c) Debt investments classified as held-to-maturity financial assets/debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows/will be classified as at fair value through other comprehensive income under IFRS 9, because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets/will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding but the objective of the Company's business model is not to collect contractual cash flows and neither is it achieved both by collecting contractual cash flows and selling financial assets/will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

The Company has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets. In relation to debt instrument investments and financial guarantee contracts, the Company will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Company anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2018**
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss	$ 12,136,325	$ 1,137,194	$ 13,273,519
Financial assets at fair value through other comprehensive income	-	35,779,916	35,779,916
Receivable, net	17,751,420	(16,737)	17,734,683
Available-for-sale financial assets, net	35,489,633	(35,489,633)	-
Held-to-maturity financial assets	51,285,957	(51,285,957)	-
Financial assets measured at amortized cost - current	-	96,662,116	96,662,116
Debt investments with no active market	45,734,754	(45,734,754)	-
Financial assets measured at cost	603,994	(603,994)	-
Total effect on assets		$ 448,151	
Provisions	182,262	$ 27,308	209,570
Deferred tax liability	937,196	1,262	938,458
Total effect on liabilities		$ 28,570	
Retained earnings	10,254,481	$ (66,668)	10,185,813
Other equity	1,580,257	489,503	2,069,760
Non-controlling interests	267,890	(1,254)	266,636
Total effect on equity		$ 419,581	

3) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Company regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

Under IFRS 15, the Company will allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. Under current standard, the Company applies residual value method to allocate the amount of revenue to be recognized.

Incremental costs of obtaining a contract will be recognized as an asset to the extent the Company expects to recover those costs. Such asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This will lead to the later recognition of charges for certain customer-obtaining costs.

The Company chooses to apply IFRS 15 only to contracts that have not yet been completed on January 1, 2018, and the relevant cumulative effect will be adjusted to retain earning on that date.

4) Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Company expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Company should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the Company currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendments will be applied retrospectively in 2018.

5) Amendments to IAS 40 "Transfers of Investment Property"

The amendments clarify that the Company should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

6) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Company will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the interpretation.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
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 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

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 Company 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 bank 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 Company 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 unrelated investors’ interest in the associate or joint venture, i.e. the Company’s share of the gain or loss is eliminated. Also, when the Company 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 unrelated investors’ interest in the associate or joint venture, i.e. the Company’s share of the gain or loss is eliminated.

2) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the statements of comprehensive income, the Company should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the 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.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

3) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Company expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

4) Amendments to IFRS 9 "Prepayment Features with Negative Compensation"

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explained that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

When the amendments become effective, the Company shall apply the amendments retrospectively. However, the Company may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

5) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 "Borrowing Costs", were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

6) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company'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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

When preparing its financial statements, the Company used the equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries, associates and related equity items, as appropriate, in the financial statements.

Foreign Currencies

In preparing the financial statements of each group entity, transactions in currencies other than the Company'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 in which they arise except for: Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

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 from 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 cases, the exchange differences are also recognized in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollars, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

Investments Accounted for Using the Equity Method

The Company uses the equity method to account for its investments in subsidiaries and associates.

a. Investments in subsidiaries

   A subsidiary is an entity (including a structured entity) that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary 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 Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent Bank's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent Bank's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

b. Investment in associates

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

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

Any excess of the cost of acquisition over the Company'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 Company'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 Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Company's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate 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 using the equity method is insufficient, the shortage is debited to retained earnings.

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

The entire carrying amount of an 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 Company discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate 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 Company continues to apply the equity method and does not remeasure the retained interest.

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

Financial Instruments

Financial assets and financial liabilities are recognized when the Company entity 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 an acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) 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 fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

a. Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

1) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such financial assets are either held for trading or designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

b) The financial asset forms part of the Company 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

c) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets 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 incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 44.

Investments in equity instruments under financial assets at fair value through profit or loss that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of such unquoted equity instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

2) Held-to-maturity investments

Corporate bonds, government bonds and asset backed securities which the Company has the positive intent and ability to hold to maturity held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

The Company holds government bonds, corporate bonds, listed stocks, mutual funds, negotiable certificates of deposit and commercial paper in an active market that are classified as trading and available-for-sale financial assets and are stated at fair value at each balance sheet date. Fair value is determined in the manner described in Note 44.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

4) Loans and receivables

Loans and receivables (including trade loans, receivables, cash and cash equivalent, debt investments with no active market, and nonperforming loans) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits 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.

b. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

Certain categories of financial assets, such as loans, receivables, nonperforming loans and debt investments with no active market, are assessed for impairment collectively even if they are assessed as not impaired individually. Objective evidence of impairment of a portfolio of discounts and loans, receivables and nonperforming loans could include the significant financial difficulty of the debtor, economic or legal reasons relating to the debtor's financial difficulties, a counterparty's compromise on or breach of a contract, and an asset becoming more than three months overdue.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For any available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and other receivables that are written off against the allowance account.

c. Derecognition of financial assets

The Company 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Equity instruments

Debt and equity instruments issued by the Company 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.

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

The 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, issuance or cancellation of the Company’s own equity instruments.

Financial liabilities

a. Subsequent measurement

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

1) Financial liabilities at fair value through profit or loss

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

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:

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

b) The financial liability forms part of a the Company 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

c) A contract contains one or more embedded derivatives so that the entire hybrid (combined) contract 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 it will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which incorporates any interest or dividend 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 liabilities are 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 44.

2) Financial guarantee contracts

Financial guarantee contracts issued by the Company are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the best estimate of the obligation under the contract or the amount initially recognized less cumulative amortization recognized.

b. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative financial instruments

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 hedging 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 non-derivative host contracts 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 contracts are not measured at fair value through profit or loss.

Nonperforming Loans

Under the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the authorities, loans and other credits (including the accrued interests) that remain unpaid on their maturity are transferred immediately to nonperforming loans if the transfer is approved by the board of directors.

Nonperforming loans transferred from loans are recognized as discounts and loans, and those transferred from other credits are recognized as other financial assets.

Allowance for Doubtful Accounts and Reserve for Losses on Guarantees

In determining the allowance for credit losses and the reserve for losses on guarantees, the Company assesses the balances of discounts and loans, receivables, nonperforming loans, and other financial assets as well as guarantees and acceptances for their collectability and their specific risks or general risks as of the balance sheet date.

Under the regulations issued by the Ministry of Finance (MOF), the Company evaluates credit balances on the basis of their estimated collectability.

The MOF regulations also require the grouping of loans into these five classes: Normal, special mention, substandard, with doubtful collectability and uncollectable; the minimum allowances for doubtful accounts and for losses on guarantees for these loans should be 1%, 2%, 10%, 50% and 100%, respectively, of outstanding credits.

Later, the MOF issued a guideline stating that, within three years from January 1, 2011, the normal loans should have a minimum allowance of 1%, with the allowances for the four non-normal loans remaining the same. The Company believes it can meet this new allowance requirement within three years from January 1, 2011.

Rule No. 10300329440 issued by FSC, stipulated the minimum the allowance for mortgage and improvement loans should be 1.5% by the end of 2016.

Credits deemed uncollectable may be written off if the write-off is approved by the board of directors. Recoveries of amounts previously written off are credited to the allowance account.

Repurchase and Resell Transactions

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

Property and Equipment

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

Freehold land is not depreciated.

Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If a lease term is shorter than the assets' useful lives, such assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

For a contract where an owner of land provides land for construction of buildings by a property developer in exchange for a certain percentage of the buildings, any exchange gain or loss is recognized when the exchange transaction occurs, if the buildings acquired are classified as property, plant and equipment and the exchange transaction has commercial substance.

On derecognition of an item of property and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized 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 Company's cash-generating units or the Company of cash-generating units (referred to as "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 attributed 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 pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized on 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 which is 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

Separate acquisition

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 losses. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

Derecognition

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

Foreclosed Collaterals

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and evaluated at the lower of cost or net realizable value as of the balance sheet date.

Impairment of Tangible and Intangible Assets (Excluded Goodwill)

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to 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 or cash-generating unit 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 for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Leasing

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

a. The Company as lessor

   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.

   Lease incentives included in an operating lease are recognized as an asset. The aggregate cost of incentives is recognized as a reduction of rental income on a straight-line basis.

   Lease incentives are recognized as income in the period in which they are incurred.

b. The Company as lessee

   Lease payments under an operating lease are expensed on a straight-line basis over the lease period. Under operating lease, contingent rentals are recognized as expenses at current period.

   Lease incentives received under operating leases are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Provisions

Provisions, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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 service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past 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, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), 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 liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Other long-term employee benefits

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

d. Termination benefits

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

Income Tax

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 at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the 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 in the financial statements 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 difference and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company can 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 use the benefits of the temporary differences and these differences 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 assets and liabilities are measured at the amounts expected to be paid to (recovered from) taxation authorities, using the rates or laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets should reflect the tax consequences of how the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the period

For transactions recognized in profit or loss, current and deferred taxes are also recognized in profit or loss; for transactions recognized outside profit or loss, i.e., in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity. 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.

Interest Revenue and Service Fees

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Company that are classified as nonperforming loans. The interest revenue on these loans/credits is recognized upon collection. Under a Ministry of Finance regulation, the interest revenue on credits covered by agreements that extend their repayment periods is recorded as deferred revenue and recognized as revenue upon collection

Revenue from brokerage is recognized when the earnings process has been completed.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company'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 to be 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.

a. Estimated impairment of loans and receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If the actual future cash flows are less than expected, a material impairment loss may arise.

b. Recognition and measurement of defined benefit plans

Net defined benefit liabilities (assets) and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	$ 5,775,662	$ 5,818,152
Checks for clearing	4,042,078	3,563,014
Due from banks	2,318,432	1,589,952
	$ 12,136,172	$ 10,971,118

7. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS

	December 31	
	2017	2016
Deposit reserve - checking account	$ 7,342,004	$ 3,985,664
Required deposit reserve	11,439,250	11,164,239
Deposit reserve - foreign-currency deposits	74,620	64,558
Call loans to banks	325,111	-
Deposit account in Central Bank	-	39,200,000
	$ 19,180,985	$ 54,414,461

Under a directive issued by the Central Bank of the ROC, the Bank determines monthly the New Taiwan dollar (NTD)-denominated deposit reserves at prescribed rates based on the average balances of customers' NTD-denominated deposits, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at rates prescribed for balances of foreign-currency deposits. These reserves may be withdrawn anytime and are noninterest earning.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Financial assets held for trading		
Commercial paper	$ 10,389,618	$ 8,300,747
Government bonds	-	151,223
Quoted stocks	188,973	192,085
Mutual funds	1,020,400	128,425
	11,598,991	8,772,480
Derivative instruments		
Forward exchange contracts	311,723	418,515
Currency swap contracts	177,358	15,982
Option contracts	48,253	8,145
	537,334	442,642
	12,136,325	9,215,122
Financial assets designated as at fair value through profit or loss		
Principal guaranteed notes	-	322,968
	$ 12,136,325	$ 9,538,090
Financial liabilities held for trading		
Derivative instrument		
Option contracts	$ 48,259	$ 8,135
Forward exchange contracts	14,246	23,924
Currency swap contracts	120,879	7,464
	$ 183,384	$ 39,523

The Company engaged in derivative transactions mainly to accommodate customers' needs and manage its exposure positions. The financial risk management objective of the Company was to minimize risks due to changes in fair value or cash flows.

The contract amounts (notional amounts) of the derivative transactions for accommodating customers' needs and managing its exposure positions as of December 31, 2017 and 2016 were as follows:

	December 31	
	2017	2016
Currency swap contracts	$ 31,633,669	$ 11,133,826
Forward exchange contracts	6,348,016	3,090,128
Option contracts		
Buy	2,465,312	1,684,467
Sell	2,465,312	1,684,467

As of December 31, 2017 and 2016, financial instruments at fair value through profit and loss in the amount of $8,552,033 thousand and $7,054,785 thousand were under repurchase agreements.

9. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	December 31	
	2017	2016
Commercial paper	$ 12,094,964	$ 14,877,255
Corporate bonds	15,820,141	12,037,280
Government bonds	300,229	940,707
Bank debentures	19,000	-
	$ 28,234,334	$ 27,855,242
Date of the resell agreement	2018.01-2017.02	2017.01-2017.02
Amount of the resell	$ 28,245,475	$ 27,862,410

The securities purchased under resell agreements had not been sold under repurchase agreements.

10. RECEIVABLES, NET

	December 31	
	2017	2016
Notes and accounts receivable	$ 14,825,656	$ 14,489,307
Interest receivable	834,890	832,465
Interbank clearing fund receivable	800,470	800,493
Accounts receivable factoring without recourse	396,449	799,844
Redemption of convertible bond receivable	-	513,962
Investment receivable	398,156	438,998
Acceptances receivable	186,974	135,531
Collections receivable	123,276	68,197
Others	373,848	177,679
	17,939,719	18,256,476
Less: Allowance for doubtful accounts	188,299	368,246
	$ 17,751,420	$ 17,888,230

Please refer to Note 48 for the impairment loss analysis of receivables.

The Company has accrued an allowance for doubtful accounts on receivables. Please refer to Note 12 for the movements of allowance for doubtful accounts.

11. DISCOUNTS AND LOANS, NET

		December 31 2017	December 31 2016
Discounts and overdraft		$ 212,176	$ 43,283
Accounts receivable - financing		14,290	29,690
Loans			
Short-term	- unsecured	61,312,117	48,432,945
	- secured	59,564,827	53,347,371
Medium-term	- unsecured	18,561,250	15,783,090
	- secured	49,686,071	45,771,509
Long-term	- unsecured	5,682,256	4,792,014
	- secured	124,812,522	117,212,237
Import and export negotiations		37,962	22,985
Overdue loans		247,336	179,120
		320,130,807	285,614,244
Less: Allowance for doubtful accounts		3,401,818	3,197,294
		$ 316,728,989	$ 282,416,950

As of December 31, 2017 and 2016, the balances of nonaccrual loans were $247,336 thousand and $179,120 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $6,751 thousand in 2017 and $5,241 thousand in 2016.

In 2017 and 2016, the Company wrote off certain credits after completing the required legal procedures.

Please refer to Note 48 for impairment loss analysis of discounts and loans. The Company had set up an allowance for doubtful accounts on discounts and loans. Please refer to Note 12 for the movements in the allowance for doubtful accounts.

12. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The movements in the allowance for doubtful accounts and reserve for losses on guarantees liabilities for the years ended December 31, 2017 and 2016 are summarized as follows:

	For the Year Ended December 31, 2017			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2017	$ 368,246	$ 3,197,294	$ 134,621	$ 3,700,161
Allowance of allowance for doubtful accounts	208,906	133,955	14,000	356,861
Write-offs	(665,750)	(296,290)	-	(962,040)
Recovery of written-off credits	299,327	363,071	-	662,398
Reclassification	-	9,500	(9,500)	-
Effects of exchange rate changes	(22,430)	(5,712)	(146)	(28,288)
Balance at December 31, 2017	$ 188,299	$ 3,401,818	$ 138,975	$ 3,729,092

	For the Year Ended December 31, 2016			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2016	$ 113,358	$ 2,796,860	$ 194,006	$ 3,104,224
Allowance (reversal) of allowance for doubtful accounts	100,436	130,467	(59,361)	171,542
Write-offs	(173,535)	(74,220)	-	(247,755)
Recovery of written-off credits	327,987	345,452	-	673,439
Effects of exchange rate changes	-	(1,265)	(24)	(1,289)
Balance at December 31, 2016	$ 368,246	$ 3,197,294	$ 134,621	$ 3,700,161

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Overseas corporate bonds	$ 10,132,247	$ 13,035,783
Overseas financial bonds	6,302,487	8,473,037
Domestic corporate bonds	4,150,714	4,424,558
Overseas government bonds	5,966,611	5,377,258
Domestic quoted stocks	3,741,246	3,419,143
Mutual funds	1,036,944	1,922,850
Overseas quoted stocks	3,207,689	2,377,519
Domestic government bonds	951,695	948,277
	$ 35,489,633	$ 39,978,425

The available-for-sale financial assets amounting to $10,837,361 thousand and $14,636,448 thousand as of December 31, 2017 and 2016, respectively, had been sold under repurchase agreements.

14. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2017	2016
Convertible deposits	$ 42,300,000	$ -
Domestic government bonds	8,660,289	6,864,356
Domestic corporate bonds	300,000	300,000
Asset-based securities	25,668	27,759
	$ 51,285,957	$ 7,192,115

The held-to-maturity investments had not been sold under repurchase agreements.

15. SUBSIDIARIES

The investees included in the consolidated financial statements are as follows:

Investor	Investee	Main Businesses	Percentage of Ownership December 31 2017	2016	
The Bank	Union Finance and Leasing International Corporation (UFLIC)	Installment, leasing and accounts receivable factoring.	100.00	100.00	-
	Union Information Technology Corporation (UIT)	Software and hardware product retail and distribution, system programming development, system development outsourcing, website design, e-commerce, etc.	99.99	99.99	-
	Union Finance International (HK) Limited	Import and export financing.	99.99	99.99	-
	Union Securities Investment Trust Corporation (USITC)	Securities investment trust.	35.00	35.00	Note 1
UFLIC	Union Capital (Cayman) Corp. (Cayman)	Installment and leasing receivable factoring.	100.00	100.00	-
	New Asian Ventures Ltd. (New Asian)	Investment, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable, etc.	100.00	100.00	-
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd. (Union)	Investment, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable, etc.	100.00	100.00	Notes 2 and 4
	Uflc Capital (Singapore) Holding PTE. Ltd. (Uflc)	Investment, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable, etc.	100.00	100.00	Notes 2 and 4
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan) (KK)	Sale, purchasing and leasing of real estates, etc.	30.55	30.55	Notes 3 and 4
	Tokutei Mokuteki Kaisha SSG15 (Japan) (SSG15)	A real estate securitized special purpose company.	49.00	49.00	Notes 3 and 4
Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1 (Japan) (KK)	Sale, purchasing and leasing of real estates, etc.	69.45	69.45	Notes 3 and 4
	Tokutei Mokuteki Kaisha SSG12 (Japan) (SSG12)	A real estate securitized special purpose company.	49.00	49.00	Notes 3 and 4
	Tokutei Mokuteki Kaisha SSG16 (Japan) (SSG16)	A real estate securitized special purpose company.	49.00	49.00	Notes 3 and 4
Kabushiki Kaisha UCJ1 (Japan)	Tokutei Mokuteki Kaisha SSG15 Japan) (SSG15)	A real estate securitized special purpose company.	51.00	51.00	Notes 3 and 4
	Tokutei Mokuteki Kaisha SSG12 (Japan) (SSG12)	A real estate securitized special purpose company.	51.00	51.00	Notes 3 and 4
	Tokutei Mokuteki Kaisha SSG16 (Japan) (SSG16)	A real estate securitized special purpose company.	51.00	51.00	Notes 3 and 4

Note 1: The Company has control over the financial, operational and personnel policies of USITC; thus, this subsidiary was included in the consolidated financial statements.

Note 2: Union and Uflc were established in September 2014 and March 2016 by Cayman. The capital was both US$1.

Note 3: KK, SSG15, SSG12 and SSG16 were established by Union and Uflc in Japan to acquire investment properties for securitization.

Note 4: The financial year-end date of Union, Uflc, KK, SSG15, SSG12 and SSG16 apply equity accounting are not December 31. The Company recognize balance statement on September 30, 2017 for consolidated financial statements. Appropriate adjustments have been made accordingly for the effects of significant transactions made between the subsidiaries' year-end dates and December 31, 2017.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

	December 31	
	2017	2016
None individually material		
Union Real-Estate Management Corporation	$ 53,121	$ 53,447

The summarized financial information in respect of the Company's associate is set out below:

	For the Year Ended December 31	
	2017	2016
Net loss	$ (326)	$ (347)

The Company's share of the associate's profit and other comprehensive income for 2017 and 2016 was based on the associate's audited financial statements for the same reporting periods as those of the Company.

17. OTHER FINANCIAL ASSETS, NET

	December 31	
	2017	2016
Debt instruments with no active markets, net	$ 45,734,754	$ 51,433,548
Pledged assets (Note 44)	664,744	4,898,176
Due from banks - certificate of deposit	937,964	464,500
Financial assets carried at cost, net	603,994	600,059
Call loans to securities	298,480	-
Others	27,903	7,460
	$ 48,267,839	$ 57,403,743

a. Debt instruments with no active markets

Debt instruments with no active markets are guaranteed for American government of real estate mortgage secured bond.

As of December 31, 2017 and 2016, debt instruments with no active markets and amounting to $15,415,779 thousand and $10,163,828 thousand, respectively, were under repurchase agreements.

b. Financial assets carried at cost, net

	December 31	
	2017	2016
Unquoted stocks		
I Pass Corporation	$ 123,320	$ 123,320
Financial Information Service Company	118,782	118,782
Taiwan Asset Management Corporation	75,000	75,000
Taiwan Future Exchange Corporation	71,250	71,250
Grace T.H.W. Holding Limited	64,320	64,320
Taiwan Financial Asset Service Corporation	50,000	50,000
Others	101,322	97,387
	$ 603,994	$ 600,059

Financial assets carried at cost were unlisted common stocks with no quoted market prices in an active market and with fair values that could not be reliably measured. Thus, these assets were measured at cost less accumulated impairment.

c. Due from banks - certificate of deposit

The amount of due from banks - time deposits with maturities longer than three months or certificate of deposits that cannot be cancelled or used.

18. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Cost							
Balance at January 1, 2016	$ 3,421,707	$ 5,087,227	$ 1,450,996	$ 274,069	$ 205,826	$ 44,395	$ 10,484,220
Additions	423,916	30,931	130,055	12,349	51,056	87,330	735,637
Disposals	-	-	(177,323)	(1,728)	(672)	-	(179,723)
Reclassification	-	20,900	6,951	1,394	8,404	(84,764)	(47,115)
Effect of foreign currency exchange differences	-	-	(180)	-	(95)	-	(275)
Balance at December 31, 2016	3,845,623	5,139,058	1,410,499	286,084	264,519	46,961	10,992,744
Accumulated depreciation							
Balance at January 1, 2016	-	1,288,319	1,158,186	240,864	73,413	-	2,760,782
Depreciation	-	120,473	80,397	9,700	41,105	-	251,675
Disposals	-	-	(173,387)	(1,684)	(672)	-	(175,743)
Effect of foreign currency exchange differences	-	-	(180)	-	(95)	-	(275)
Balance at December 31, 2016	-	1,408,792	1,065,016	248,880	113,751	-	2,836,439
Balance at December 31, 2016, net	$ 3,845,623	$ 3,730,266	$ 345,483	$ 37,204	$ 150,768	$ 46,961	$ 8,156,305
Cost							
Balance at January 1, 2017	$ 3,845,623	$ 5,139,058	$ 1,410,499	$ 286,084	$ 264,519	$ 46,961	$ 10,992,744
Additions	-	10,869	83,190	11,995	47,668	47,181	200,903
Disposals	-	(66)	(130,777)	(5,737)	(4,013)	-	(140,593)
Reclassification	-	4,847	6,475	4,821	24,855	(40,361)	637
Effect of foreign currency exchange differences	-	-	(334)	-	(204)	-	(538)
Balance at December 31, 2017	3,845,623	5,154,708	1,369,053	297,163	332,825	53,781	11,053,153

(Continued)

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Accumulated depreciation							
Balance at January 1, 2017	$ -	$ 1,408,792	$ 1,065,016	$ 248,880	$ 113,751	$ -	$ 2,836,439
Depreciation	-	123,755	96,302	10,404	41,100	-	271,561
Disposals	-	(18)	(126,901)	(5,273)	(3,846)	-	(136,038)
Effect of foreign currency exchange differences	-	-	(334)	-	(204)	-	(538)
Balance at December 31, 2017	-	1,532,529	1,034,083	254,011	150,801	-	2,971,424
Balance at December 31, 2017, net	$ 3,845,623	$ 3,622,179	$ 334,970	$ 43,152	$ 182,024	$ 53,781	$ 8,081,729

(Concluded)

The above items of property and equipment are depreciated on a straight-line basis over the useful lives of the assets, estimated as follows:

Buildings	
Main buildings	50-55 years
Equipment installed in buildings	5 years
Machinery and computer equipment	3-5 years
Transportation equipment	3-5 years
Lease improvements	5 years

In August 2016, the Bank acquired a piece of land in Tucheng Dist. from New Taipei City through the public auction in order to construct business operation office for $423,916 thousand. The Bank completed the payment and obtained the ownership of the land in October 2016. On November 9, 2016, the board of directors of the Bank and UFLIC, the property developer, resolved respectively to enter into a cooperation contract with each other to cooperatively construct a building. Upon completion of the building, the ownership thereof will be attributed to the Company and UFLIC. Per contract, the Bank will provide its land (estimated cost amounting to $439,626 thousand) in Tucheng District, New Taipei City for constructing the building, and UFLIC will render funds and donate a piece of land originally reserved for the public facilities to the government in exchange for transfer development rights (TDR) to increase the building area. The funds and the TDR in the aggregate amount to $447,614 thousand. The building area increased due to the exercise of the TDR belongs to UFLIC.

19. INVESTMENT PROPERTIES, NET

	Land	Buildings	Total
Cost			
Balance at January 1, 2016	$ 3,240,600	$ 532,268	$ 3,772,868
Additions	1,299,172	442,106	1,741,278
Net exchange difference	2,362	1,064	3,426
Balance at December 31, 2016	$ 4,542,134	$ 975,438	$ 5,517,572

(Continued)

	Land	Buildings	Total
Accumulated depreciation and impairment			
Balance at January 1, 2016	$ -	$ (69,458)	$ (69,458)
Depreciation	-	(34,061)	(34,061)
Net exchange differences	-	1,323	1,323
Balance at December 31, 2016	$ -	$ (102,196)	$ (102,196)
Balance at December 31, 2016, net	$ 4,542,134	$ 873,242	$ 5,415,376
Cost			
Balance at January 1, 2017	$ 4,542,134	$ 975,438	$ 5,517,572
Additions	132	14,945	15,077
Net exchange difference	(74,994)	(28,951)	(103,945)
Balance at December 31, 2017	$ 4,467,272	$ 961,432	$ 5,428,704
Accumulated depreciation and impairment			
Balance at January 1, 2017	$ -	$ (102,196)	$ (102,196)
Depreciation	-	(38,342)	(38,342)
Net exchange differences	-	(3,732)	(3,732)
Balance at December 31, 2017	$ -	$ (144,270)	$ (144,270)
Balance at December 31, 2017, net	$ 4,467,272	$ 817,162	$ 5,284,434

(Concluded)

The Company acquired investment properties amounting to $1,026,015 thousand and $668,984 thousand via SSG12 and SSG16 in Japan on February 4, 2016. The amount was based on the valuation by independent appraisers that were not the Company's related parties.

Investment properties are depreciated on a straight-line basis as follows:

Buildings	
Main buildings	15-50 years
Equipment installed in buildings	6-15 years

The fair values of investment properties were $6,420,340 thousand and $6,500,254 thousand as of December 31, 2017 and 2016. The fair values were based on the valuation at these dates by independent appraisers that were not the Company's related parties and estimated by the management according to the nearby transaction.

Refer to Note 27 for information relating to investment properties pledged as guarantee.

20. GOODWILL

The Bank acquired Chung Shing Bank (Chung Shing) on March 19, 2005 and recognized goodwill amounting to $3,309,000 thousand. The goodwill amortization period was five years, and the amortization expense in 2005 was $551,500 thousand. However, the amortization of goodwill became no longer required from January 1, 2006.

The Bank merged with Union Bills Finance Corporation on August 16, 2010, with the Bank as the survivor entity, and recognized goodwill amounting to $130,498 thousand.

For the impairment test on Chung Shing, the Bank treated individual business units as cash-generating units (CGUs). Goodwill resulting from the merger was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the cash flow forecast for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of Chung Shing's present operations and will be adjusted depending on the business outlook and economic trends.

As of December 31, 2017 and 2016, the balances of accumulated impairment both were $902,691 thousand.

21. OTHER ASSETS, NET

	December 31	
	2017	2016
Assets leased to others, net	$ 5,334,078	$ 5,201,173
Refundable deposits	1,708,194	1,772,777
Prepaid expenses	465,383	526,584
Prepaid pension (Note 30)	21,856	23,100
Others	61,286	98,434
	$ 7,590,797	$ 7,622,068

22. DUE TO THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS

	December 31	
	2017	2016
Call loans from banks	$ 7,787,895	$ 6,936,890
Due to Chunghwa Post Co., Ltd.	1,233,370	1,339,430
Overdraft	140,285	61,415
Due to the Central Bank and other banks	87,635	51,577
	$ 9,249,185	$ 8,389,312

23. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	December 31	
	2017	2016
Asset-based securities	$ 12,042,309	$ 8,166,461
Corporate bonds	6,110,732	7,514,752
Commercial paper	8,557,700	6,908,529
Government bonds	3,317,499	5,459,089
Financial bonds	245,736	825,306
	$ 30,273,976	$ 28,874,137
Date of repurchase agreement	2018.01-2018.05	2017.01-2017.06
Amount of repurchase agreement	$ 30,311,830	$ 28,907,147

24. ACCOUNTS PAYABLE

	December 31	
	2017	2016
Notes and checks in clearing	$ 4,042,080	$ 3,563,016
Accrued expenses	745,059	772,010
Interest payable	717,942	656,277
Investments payable	426,104	191,923
Collections payable	188,076	135,531
Bank acceptances payable	180,113	163,534
Tax payable	97,806	84,437
Others	711,644	1,414,736
	$ 7,108,824	$ 6,981,464

25. DEPOSITS AND REMITTANCES

	December 31	
	2017	2016
Checking deposits	$ 5,384,983	$ 5,467,993
Demand deposits	72,883,867	67,049,529
Savings deposits	290,040,825	285,095,150
Time deposits	80,374,452	73,682,528
Negotiable certificates of deposit	238,300	250,700
Inward and outward remittances	127,043	73,015
	$ 449,049,470	$ 431,618,915

26. BANK DEBENTURES

	December 31 2017	December 31 2016
First issue of subordinated bank debentures in 2011; fixed rate at 2.78%; maturity: June 2018	$ 2,000,000	$ 2,000,000
First issue of subordinated bank debentures in 2012; fixed rate at 2.32%; maturity: March 2019	1,500,000	1,500,000
First issue of subordinated bank debentures in 2013; fixed rate at 2.10%; maturity: December 2020	3,000,000	3,000,000
First issue of subordinated bank debentures in 2015; fixed rate at 2.08%; maturity: April 2022	2,200,000	2,200,000
First issue of subordinated bank debentures in 2016; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	2,500,000	2,500,000
First issue of subordinated bank debentures in 2017; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	500,000	-
	$ 11,700,000	$ 11,200,000

27. BONDS PAYABLE

	December 31 2017	December 31 2016
Overseas corporate bonds - secured	$ 1,409,598	$ 1,135,884

SSG15

To comply with the Japanese law, whenever SSG15 issued secured corporate bonds, UCSH must transfer more than half of the shares of common stock of SSG15 held by UCSH to the legal entity Ippam Shadan Hojin UCJ1 (ISH UCJ1) in order to establish bankruptcy isolation mechanism.

SSG15 issued five-year period secured corporate bonds face value JPY2,200,000 thousand secured by investment property as a guarantee. The book value of the investment property is 914,928 (NT$582,916 thousand) thousand. According to the contract, the issuance can be extended by one year. The interest rates are as follows:

a. The first to fifth years: Base rate + 0.20%

   Base rate: The Tokyo Swap Rate (TSR), six-month LIBOR-based 5-year JPY/JPY-interest swap rate displayed on page 17143 of the Telerate screen at 10:00 am (JST) on the day that is two business days before the Issuance Date.

b. The sixth year: Base interest rate + 1.20%

   Base rate: The 3-month TIBOR (based on 365 days) displayed as the Japanese yen TIBOR as published by the JBA TIBOR Administration on page 17097 of the Telerate screen at 11:00 am JST on the day that is two business days before the Interest Payment Date.

SSG12

SSG12 issued secured corporate bonds, KK must transfer more than half of the shares of common stock of SSG12 held by KK to the legal entity Ippam Shadan Hojin UCJ2 (ISH UCJ2) in order to establish bankruptcy isolation mechanism.

SSG12 issued five-year period secured corporate bonds face value JPY1,920,000 thousand secured by investment property as a guarantee. The book value of the investment property is 976,737 thousand (NT$508,727 thousand). According to the contract, the issuance can be extended by one year. The interest rates are as follows:

a. The first to fifth years: Base rate + 0.45%

   Base rate: The five-year yen-yen swap rate displayed on Reuters Screen page 17143 as the index rate as of 10 a.m. Tokyo time two Business Days prior to the Issue Date.

b. The sixth year: Base interest rate + 0.45%

   Base rate: The three-month yen TIBOR published by JBA TIBOR Administration on page 17097 of the Telerate screen as of 11 a.m., Tokyo time two Business Days prior to the first day of each Interest Calculation Period during the Tail Period.

SSG16

SSG16 issued secured corporate bonds, KK must transfer more than half of the shares of common stock of SSG16 held by KK to the legal entity Ippam Shadan Hojin UCJ2 (ISH UCJ2) in order to establish bankruptcy isolation mechanism.

SSG16 issued four-year period secured corporate bonds face value JPY1,200,000 thousand secured by investment property as a guarantee. The book value of the investment property is 630,917 thousand (NT$317,955 thousand). Issuance of Corporate bonds of base rate + 0.50% (base rate: The three-month yen TIBOR published by JBA TIBOR Administration on page 17097 of the Telerate screen as of 11 a.m., Tokyo time two Business Days prior to the first day of each Interest Calculation Period during the Tail Period).

28. OTHER FINANCIAL LIABILITIES

	December 31	
	2017	2016
Commercial paper	$ 4,269,721	$ 4,215,572
Principals of structured products	20,358	14,953
Funds obtained from the government - intended for specific types of loans	1,362	4,613
	$ 4,291,441	$ 4,235,138

29. PROVISIONS

	December 31	
	2017	2016
Reserve for losses on guarantees	$ 138,975	$ 134,621
Provisions for employee benefits	16,109	28,672
Others	27,178	26,279
	$ 182,262	$ 189,572

30. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company (except for Union Finance International (HK) Limited) adopted a pension plan under the Labor Pension Act (LPA), a state-managed defined contribution plan. Under LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The total expenses recognized in profit or loss for 2017 and 2016 of $126,260 thousand and $124,925 thousand, respectively, were contributions payable to these plans by the Company at rates specified in the pension plan rules.

b. Defined benefit plans

The Company (except for Union Finance International (HK) Limited) adopted the defined benefit plan under the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement.

The Company contributes a fixed proportion of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Company of Taiwan and in the Company's Business Department in the committee's name.

The fund is deposited in the Bank of Taiwan under management of Bureau of Labor Funds, Ministry of Labor. The Company has no right to influence the investment policy and strategy. Before the end of each year, the Company 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 Company is required to fund the difference in one appropriation that should be made before the end of March of the next year.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligation	$ (1,571,309)	$ (1,580,240)
Fair value of plan assets	1,577,056	1,574,668
Surplus (deficit)	5,747	(5,572)
Net defined benefit asset (liability)	$ 5,747	$ (5,572)
Provisions - accrued retirement liabilities	$ (16,109)	$ (28,672)
Other assets - prepaid retirement	$ 21,856	$ 23,100

Movements in net defined benefit (liability) asset were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Total
Balance at January 1, 2016	$ (1,553,813)	$ 752,986	$ (800,827)
Service cost			
Current service cost	(18,507)	-	(18,507)
Net interest expense (income)	(23,273)	11,414	(11,859)
Recognized in profit or loss	(41,780)	11,414	(30,366)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,921)	(3,921)
Actuarial gain (loss) - changes in financial assumptions	(20,722)	-	(20,722)
Actuarial gain (loss) - experience adjustments	13,570	-	13,570
Recognized in other comprehensive income	(7,152)	(3,921)	(11,073)
Contributions from the employer	-	836,694	836,694
Benefits paid	22,505	(22,505)	-
Balance at December 31, 2016	$ (1,580,240)	$ 1,574,668	$ (5,572)
Balance at January 1, 2017	$ (1,580,240)	$ 1,574,668	$ (5,572)
Service cost			
Current service cost	(16,956)	-	(16,956)
Net interest (expense)	(21,728)	21,653	(75)
Recognized in profit or loss	(38,684)	21,653	(17,031)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	9,620	9,620
Actuarial gain (loss) - changes in financial assumptions	(26,090)	-	(26,090)
Actuarial gain (loss) - experience adjustments	26,944	-	26,944
Recognized in other comprehensive income	854	9,620	10,474
Contributions from the employer	-	17,455	17,455
Benefits paid	46,761	(46,340)	421
Balance at December 31, 2017	$ (1,571,309)	$ 1,577,056	$ 5,747

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

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor 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 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.

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

	December 31	
	2017	**2016**
Discount rate	1.225%	1.375%
Expected rates of future salary increase	1.50%-3.00%	1.00%-3.00%

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:

	December 31	
	2017	**2016**
Discount rate(s)		
0.25% increase	$ (47,535)	$ (49,702)
0.25% decrease	$ 49,605	$ 51,956
Expected rate(s) of salary increase		
0.25% increase	$ 47,972	$ 50,319
0.25% decrease	$ (46,228)	$ (48,405)

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	
	2017	**2016**
The expected contributions to the plan for the next year	$ 24,571	$ 24,566
The average duration of the defined benefit obligation	12-16 years	13-16 years

c. Retirement benefits plans of Union Finance International (HK) Limited

Union Finance International (HK) Limited has a defined contribution plan under foreign standards and regulations and is thus not covered by the Labor Pension Act and the Labor Standards Law. Its pension costs were $119 thousand in 2017 and $127 thousand in 2016.

31. OTHER LIABILITIES

	December 31	
	2017	**2016**
Guarantee deposits received	$ 2,362,921	$ 2,360,609
Advance receipts	486,850	432,465
Others	117,442	99,136
	$ 2,967,213	$ 2,892,210

32. EQUITY

a. Capital stock

Common stock

	December 31	
	2017	2016
Number of shares authorized (in thousands)	4,500,000	3,000,000
Amount of shares authorized	$ 45,000,000	$ 30,000,000
Number of shares issued and fully paid (in thousands)	2,605,152	2,605,152
Amount of shares issued	$ 26,051,524	$ 26,051,524

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

Preferred stock

Due to the capital needs of the Bank for future long-term business development and operational scale expansion, the Bank's shareholders approved and authorized the board of directors to issue ordinary shares or special shares for domestic cash capital increase (one or both, as appropriate) in accordance with the provisions of the Articles of Incorporation or the relevant laws and regulations, in order to raise the long-term funds. The total funds to be raised through issuing new shares as authorized this time shall not be more than NT$10 billion (inclusive) as the principle. The number of shares for issue shall not be more than 800,000,000 shares (inclusive) as the principle. On June 28, 2017, the Banks's board of directors resolved to issue preferred stock - A totaling 200,000 thousand shares, with a par value of NT$10, at NT$50 per share in the total amount of NT$10,000,000 thousand on December 28, 2017. The issuance of shares has been approved by the FSC under Order No. 1060033586 issued on September 1, 2017.

On October 24, 2017, the capital from issue of preferred stock - A amounted to NT$10,000,000 thousand. The preferred stock - A was listed on Taiwan Stock Exchange on December 1, 2017.

The rights and other important conditions of issuance of the preferred stock - A are as follows:

1) Tenor: Perpetual.

2) Dividend yield: An annual dividend yield is set at 4.8% (5-year IRS 0.89125%+3.90875%) per annum of the issue price at the pricing day. The 5-year IRS will be reset on the next business day after each fifth and half anniversary day after issuance thereafter. The pricing date for reset is the second business day of financial industry in Taipei immediately preceding each reset date. The 5-year IRS rate is the arithmetic mean of 5-year IRS rates appearing on Reuters pages "PYTWDFIX" and "COSMOS3" at 11:00 a.m. (Taipei time) on the relevant pricing date for reset. If such rate cannot be obtained, the Bank will determine the rate based on reasonable market price with good faith.

3) Dividend payment: Whereas the Company makes profit in a fiscal year, the profit shall be first utilized for paying taxes, offset losses of previous years, and from the remaining profit set aside amount as legal reserve, and set aside or reverse special reserve in accordance with the laws and regulations, and distribute dividends to the preferred shareholders. The Bank has the sole discretion on the distribution of dividends of preferred stocks - A, which includes but not limited to the Bank's discretion to resolve not to distribute dividends to the preferred shareholders if there is no surplus, or if earnings in the fiscal year are insufficient to fully pay off dividends to the

shareholders of the preferred stocks, or if the distribution of dividends of preferred stocks may cause Total Capital Adequacy Ratio to be less than the authority's minimum requirement, or if the Bank has other essential considerations. If the Bank resolves not to distribute dividends to the preferred shareholders, the shareholders of preferred stock - A shall raise no objection. The unpaid dividend will not be carried forward to years with earnings. The stock dividends of preferred stocks - A are distributed by cash in one payment annually. After the shareholders, in their meeting, approved the appropriation of the earnings of the fiscal year as proposed by the board of directors and resolved to distribute from the earnings cash dividends, the board of directors sets the record date of preferred stock - A for payment of dividends. Dividend is calculated based on the proportion of the number of days that the stocks are issued in a fiscal year, starting from the date of issuance to the record date(or redemption date) of dividend. The amount of dividends distributed should be listed on the Dividend Statements.

4) Restrictions on payment of dividends to common shares: Except for the dividends prescribed in the preceding subparagraphs herein, the shareholders of preferred stock - A are not entitled to participate in the distribution of cash or stock dividends with regard to the ordinary shares derived from earnings or capital reserves.

5) Redemption: After 5.5 years from the issue date, the bank may, subject to the competent authority's approval, redeem a portion or all of the outstanding shares of preferred stock - A at any time at the issue price. The rights and obligations associated with any remaining outstanding shares of preferred stock - A shall continue as specified herein. If the stockholders' meeting approves the distribution of dividends in the year the Bank redeems the outstanding shares of preferred stock - A, the dividends payable shall be calculated at the ratio of the number of days outstanding from beginning of year to the redemption date to total days in a fiscal year.

6) Liquidation Preference: In the event of liquidation, except when the competent authority assigned officials to take receivership over the Bank, order the Bank to suspend and wind up business, or liquidate the Bank, in accordance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks", the order of priority for the distribution of the earnings and assets of the shareholders of preferred stock - A is the same as that of a common stockholder, the shareholders of preferred stock - A shall be given priority to claim on the Bank's remaining assets over the shareholders of common stocks, and equal to shareholders of other preferred stock issued by the Bank, but subordinate to the holders of Tier 2 capital, depositors, and other general creditors, and not more than the issuance amount of outstanding shares of preferred stock - A.

7) Voting rights or election rights: The shareholders of preferred stock - A are not entitled to any voting rights or election rights in shareholders' meeting. However, they may vote in preferred stock - A shareholders' meetings and in general shareholder meetings with regard to agenda items concerning rights and obligations of the shareholders of preferred stock - A.

8) Preferred stock - A shall not be converted into common stocks. The shareholders of the preferred stocks shall not require the Bank to redeem the rights of the preferred stocks - A.

9) When the bank issues new shares in cash, the shareholders of preferred stock - A and the common stock shall be entitled to equivalent preemptive rights on the new shares.

b. Capital surplus

	December 31	
	2017	**2016**
Issuance of preference shares	$ 8,000,000	$ -
Treasury stock transactions	32,413	32,413
	$ 8,032,413	$ 32,413

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital limited to a certain percentage of the Company's capital surplus and to once a year.

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

c. Legal reserve

Legal reserve should be appropriated until it equals the Company's paid-in-capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of its paid-in capital, the excess may be transferred to capital or distributed in cash. In addition, based on the Banking Act, if the legal reserve is less than the Company's paid-in capital, the amount that may be distributed in cash should not exceed 15% of the Company's paid-in-capital.

d. Special reserve

Items referred to under Rule No. 1010012865, Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Bank.

If a special reserve appropriated on the first-time adoption of IFRSs relates to investment properties other than land, the special reserve may be reversed continuously over the period of use. The special reserve relating to land may be reversed on the disposal or reclassification of the related assets.

The above special reserve may be used to offset a deficit; if the reserve has reached at least 50% of the paid-in capital, half of this special reserve may be capitalized.

According to Order No. 10510001510 issued by the FSC, a special reserve should be appropriated between 0.5% and 1% of net income after tax when banks appropriate earnings of 2016 through 2018. Since 2017, the Company is allowed to reverse the special reserve at the amount of the costs of employee transfer and arrangement in connection with the development of financial technology.

According to Order No. 1010012865 and No. 10510001510 issued by FSC that should appropriate special reserves.

	December 31	
	2017	**2016**
Balance at January 1, 2017	$ 558,842	$ 558,842
Special reserves appropriated	26,364	-
Balance at December 31, 2017	$ 585,206	$ 558,842

e. 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 stockholders and do not include employees. The stockholders held their regular meeting on June 8, 2016 and, in that meeting, had resolved amendments to the Bank's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to Employee benefits expense in Note 35.

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

1) 30% as legal reserve;

2) Special reserve, as deemed proper;

3) Remainder plus prior year's unappropriated earnings: Dividends;

These appropriations should be approved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

The board of directors decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In principle, when the Bank of International Settlement ratio is lower than the ratio approved by the authorities plus 1%, primarily stock dividends will be declared. If the legal reserve has not reached the Bank's paid-in capital, cash dividends are limited to 15% of the Bank's paid-in capital. The plan on employees' bonus and remuneration to directors and supervisors is proposed by the board of directors.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank.

The appropriations from the earnings of 2016 and 2015 were approved in stockholders' meetings on June 20, 2017 and June 8, 2016, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 790,913	$ 923,460		
Special reserve	26,364	-		
Cash dividends on ordinary shares	1,172,319	1,042,061	$ 0.45	$ 0.40

The appropriations from the 2017 earnings were proposed by the board of directors on March 14, 2018. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 823,496	
Special reserve	27,450	
Cash dividends on ordinary shares	1,042,061	$0.40
Stock dividends on ordinary shares	781,546	0.30
Cash dividends on preference shares	90,740	0.45369863 (Note)

Note: 69 days of outstanding in 2017 and 4.8% dividend yield.

About the appropriation of earnings of 2017 will be approved in stockholders' meetings in June 2018.

f. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (80,177)	$ 416,049
Exchange differences arising on translating the foreign operations	(890,651)	(558,033)
Income tax on related from translating the net assets of foreign operations	205,384	61,807
Balance at December 31	$ (765,444)	$ (80,177)

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2017	2016
Balance, beginning of the year	$ 1,272,308	$ 1,302,228
Unrealized gain from the revaluation of available-for-sale financial assets	1,825,935	259,670
Income tax on unrealized gain from the revaluation of available-for-sale financial assets	(141,280)	9,950
Cumulative loss (gain) reclassified to profit or loss on sale of available-for-sale financial assets	(611,262)	(299,540)
Balance, end of the year	$ 2,345,701	$ 1,272,308

g. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 269,140	$ 260,253
Attributed to non-controlling interests		
Share of profit for the year	21,048	25,246
Actuarial gains (loss) on defined benefit plans	156	(209)
Income tax related to actuarial gains and losses	(28)	35
Cash dividends distributed by subsidiaries	(22,426)	(16,185)
Balance at December 31	$ 267,890	$ 269,140

33. NET INTEREST

	For the Year Ended December 31	
	2017	2016
Interest revenue		
Discounts and loans	$ 6,307,257	$ 6,143,904
Debt instruments with no active market	1,722,890	1,715,733
Credit card	726,838	706,213
Due from the Central Bank and call loans to other banks	329,808	392,912
Available-for-sale financial assets	953,877	845,680
Securities purchased under resell agreements	115,813	119,833
Held-to-maturity financial assets	84,481	63,214
Others	27,840	26,848
	10,268,804	10,014,337
Interest expense		
Deposits	2,919,534	3,110,201
Securities sold under repurchase agreements	331,824	214,377
Bank debentures	322,024	291,833
Due to Chunghwa Post Co., Ltd.	12,115	14,366
Others	92,259	79,188
	3,677,756	3,709,965
	$ 6,591,048	$ 6,304,372

34. COMMISSIONS AND FEE REVENUES, NET

	For the Year Ended December 31	
	2017	2016
Commission and fee revenues		
Insurance commission	$ 820,626	$ 1,220,848
Credit cards and cash cards	1,084,651	1,029,294
Trust business	382,052	255,903
Loan business	235,023	207,199
Interbank service fee	162,258	143,489
Underwriting business	65,963	105,940
Guarantee business	85,012	82,908
Others	218,304	194,401
	3,053,889	3,239,982
Commission and fee expense		
Credit card	590,427	663,369
Verification of credit	33,462	30,588
Interbank service fee	22,653	17,687
Acquiring liquidation deal	14,259	14,341
Others	95,071	90,508
	755,872	816,493
	$ 2,298,017	$ 2,423,489

35. GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2017	2016
Realized gain or loss on financial assets at fair value through profit or loss		
Currency swap contracts	$ 224,482	$ 188,186
Forward exchange contracts	(22,909)	6,434
Commercial papers	18,600	22,037
Convertible corporate bonds	-	19,160
Beneficial securities and stocks	18,604	(27,527)
Option contracts	6,535	1,534
Government bonds and corporate bonds	(5,695)	(734)
Dividend revenue	4,507	5,335
Interest revenue	111,951	163,896
	356,075	378,321
Unrealized gain or loss on financial assets at fair value through profit or loss		
Derivative financial assets and liabilities	(49,801)	63,013
Beneficial securities and stocks	44,164	31,560
Commercial paper	253	(1,410)
Government bonds and corporate bonds	5,788	(88,726)
	404	4,437
	$ 356,479	$ 382,758

36. REALIZED GAIN FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET

	For the Year Ended December 31	
	2017	2016
Net income (loss) on disposal - beneficial securities	$ 165,990	$ (1,999)
Net income on disposal - stocks	342,848	213,461
Net income on disposal - corporate bonds	48,445	42,678
Net income on disposal - government bonds	26,496	-
Net income on disposal - Financial bonds	27,483	45,400
Dividend revenue	218,868	162,300
	$ 830,130	$ 461,840

37. IMPAIRMENT LOSS ON ASSET (REVERSAL)

	For the Year Ended December 31	
	2017	2016
Other financial assets	$ 799	$ 50,000
Foreclosed collaterals	-	(717)
	$ 799	$ 49,283

38. EMPLOYEE BENEFIT EXPENSES

	For the Year Ended December 31	
	2017	2016
Salaries and wages	$ 2,159,038	$ 2,115,272
Bonus	707,164	759,421
Pension		
Defined contribution plans	126,379	125,052
Defined benefit plans	17,031	30,366
Labor insurance and national health insurance	267,888	259,234
Others	75,074	56,404
	$ 3,352,574	$ 3,345,749

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Bank approved by the stockholders in their meeting on June 8, 2016, the Bank accrued employees' compensation and remuneration of directors at the rates of between 1% to 5% and no higher than 0.1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2017 and 2016 which have been approved by the Bank's board of directors on March 14, 2018 and March 22, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	1.84%	1.84%
Remuneration of directors	0.09%	0.09%

Amount

	For the Year Ended December 31			
	2017		2016	
	Cash	Share	Cash	Share
Employees' compensation	$ 62,164	$ -	$ 60,602	$ -
Remuneration of directors and supervisors	3,041	-	2,964	-

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors in 2016 and 2015 and paid and the amounts recognized in the financial statements in 2016 and 2015.

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

39. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2017	2016
Property and equipment	$ 271,561	$ 251,675
Investment properties	38,342	34,061
Assets leased	1,563,482	1,475,216
Intangible assets	64,125	51,923
Other assets	-	7,985
	$ 1,937,510	$ 1,820,860

40. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2017	2016
Rental	$ 658,321	$ 616,379
Outsourcing service	295,866	314,283
Taxation and government fee	608,740	627,762
Postage/cable charge	247,713	235,551
Computer operating	165,376	161,181
Advertisement	492,702	419,055
Deposit insurance	131,783	127,965
Maintenance charge	123,993	120,407
Others	713,355	740,139
	$ 3,437,849	$ 3,362,722

41. INCOME TAX

a. Income tax recognized in profit or loss

The main components of income tax expense were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
Current year	$ 117,534	$ 80,334
Additional 10% income tax on unappropriated earnings	63,776	110,493
Prior year's adjustments	4	(7,564)
	181,314	183,263
Deferred tax		
Current year	439,222	465,903
Income tax expense recognized in profit or loss	$ 620,536	$ 649,166

A reconciliation of accounting profit and current income tax expenses for the years ended December 31, 2017 and 2016 is as follows:

	For the Year Ended December 31	
	2017	2016
Income before tax	$ 3,386,571	$ 3,310,787
Income tax expense at the 17% statutory rate	$ 578,398	$ 567,925
Nondeductible expenses in determining taxable income	32,648	26,109
Additional income tax under the Alternative Minimum Tax Act	70,709	21,432
Unrecognized deductible temporary differences	52,384	42,751
Additional 10% income tax on unappropriated earnings	63,776	110,493
Tax-exempt income	(232,793)	(146,361)
Other permanent differences	55,410	34,381
Adjustments for prior year's tax	4	(7,564)
Income tax expense recognized in profit or loss	$ 620,536	$ 649,166

The applicable tax rate used by the Company (except for Union Finance International (HK) Limited) and Singapore was 17%, the applicable tax rate used by a subsidiary in Hong Kong was 16.5% and the applicable tax rate used by subsidiaries in Japan was 30%.

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 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by 206,995 thousand and 165,388 thousand, respectively, in 2018.

As the manner of the 2018 appropriation of the 2017 earnings is uncertain, the income tax consequences on the 2017 unappropriated earnings cannot be reliably determined.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred tax		
Recognized in other comprehensive income:		
Exchange differences on the translation of financial statements of foreign operations	$ (205,384)	$ (61,807)
Unrealized gains on available-for-sale financial assets	141,280	(9,950)
Actuarial gains and losses on defined benefit plans	1,781	(1,883)
Total income tax expenses (profit) recognized in other comprehensive income	$ (62,323)	$ (73,640)

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Impairment loss of financial instruments	$ 46,454	$ -	$ -	$ -	$ 46,454
Exchange difference on translation of foreign operations					
Employee benefit plan	6,939	(53,974)	201,419	-	154,384
Payable for annual leave	144,872	2,578	(2,022)	-	145,428
Allowance for possible losses and reserve for losses on guarantees	49,580	(17,773)	-	-	31,807
Investment properties	121,634	(1,638)	-	-	119,996
Others	26,182	955	-	-	27,137
	395,661	(69,852)	199,397	-	525,206
Loss carryforwards	1,051,378	(403,610)	-	-	647,768
	$ 1,447,039	$ (473,462)	$ 199,397	$ -	$ 1,172,974
Deferred tax liabilities					
Temporary differences					
Available-for-sale financial assets	$ (347,441)	$ -	$ (141,280)	$ -	$ (488,721)
Exchange difference on foreign operations	(3,965)	-	3,965	-	-
Amortization of goodwill impairment loss	(337,502)	-	-	-	(337,502)
Others	(145,502)	34,240	241	48	(110,973)
	$ (834,410)	$ 34,240	$ (137,074)	$ 48	$ (937,196)

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Impairment loss of financial instruments	$ 37,954	$ 8,500	$ -	$ -	$ 46,454
Exchange difference on translation of foreign operations	3,796	-	3,143	-	6,939
Employee benefit plan	138,564	4,502	1,806	-	144,872
Payable for annual leave	5,750	(3,201)	-	-	2,549
Allowance for possible losses and reserve for losses on guarantees	13,175	36,405	-	-	49,580
Investment properties	123,272	(1,638)	-	-	121,634
Others	21,260	2,373	-	-	23,633
	343,771	46,941	4,949	-	395,661
Loss carryforwards	1,542,767	(491,389)	-	-	1,051,378
	$ 1,886,538	$ (444,448)	$ 4,949	$ -	$ 1,447,039

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax liabilities					
Temporary differences					
Available-for-sale financial assets	$ (357,391)	$ -	$ 9,950	$ -	$ (347,441)
Exchange difference on foreign operations	(62,629)	-	58,664	-	(3,965)
Amortization of goodwill impairment loss	(337,502)	-	-	-	(337,502)
Others	(124,209)	(21,455)	77	85	(145,502)
	$ (881,731)	$ (21,455)	$ 68,691	$ 85	$ (834,410)

(Concluded)

d. Information on loss carryforwards

The Company's loss carryforwards as of December 31, 2017 were as follows:

Unused Amount	Expiry Year
$ 115,278	2018
3,654,948	2019
40,176	2020
52,956	2023
$ 3,863,358	

The loss carryforward of Union Finance International (HK) Limited as of December 31, 2017 was $77,436 thousand.

e. Information on the Bank's integrated income tax

	December 31	
	2017	2016
Imputation credits account	Note	$ 114,475

The Bank has no unappropriated earnings generated on before January 1, 1998.

	December 31	
	2017	2016
The creditable ratios for the distribution of the earnings	Note	6.29%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

Under the Income Tax Law, for the distribution of earnings generated from January 1, 1998, the imputation credits allocable to ROC resident stockholders of the Bank are calculated on the basis of the creditable ratio as of the date of dividend distribution. The actual imputation credits allocable to stockholders of the Bank are based on the balance of the imputation credit accounts as of the date of dividend distribution.

f. Income tax assessments

	Examined and Cleared
Union Bank of Taiwan	Through 2015
Union Finance and Leasing International	Through 2015
Union Information Technology	Through 2015
Union Insurance Broker	Through 2015
Union Securities Investment Trust	Through 2015

The Bank disagreed with the ending balances' assessment of imputation credit accounts (ICA) for 2012 and applied for a re-examination. National Tax Administration had reapproved in March 2017 and there is no major difference between the applied amount and the approved amount.

42. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Earnings Per Share (NT$)	
	Pretax	After Tax		Pretax	After Tax
2017					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,313,250	$ 2,744,987	2,605,152	$ 1.27	$ 1.50
Bonus to employees	-	-	8,135		
Diluted EPS	$ 3,313,250	$ 2,744,987	2,613,287	$ 1.27	$ 1.50
2016					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,226,478	$ 2,636,375	2,605,152	$ 1.24	$ 1.01
Bonus to employees	-	-	8,328		
Diluted EPS	$ 3,226,478	$ 2,636,375	2,613,480	$ 1.23	$ 1.01

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonus 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.

43. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other footnotes, significant transactions between the Company and related parties are summarized as follows:

a. Related parties and their relationships with the Company

Related Party	Relationship with the Company
Union Real-Estate Management Corporation	Associates
Hung-Kou Construction Inc., Ltd. (Hung-Kou)	Related party in substance
The Liberty Times Co., Ltd. (Liberty Times)	Related party in substance
Long Shan Lin Corporation	Related party in substance
Yong-Xuan Co., Ltd. (Yong-Xuan)	Related party in substance
Union Enterprise Construction Co., Ltd. (UECC)	Director of the Bank
Yu-Pang Co., Ltd. (Yu-Pang)	Director of the Bank
Union Recreation Enterprise Corporation	Related party in substance
Union Optronics Co., Ltd. (Union Optronics)	Related party in substance
Securities Investment Trust Funds	Issued by Union Securities Investment Trust
Others	Directors, managers, and their relatives and affiliates

b. Significant transactions with related parties:

1) Loans

December 31, 2017

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2017	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonper-forming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	13	$ 16,719	$ 13,679	$ 13,679	$ -	Land, buildings and cars	None
Self-used housing mortgage loans	18	162,034	117,965	117,965	-	Real estate	None
Others	9	1,108,800	62,850	62,850	-	Land, plant, buildings, quoted stock and time deposits	None

December 31, 2016

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2016	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonper-forming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	7	$ 9,602	$ 4,353	$ 4,353	$ -	Land and buildings	None
Self-used housing mortgage loans	17	129,901	96,949	96,949	-	Real estate	None
Others	4	1,102,950	1,096,150	1,096,150	-	Land, plant, buildings, quoted stock and time deposits	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2017	$ 194,494	0.06	1.06%-3.06%	$ 8,746	0.09
2016	1,197,452	0.42	1.06%-3.00%	17,663	0.18

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate (Note)	Amount	%
2017	$ 5,221,542	1.16	0%-4.80%	$ 33,578	0.91
2016	5,006,844	1.16	0%-4.80%	29,984	0.81

Note: Including foreign currency interest rate.

3) Guarantees and letters of credit

December 31, 2017

Name	Highest Balance in the Year Ended December 31, 2017	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 19,316	$ 19,316	$ -	0.5%	Time deposits
The Liberty Times Co., Ltd.	2,524	2,483	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.5%	Time deposits
Union Optronics Corporation	76,709	76,709	-	0.75%	Time deposits

December 31, 2016

Name	Highest Balance in the Year Ended December 31, 2016	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 39,874	$ 19,316	$ -	0.3%	Time deposits
The Liberty Times Co., Ltd.	11,484	-	-	-	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.5%	Time deposits

Note: Reserve for guarantee loss is provided on the basis of the estimated unrecoverable amount.

4) Leases

Under operating lease agreements with terms of one year to five years, the Company rents office spaces from related parties for use by the Company's Head Office, Trust, International Banking Department, Wealth Management, Information Technology Department, Consumer Banking Department, Insurance Agency Department, Credit Card Department, Northern Collaterals Appraisal Center, five branches, USITC, UFLIC and UIT. Rentals are paid quarterly or are taken from lease deposits. Rental expenses and lease deposits were as follows:

	Lease Deposit (Part of Other Assets)		Rental Expense (Part of Other Operating Expense)	
	Amount	%	Amount	%
2017				
Yu-Pang	$ 459,983	26.93	$ 25,900	3.93
Hung-Kuo	218,768	12.81	101,476	15.41
Yong-Xuan	15,953	0.93	65,714	9.98
UECC	5,334	0.31	10,962	1.67

(Continued)

	Lease Deposit (Part of Other Assets)		Rental Expense (Part of Other Operating Expense)	
	Amount	**%**	**Amount**	**%**
2016				
Yu-Pang	$ 459,983	25.95	$ 25,954	4.21
Hung-Kuo	218,768	12.34	101,476	16.46
Yong-Xuan	15,975	0.90	65,682	10.66
UECC	5,067	0.29	10,882	1.77

(Concluded)

5) Available-for-sale financial assets

As of December 31, 2017 and 2016, the Bank and UFLIC had purchased 6,968 thousand units and 93,605 thousand units, respectively, of beneficial certificates issued by USITC, which amounted to $119,691 thousand and $1,149,336 thousand, and gain of disposal of investment were $110,576 thousand and $4,343 thousand, respectively.

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

For transactions between the Bank and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates offered to Bank employees for savings and loans within prescribed amounts.

c. Compensation of directors, supervisors and management personnel:

	For the Year Ended December 31	
	2017	**2016**
Short-term employment benefits		
Salaries	$ 43,095	$ 47,709
Transportation expenses	1,308	1,200
Other	27	33
	44,430	48,942
Post-employment benefits	6,284	2,555
	$ 50,714	$ 51,497

Compensation of directors and management personnel is determined by the remuneration committee on the basis of individual performance and market trends.

44. PLEDGED ASSETS

a. As of December 31, 2017 and 2016, government bonds and bank debentures, which amounted to $286,705 thousand and $104,405 thousand (all amounts included in other financial assets), respectively, had been provided to the courts and the Bank of Taiwan as guarantee deposits on provisional seizures against the debtors' properties, as reserve for credit card receivables, as guarantee deposits on bills finance operations, brokering life insurance, property and casualty insurance, and as trust reserve. In addition, as of December 31, 2017 and 2016, negotiable certificates of deposit, which amounted to $0 thousand and $3,800,000 thousand, respectively (all amounts included in other financial assets), had been provided to the Central Bank as collateral for day-term overdraft.

b. As of December 31, 2017 and 2016, the Bank pledged a time deposit of $300,000 thousand (part of other financial assets) to Mega International Commercial Bank and Mizuho Bank to be part of the latter's online bank-to-bank payment system.

c. The following assets of the Company had been used as collaterals to apply for loans, issue commercial papers and apply for provisional seizure of certain assets:

	December 31	
	2017	2016
Other financial assets		
Pledge assets	$ 70,718	$ 690,392
Investment property	$ 2,522,582	$ 1,974,113

d. As of December 31, 2017 and 2016, notes receivable (not expired) amounting to $658,908 thousand and $1,035,993 thousand had been used as collaterals to apply for loans and issue commercial papers.

45. CONTINGENCIES AND COMMITMENTS

a. As of December 31, 2017 and 2016, the Company's commitments consisted of the following:

	December 31	
	2017	2016
Irrevocable standby loan commitment	$ 85,654,457	$ 109,697,387
Unused credit card commitment	257,495,390	238,271,865
Unused letters of credit	1,241,648	860,155
Other guarantees	13,804,083	10,270,804
Collections for customers	28,800,426	30,941,654
Travelers' checks consigned-in	116,832	115,788
Guarantee notes payable	570,700	4,265,400
Trust assets	68,285,472	59,974,657
Marketable securities under custody	5,180,415	4,262,547

b. The Company as a lessee

The Company rents several office premises for its branches under operating leases with terms ranging between 2 and 20 years. All operating lease contracts over 5 years contain clauses for market rental reviews for every five years. The Company does not have a bargain purchase option to acquire the leased premises at the expiration of the lease period.

As of December 31, 2017 and 2016, refundable deposits paid under operating leases were $807,931 thousand and $805,681 thousand, respectively (included in other assets - refundable deposits).

The Company's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2017	2016
Within 1 year	$ 436,507	$ 444,548
Over 1 year up to 5 years	858,653	1,135,301
Over 5 years	352,242	386,690
	$ 1,647,402	$ 1,966,539

c. The Company as lessor

The Company rents out properties under operating leases with terms ranging between 3 and 20 years. All operating lease contracts contain market review clauses so that the lessee has an option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiration of the lease period.

As of December 31, 2017 and 2016, refundable deposits paid under operating leases were $81,313 thousand and $94,357 thousand, respectively (included in other liabilities - guarantee deposits received).

The Company's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2017	**2016**
Within 1 year	$ 243,797	$ 179,260
Over 1 year and up to 5 years	341,561	385,250
Over 5 years	71,422	84,556
	$ 656,780	$ 649,066

The duration of leasing cars (included in other assets) is about 1 to 3 years.

Minimum future annual rentals are as follows:

	December 31	
	2017	**2016**
Within 1 year	$ 1,839,177	$ 1,828,030
Over 1 year to 5 years	1,629,586	1,581,947
	$ 3,468,763	$ 3,409,977

d. Computer equipment purchase contracts

As of December 31, 2017 and 2016, the Company had contracts to buy computer equipment and software for $89,925 thousand and $409,463 thousand, respectively, of which $53,380 thousand and $256,408 thousand had been paid as of December 31, 2017 and 2016, respectively.

e. Union Securities Investment Trust

The private equity funds managed by USITC, a subsidiary of the Bank, were mainly invested in the Fairfield Sentry Funds (F Funds) of the Madoff Investment Securities's (Madoff Company) Fairfield Company (Fairfield). On January 10, 2011, the liquidator of the F Funds sued USITC, the private equity funds managed by USITC and the beneficiaries who bought USITC's private equity funds to demand the return of the redemption proceeds of US$17,206 thousand received by USITC's private equity funds from the F Funds. This case remained pending before the Bankruptcy Court for the Southern District of New York.

Madoff Company's liquidation trustee claimed that F Funds' redemption proceeds from Madoff Company constituted unjust enrichment and thus sued USITC and F Funds on March 23, 2012 to demand the return of the redemption proceeds of US$17,206 thousand received by USITC's private equity funds from F Funds. This case remained pending before the Bankruptcy Court for the Southern District of New York.

USITC received the notification sent by the Taiwan Taipei District Court on the lawsuit filed against USITC by Madoff Company's liquidation trustee on January 17, 2013; thus, USITC appointed American lawyers to deal with the litigation. The US Bankruptcy Court opened a court session to hear how to apply the District Court's insights on the extra-territorial effects and the plaintiff's request for limited disclosure of evidence, and presented the revised complaint to the defendant who was affected by the "good faith opinion". The United States attorney wrote a letter to report the progress of the case on April 25, 2016 and November 15, 2017. The US Bankruptcy Court rejected the plaintiff's request mentioned above. On December 7, 2016, the Bankruptcy Court of the Southern District of New York rejected the claim of Madoff Company's liquidation trustee. In order to streamline processes, USITC has instructed American lawyers to accept the rejection on January 20, 2017.The plaintiff, Madoff Company, has filed an appeal and got approval from the United States Court of Appeals for the Second Circuit. The plaintiff should submit the appellate brief on January 10, 2018. The defendant should submit the replication on April 11, 2018. The plaintiff should submit the answer on April 26, 2018.

The private equity funds managed by USITC and mainly invested in the F Funds of Fairfield had become a loss for USITC. Thus, on June 26, 2013, USITC joined Fairfield Greenwich, Citco and PwC in a class action litigation on this investment loss. Regarding the class action suit against Fairfield Greenwich, United States District Court of the Southern District of New York approved the settlement of the two parties on December 19, 2014. The settlement fee was distributed among the settling parties in February 2015. Regarding the class action suit against Citco, the two parties had already come to a settlement on August 12, 2015; the court also approved the settlement of Citco on November 20, 2015. The settlement fee is going to be distributed among the settling parties. Regarding the class action suit against PwC, the court gave a preliminary verdict of settlement to the two parties and opened a court session on May 6, 2016, for a hearing on the fairness of the settlement and the granting of permission; there has been no further appeals since then. The settlement fee would be distributed to the settling parties after deducting the approved amount of counselor fees and disbursement fees. The private equity funds managed by USITC received the check of settlement fee from Rust Consulting Inc. on January 3, 2017 and redeemed for cash on February 6, 2017.

46. TRUST BUSINESS UNDER THE TRUST LAW

Balance Sheet of Trust Accounts
December 31, 2017

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 3,506,155	Management fee payable	$ 5
Investments		Income tax payable	423
Mutual funds	39,371,966	Marketable securities payable	10,430,388
Common stock	616,218	Trust capital	57,741,842
Short-term bills and securities purchased under resell agreements	153,414	Reserve and deficit	112,814
Accounts receivable	5,693		
Stock in custody	10,430,388		
Real estate - land and building	14,201,638		
Total	$ 68,285,472	Total	$ 68,285,472

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2017.

Balance Sheet of Trust Accounts
December 31, 2016

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 3,045,051	Management fee payable	$ -
Investments		Income tax payable	25
Mutual funds	38,199,360	Marketable securities payable	7,189,491
Common stock	269,587	Trust capital	52,866,325
Short-term bills and securities purchased under resell agreements	132,635	Reserve and deficit	(81,184)
Accounts receivable	1,825		
Stock in custody	7,189,491		
Real estate - land and building	11,136,708		
Total	$ 59,974,657	Total	$ 59,974,657

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2016.

Income Statement of Trust Accounts
Year Ended December 31, 2017

	Amount
Trust income	
Interest revenue - demand accounts	$ 521
Interest revenue - time deposits	10,051
Interest revenue - short-term bills and securities purchased under resell agreements	211
Cash dividends - common stock	17,336
Service fee allowances - common stock	2
Income from beneficial certificates	532
Realized capital gain - fund	448
Unrealized capital gain - common stock	160,012
Unrealized capital gain - fund	1,243
Total trust income	190,356
Trust expense	
Management expense	8,509
Supervisor fee	80
Taxation	64,060
Agency fees	2,669
Realized capital loss - fund	177
Unrealized capital loss - common stock	2,367
Unrealized capital loss - fund	833
Others	120
Total trust expense	78,815
Loss before tax	111,541
Income tax expense	(2,255)
Net income	$ 109,286

Note: The above trust income statements were not included in the Bank's income statements.

Income Statement of Trust Accounts
Year Ended December 31, 2016

	Amount
Trust income	
Interest revenue - demand accounts	$ 593
Interest revenue - time deposits	9,206
Interest revenue - short-term bills and securities purchased under resell agreements	246
Cash dividends - common stock	13,599
Income from beneficial certificates	271
Realized capital gain - fund	149
Unrealized capital gain - common stock	10,403
Unrealized capital gain - fund	482
Total trust income	34,949
Trust expense	
Management expense	7,590
Supervisor fee	160
Lawyer fee	100
Taxation	86,014
Agency fees	1,212
Realized capital loss - fund	406
Unrealized capital loss - common stock	6,031
Unrealized capital loss - fund	663
Others	383
Total trust expense	102,559
Loss before tax	(67,610)
Income tax expense	(1,332)
Net loss	$ (68,942)

Note: The above trust income statements were not included in the Bank's income statements.

Trust Property and Equipment Accounts
December 31, 2017

Investment Portfolio	Amount
Bank deposits	$ 3,506,155
Investments	
Mutual funds	39,371,966
Common stock	616,218
Short-term bills and securities purchased under resell agreements	153,414
Accounts receivable	5,693
Stock in custody	10,430,388
Real estate - land and buildings	14,201,638
	$ 68,285,472

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2017.

Trust Property and Equipment Accounts
December 31, 2016

Investment Portfolio	Amount
Bank deposits	$ 3,045,051
Investments	
Mutual funds	38,199,360
Common stock	269,587
Short-term bills and securities purchased under resell agreements	132,635
Accounts receivable	1,825
Stock in custody	7,189,491
Real estate - land and buildings	11,136,708
	$ 59,974,657

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2016.

47. FINANCIAL INSTRUMENTS

a. Three-level fair value hierarchy

The definitions of each level of the fair value hierarchy are shown below:

1) Level 1

Level 1 financial instruments are traded in an active market in which there are quoted prices for identical assets and liabilities. An active market has the following characteristics:

a) All financial instruments in the market are homogeneous.

b) There are willing buyers and sellers in the market all the time.

c) The public can access the price information easily.

The products in this level, such as listed stocks and beneficial securities, usually have high liquidity or are traded in futures market or exchanges.

2) Level 2

The products in this level have fair values that can be inferred from either directly or indirectly observable inputs other than quoted prices in an active market. Examples of these inputs are:

a) Quoted prices from the similar products in an active market. This means the fair value can be derived from the current trading prices of similar products, and whether they are similar products should be judged on the characteristics and trading rules. The fair price valuation in this circumstance may be adjusted due to time differences, trading rule's differences, interested parties' prices, and the correlation of price between itself and the similar goods;

b) Quoted prices for identical or similar financial instruments in inactive markets;

c) For the marking-to-model method, the inputs to this model should be observable (such as interest rates, yield curves and volatilities). The observable inputs mean that they can be obtained from the market and can reflect the expectation of market participants;

d) Inputs that are derived from observable market data through correlation or other means.

The fair values of products categorized in this level are usually calculated using a valuation model generally accepted by the market. Examples are forward contracts, cross-currency swap, simple interest bearing bonds, convertible bonds and commercial paper.

3) Level 3

The fair values of the products in this level are typically based on management assumptions or expectations other than the direct market data. For example, historical volatility used in valuing options is an unobservable input because it cannot represent the entire market participants' expectation on future volatility.

The products in this level are complex derivate financial instruments or products with prices that are provided by brokers. Examples are complex foreign exchange options.

b. The fair value hierarchies of the Company's financial instruments as of December 31, 2017 and 2016 were as follows:

(In Thousands of New Taiwan Dollars)

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 188,973	$ 188,973	$ -	$ -
Beneficial certificates	1,020,400	1,020,400	-	-
Commercial paper	10,389,618	-	10,389,618	-
Available-for-sale financial assets				
Stock	6,948,935	6,948,935	-	-
Debt instruments	27,503,754	-	27,503,754	-
Beneficial certificates	1,036,944	1,036,944	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	537,334	-	489,081	48,253
Liabilities				
Financial liabilities at FVTPL	183,384	-	135,125	48,259

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 192,085	$ 192,085	$ -	$ -
Debt instruments	151,223	-	151,223	-

(Continued)

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Beneficial certificates	$ 128,425	$ 128,425	$ -	$ -
Commercial paper	8,300,747	-	8,300,747	-
Financial assets designated as at FVTPL on initial recognition				
Principal guaranteed notes	322,968	-	322,968	-
Available-for-sale financial assets				
Stock	5,796,662	5,796,662		
Debt instruments	32,258,913	-	32,258,913	-
Beneficial certificates	1,922,850	1,922,850	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	442,642	-	434,497	8,145
Liabilities				
Financial liabilities at FVTPL	39,523	-	31,388	8,135

(Concluded)

c. The financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants with full understanding of the sale or transfer transaction. The fair values of financial instruments at fair value, available-for-sale financial assets and hedging derivative financial instruments with quoted price in an active market are based on their market prices; financial instruments with no quoted prices in an active market are estimated by valuation methods.

1) Marking to market

This method should be used first to determine fair value. Following are the principles to follow in marking to market:

a) Ensure the consistency and integrity of market data.

b) The source of market data should be transparent and easy to access and can be referred to by independent resources.

c) Listed securities with tradable prices should be valued at closing prices.

d) Evaluating unlisted securities that lack tradable closing prices should use quoted prices from independent brokers.

2) Marking to model

The use of marking to model is suggested if marking to market is infeasible. This valuation methodology is based upon model inputs that are used to derive the value of the trading positions. The Company uses the same estimations and assumptions as those used by market participants to determine the fair value.

The Company uses the forward rates provided by Reuters to estimate the fair values of forward contracts, foreign exchange swap contracts, interest rate swap and cross-currency swap contacts and the discounted cash flow method to calculate the fair values of each contract. For foreign exchange option transactions, the Company uses the option pricing models which are generally used by other market participants (e.g., the Black-Scholes model) to calculate the fair value of the contracts.

For debt instruments with no active market, the Company estimates fair values based on prices quoted by counterparties and adjusted in accordance with the results of the evaluation of a debtor's credit.

3) Transfer between Level 1 and Level 2

There was no material transfer between Level 1 and Level 2 for 2017 and 2016.

4) Reconciliation of Level 3 items of financial instruments

a) Reconciliation of Level 3 items of financial assets

For the year ended December 31, 2017

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss Derivative financial assets	$ 8,145	$ 26,551	$ -	$ 45,673	$ -	$(32,116)	$ -	$ 48,253

For the year ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss Derivative financial assets	$ 24,194	$(13,284)	$ -	$ 28,978	$ -	$(31,743)	$ -	$ 8,145

b) Reconciliation of Level 3 items of financial liabilities

For the year ended December 31, 2017

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss Derivative financial liabilities	$ 8,135	$ 25,151	$ -	$ 51,515	$ -	$(36,542)	$ -	$ 48,259

For the year ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss Derivative financial liabilities	$ 24,190	$(12,039)	$ -	$ 32,520	$ -	$(36,536)	$ -	$ 8,135

5) The quantification information of Level 3

Item	Product	Fair Value	Valuation Technique	Significant Unobservable Inputs	Interval (Weighted-average)	Relation Between Input and Fair Value
Derivative financial Instruments						
Financial assets at fair value through profit or loss	Foreign exchange options	$ 48,253	Option pricing model	Ratio	AUD/USD 5.82%-7.66% EUR/GBP 6.60%-6.85% EUR/USD 6.34%-6.41% GBP/AUD 6.78%-7.24% NZD/USD 7.35%-8.12% USD/JPY 7.29% USD/TWD 4.4%-4.86% USD/ZAR 14.48%-14.99%	The higher the ratio is, the higher fair value
Derivative financial instruments						
Financial liabilities at fair value through profit or loss	Foreign exchange options	48,259	Option pricing model	Ratio	AUD/USD 5.82%-7.66% EUR/GBP 6.60%-6.85% EUR/USD 6.34%-6.41% GBP/AUD 6.78%-7.24% NZD/USD 7.35%-8.12% USD/JPY 7.29% USD/TWD 4.4%-4.86% USD/ZAR 14.48%-14.99%	The higher the ratio is, the higher fair value

6) Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions used

The Company's Level 3 financial instruments are foreign exchange options. When engaging in foreign exchange option transactions, the Company makes a match for other banks and customers. Thus, the Company does not hold positions, and its source of profit and loss is from receiving and paying premiums. The sensitivity analysis has no effect on profit and loss since the Company does back-to-back transactions and the assets offset the liabilities.

d. Fair value of financial instruments that are not measured at fair value

Except for the financial instruments shown in the following table, the management believes that the financial assets and financial liabilities recognized in the financial statements either have carrying amounts that approximate their fair values or have fair values that cannot be reasonably measured.

1)

	December 31			
	2017		2016	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets				
Held-to-maturity financial assets	$ 51,285,957	$ 51,388,334	$ 7,192,115	$ 7,088,803
Debt instruments with no active market	45,734,754	46,737,536	51,433,548	53,015,036
Financial liabilities				
Bank debentures	11,700,000	11,887,884	11,200,000	11,445,952

2) Fair value hierarchy

Items	**December 31, 2017**			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-to-maturity financial assets	$ 51,388,334	$ -	$ 51,388,334	$ -
Debt instruments with no active market	46,737,536	-	46,737,536	-
Financial liabilities				
Bank debentures	11,887,884	-	11,887,884	-

Items	**December 31, 2016**			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-to-maturity financial assets	$ 7,088,803	$ -	$ 7,088,803	$ -
Debt instruments with no active market	53,015,036	-	53,015,036	-
Financial liabilities				
Bank debentures	11,445,952	-	11,445,952	-

48. FINANCIAL RISK MANAGEMENT

a. Overview

To deal with any expected or unexpected business risk, the Company has established a comprehensive risk management system to allocate resources effectively and efficiently, strengthen business competitiveness, mitigate operational risk to a tolerable or acceptable level, and maintain the capital adequacy ratio to meet the minimum requirements of the authorities and the Basel Accord framework.

b. Risk management framework

The board of directors, which occupies the highest level in the Company's risk management framework, reviews risk management policies, the overall risk management framework and organization structure for carrying out responsibilities and exercising accountability. The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division. The Risk Management Division is an independent unit that is in charge of reviewing the risk management system designed by business units and the compliance with risk management requirements; this division also submits risk management reports to the authorities and develops a series of risk management tools to assess the risks identified. Business units establish risk control procedures, manage and monitor the implementation of those controls in operation units. Operation units perform daily risk management work and internal controls to ensure the accuracy and completeness of the risk management information generated.

c. Credit risk

1) Credit risk definitions and sources

Credit risk refers to the risk of losses caused by borrowers, debtors, or counterparties' failure to fulfill their contractual obligations due to deteriorating financial position or other factors. It arises principally from transactions involving discounts, loans, credit cards, due from or call loans to banks, debt investments and derivatives etc., and also from off-balance sheet products such as guarantees, acceptance, letters of credit and commitments.

2) Strategy/objectives/policies and processes

a) Credit risk management strategy: The Company has established the "Credit Risk Management Standards of Union Bank of Taiwan" as the basis of planning, implementing, and managing credit risk management system.

b) Credit risk management objective: The objectives are to establish and implement an effective credit risk management mechanism to mitigate credit risk, archive operational and management goals, and balance business development and risk control.

c) Credit risk management policy: The policies are meant to ensure that credit risk falls within an acceptable range and that adequate capital is maintained to meet credit risk management objectives and create maximum risk-adjusted returns.

d) Credit risk management process: The Company carries out credit risk identification, credit risk measurement, credit risk mitigation, credit risk monitoring and control and credit risk reporting process as part of its credit risk management mechanism.

3) Credit risk management framework

a) The board of directors: The board of directors, the top risk supervisor of the Company, reviews risk management policies, operational risk limits and the design and change of credit risk management framework.

b) Asset/Liability Management Committee: This committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit that is in charge of the work related to three pillars of Basel and reviews the risk management system designed by business units and the compliance with risk management requirements; the division also submits risk management reports to the authorities and develops risk management tools to assess the risk identified.

d) Business units: Business units are responsible for establishing risk management regulations and risk control procedures and managing and monitoring the implementation of those controls in operation units.

e) Operation units: Under the risk management regulations and procedures set by business units, operation units perform daily risk management work and internal controls and prepares reports on these tasks.

4) Credit risk measurement, control and reporting

a) The range of credit risk reporting:

i. Each business unit will regularly report the promotion of the business and the allocation of risk assets to the Assets/Liability Management Committee (ALMC).

ii. The Company's risk management department regularly monitors the credit limit control situations and reports to the ALMC the credit concentration and the status of each business' achieving BIS (Bank for International Settlements) goals. The department also presents the volume of business NPL situation, credit concentration and the execution of credit risk control to the Board.

b) Measurement system:

The Company's credit risk management adopts the use of the standardized approach to calculate capital charge and regularly submits related reports to the government. The risk management division and business units implement the Company's management system and monitors the credit exposure of the business, industry, and countries as well as the concentration of credit and collateral to effectively measure and manage investment portfolio.

5) Mitigation of risks or hedging of credit risk

The Company is exposed to loss on each credit risk faced by its business. Thus, depending on the nature of the business and the cost considerations, the Company will take appropriate remeasures to control risk. The Company's information systems provide information that can be used in managing risk control procedures, and the risk management division reports to the board every six months the business risk management status.

6) Maximum exposure to credit risk

The maximum credit exposures of assets in the consolidated balance sheet are almost equivalent to their carrying values. These off-balance sheet maximum credit exposures (excluding collaterals and other credit enhancement instruments) are shown as follows:

Off-Balance Sheet Items	The Maximum Credit Exposure	
	December 31, 2017	December 31, 2016
Irrevocable standby loan commitment	$ 2,199,776	$ 9,482,533
Unused letters of credit	1,241,648	860,155
Other guarantees	13,804,083	10,270,804
Unused credit card commitments	257,495,390	238,271,865

December 31, 2017	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 248,662,563	$ -	$ -	$ 248,662,563

December 31, 2016	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 226,779,935	$ -	$ -	$ 226,779,935

7) Concentrations of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

There can be credit risk concentrations in a bank's assets, liabilities, or off-balance sheet items through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. These exposures can cover credits, loans and deposits, call loans to banks, investments, receivables and derivatives. To minimize its credit risk, the Company maintains a diversified portfolio; limits its exposure to any one geographic region, country or individual creditor; and closely monitors its exposures. The Company's most significant concentrations of credit risk are summarized as follows:

a) By industry

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Private enterprises	$ 84,654,639	25.19	$ 71,596,120	24.05
Public enterprises	5,000,000	1.49	5,000,000	1.68
Government organizations	42,032,219	12.51	33,036,805	11.10
Nonprofit organizations	694,719	0.21	917,924	0.31
Private organizations	202,610,903	60.30	186,430,171	62.64
Foreign enterprises	1,024,743	0.30	663,332	0.22
Total	336,017,223	100.00	297,644,352	100.00

b) By geographical area

The Company’s operations are mainly in Taiwan.

c) By collaterals

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Unsecured	$ 80,394,252	23.92	$ 63,101,890	21.20
Secured				
Financial instruments	8,134,418	2.42	7,229,286	2.43
Stocks	9,397,235	2.80	9,284,626	3.12
Properties	213,097,461	63.42	194,540,140	65.36
Movables	16,925,126	5.04	15,813,134	5.31
Guarantees	6,288,007	1.87	5,520,845	1.86
Others	1,780,724	0.53	2,154,431	0.72
Total	336,017,223	100.00	297,644,352	100.00

8) Credit quality and impairment assessment

Some financial assets - cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, repos and debt securities, refundable deposits, guaranty bonds and clearing and settlement fund - are regarded as having very low credit risk because of the good credit ratings of counterparties. Other financial assets not regarded as having low credit risk are summarized as follows:

a) Discounts, loans and receivables

December 31, 2017	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 8,756,311	$ 4,596,438	$ 37,114	$ -	$ 13,389,863	$ 190,760	$ 1,205,206	$ 14,785,829	$ 63,838	$ 27,863	$ 14,694,128
Acceptances receivable	123,578	63,396	-	-	186,974	-	-	186,974	-	1,000	185,974
Accounts receivable factoring without recourse	-	396,449	-	-	396,449	-	-	396,449	-	3,964	392,485
Others	2,307,849	119,158	27,004	4,087	2,458,098	3,081	109,288	2,570,467	90,711	923	2,478,833
Overdue guaranty deposits	-	-	-	-	-	-	25,105	25,105	-	-	25,105
Discounts and loans											
Consumer finance	82,148,042	59,308,582	23,229,244	3,282,059	167,967,927	563,963	205,953	168,737,843	71,261	1,708,041	166,958,541
Corporate banking	108,350,302	39,278,948	2,045,235	186,763	149,861,248	157,307	1,374,409	151,392,964	162,389	1,460,127	149,770,448

December 31, 2016	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 8,705,928	$ 3,932,822	$ 40,380	$ -	$ 12,679,130	$ 200,846	$ 1,287,067	$ 14,167,043	$ 62,126	$ 34,319	$ 14,070,598
Acceptances receivable	97,552	37,979	-	-	135,531	-	-	135,531	-	476	135,055
Accounts receivable factoring without recourse	-	799,844	-	-	799,844	-	-	799,844	-	3,504	796,340
Others	2,491,905	106,932	23,617	3,901	2,626,355	1,815	525,888	3,154,058	267,780	41	2,886,237
Overdue guaranty deposits	-	-	-	-	-	-	3,765	3,765	-	-	3,765
Discounts and loans											
Consumer finance	88,535,794	42,291,881	20,657,009	2,930,474	154,415,158	331,607	134,205	154,880,970	63,497	1,656,388	153,161,085
Corporate banking	74,787,465	53,177,163	806,354	219,925	128,990,907	17,379	1,724,988	130,733,274	227,124	1,250,285	129,255,865

b) Credit quality analysis of securities

December 31, 2017	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 25,760,437	$ 1,743,317	$ -	$ 27,503,754	$ -	$ -	$ 27,503,754	$ -	$ -	$ 27,503,754
Investments in stocks	6,694,060	254,875	-	6,948,935	-	-	6,948,935	-	-	6,948,935
Others	119,691	-	917,253	1,036,944	-	-	1,036,944	-	-	1,036,944
Held-to-maturity financial assets										
Investments in bonds	8,985,957	-	-	8,985,957	-	-	8,985,957	-	-	8,985,957
Others	42,300,000	-	-	42,300,000	-	-	42,300,000	-	-	42,300,000
Other financial assets										
Investments in bonds	45,734,754	-	-	45,734,754	-	258,245	45,992,999	-	258,245	45,734,754
Investments in stocks	-	-	603,994	603,994	-	-	603,994	-	-	603,994

December 31, 2016	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 30,717,571	$ 1,541,342	$ -	$ 32,258,913	$ -	$ -	$ 32,258,913	$ -	$ -	$ 32,258,913
Investments in stocks	5,553,816	242,846	-	5,796,662	-	-	5,796,662	-	-	5,796,662
Others	631,315	-	1,291,535	1,922,850	-	-	1,922,850	-	-	1,922,850
Held-to-maturity financial assets										
Investments in bonds	7,192,115	-	-	7,192,115	-	-	7,192,115	-	-	7,192,115
Other financial assets										
Investments in bonds	51,433,548	-	-	51,433,548	-	279,278	51,712,826	-	279,278	51,433,548
Investments in stocks	-	-	600,059	600,059	-	-	600,059	-	-	600,509

Note: The definitions are as follows:

1. Investment Grade: Credit rating is BBB - or higher or 1-5 TCRI corporate rating of TEJ if it is a publicly traded company.
2. Non-investment Grade: Credit rating is BB + or higher or 6-9 TCRI corporate rating of TEJ if it is a publicly traded company.
3. No Ratings: No external ratings.

9) Aging analysis of overdue but not yet impaired financial assets

Delays in processing payments by borrowers and other administrative reasons could result in financial assets becoming overdue but unimpaired. Based on the Company's internal risk management policies, financial assets that are 90 days overdue are not considered impaired unless evidences show otherwise.

The aging analysis of overdue but unimpaired financial assets was as follows:

	December 31, 2017			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 148,259	$ 42,501	$ -	$ 190,760
Others	1,529	1,552	-	3,081
Discounts and loans				
Consumer finance	368,306	195,657	-	563,963
Corporate banking	96,066	61,241	-	157,307

	December 31, 2016			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 157,031	$ 43,815	$ -	$ 200,846
Others	1,118	697	-	1,815
Discounts and loans				
Consumer finance	247,672	83,935	-	331,607
Corporate banking	11,270	6,109	-	17,379

10) Analysis of impairment for financial assets

The Company's assessment of loans and receivables for impairment indicated no impairment loss on due from other banks, due from the Central Bank and call loans to other banks. The assessment of the other loans and receivables was as follows:

Discounts and loans

		December 31, 2017		December 31, 2016	
		Discounts and Loans	**Allowance for Doubtful Accounts**	**Discounts and Loans**	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Individually assessed for impairment	$ 1,271,517	$ 129,051	$ 1,666,013	$ 201,768
	Collectively assessed for impairment	406,929	104,599	310,587	88,853
With no objective evidence of impairment	Collectively assessed	318,452,361	3,168,168	283,637,644	2,906,673

Note: The loans are those originated by the Company and are not net of the allowance for credit losses and adjustments for discount (premium).

Receivables

		December 31, 2017		December 31, 2016	
		Receivables	**Allowance for Doubtful Accounts**	**Receivables**	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Individually assessed for impairment	$ 127,247	$ 88,419	$ 543,382	$ 265,653
	Collectively assessed for impairment	1,214,203	66,562	1,292,073	64,253
With no objective evidence of impairment	Collectively assessed	16,598,269	33,318	16,421,021	38,340

Note: The receivables are those originated by the Company and are not net of the allowance for credit losses and adjustments for discount (premium).

11) Analysis of impairment for financial assets

On the basis of the result of a credit evaluation, the Company may require collaterals before drawings are made on the credit facilities. For minimized credit risk, appropriate collaterals are required on the basis of the borrowers' financials and debt service capabilities. All guarantees and appraisal procedures follow the authorities' relevant regulations and the Company's internal rules. The Company's internal rules describe the acceptable types of collaterals, appraisal methods, appraisal process, and post-approval collateral management, which require the close monitoring of the value of collaterals to ensure repayment security. The main collateral types are summarized as follows:

a) Real estate
b) Other property
c) Securities/stock
d) Deposits/certificates of deposits
e) Credit guarantee fund or government guarantee

d. Liquidity risk

1) Source and definition of liquidity risk

Liquidity risk means banks cannot provide sufficient funding for asset size growth and for meeting obligations on matured liabilities or have to make late payments to counterparties or raise emergency funding to cover funding gaps.

2) Liquidity risk management strategy and principles

a) The board of directors, the top risk supervisor of the Company, regularly reviews liquidity risk management policies. The Asset/Liability Management Committee, the top liquidity risk executive of the Company, supervises the implementation of liquidity risk monitoring and control procedures and is responsible for taking any needed remedial measures.

b) In making internal transfer pricing, performance evaluation and new product development decisions, the operation units take liquidity cost and product effectiveness and risks into consideration and align their decisions with the Company's overall liquidity risk management policies.

c) The fund procurement department implements funding strategies in accordance with the conservatism principle to diversify the funding sources and negotiate reasonable repayment periods to ensure continuing participation in the lending market, and maintains a close relationship with fund providers to strengthen financing channels and ensure the stability and reliability of fund sources.

d) To strengthen liquidity risk management, the Company has regulations requiring the daily execution of risk management procedures and the monitoring of implementation to maintain sufficient liquidity.

e) The risk management units report the Company's liquidity position to the Asset/Liability Management Committee monthly and report the Company's liquidity risk management to the board of directors regularly.

3) The liquidity risk analysis of the cash inflow and outflow of assets and liabilities held for liquidity risk refers to the amounts of the obligations for the remaining maturity periods, i.e., from the reporting date to the contract maturity dates. The maturity analysis of financial assets and financial liabilities:

a) For maintaining solvency and meeting the needs of emergency assistance arrangements, the Company holds cash and high-quality, liquid interest-bearing assets. The assets held for liquidity risk management include cash and cash equivalents, due from Central Bank and call loans to other banks, financial assets at fair value through profit or loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets, and debt instruments with no active market, etc.

b) The Company disclosed the analysis of cash outflows from nonderivative financial liabilities by the residual maturities as of the balance sheet dates. The amounts of cash outflows are based on contractual cash flows, so some amounts may not correspond to those that shown in the consolidated balance sheets.

i. The maturity analysis of financial liabilities

	December 31, 2017					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Due to the Central Bank and call loans to other banks	$ 7,042,561	$ 391,618	$ 1,054,647	$ 15,000	$ 745,359	$ 9,249,185
Securities sold under agreements to repurchase	29,401,925	865,759	6,292	-	-	30,273,976
Accounts payables	5,248,396	1,094,083	559,327	186,882	20,136	7,108,824
Deposits and remittance	37,615,836	56,761,648	63,566,801	132,744,399	158,360,786	449,049,470
Bank debentures	-	-	2,000,000	-	9,700,000	11,700,000
Bonds payable	-	-	-	-	1,409,598	1,409,598
Other liabilities	4,305,564	77,876	172,006	285,133	1,813,783	6,654,362

	December 31, 2016					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Due to the Central Bank and call loans to other banks	$ 4,732,107	$ 1,678,665	$ 1,123,745	$ 28,300	$ 826,495	$ 8,389,312
Securities sold under agreements to repurchase	28,239,364	589,823	44,950	-	-	28,874,137
Accounts payables	5,294,808	926,272	573,736	164,487	22,161	6,981,464
Deposits and remittance	37,753,552	46,204,095	52,523,343	108,635,052	186,502,873	431,618,915
Bank debentures	-	-	-	-	11,200,000	11,200,000
Bonds payable	-	-	-	-	1,135,884	1,135,884
Other liabilities	2,781,545	1,553,994	148,216	304,287	1,807,705	6,595,747

ii. The maturity analysis of derivatives financial liabilities - forward exchange contracts and currency swap contracts

	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 9,182,329	$ 14,086,845	$ 180,444	$ 76,408	$ -	$ 23,526,026
Cash inflow	9,130,874	14,004,333	179,429	75,817	-	23,390,453
Subtotal	51,455	82,512	1,015	591	-	135,573
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 51,455	$ 82,512	$ 1,015	$ 591	$ -	$ 135,573

	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 3,058,981	$ 662,483	$ 421,300	$ 176,211	$ -	$ 4,318,975
Cash inflow	3,038,160	652,804	416,978	173,221	-	4,281,163
Subtotal	20,821	9,679	4,322	2,990	-	37,812
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 20,821	$ 9,679	$ 4,322	$ 2,990	$ -	$ 37,812

iii. The maturity analysis of derivatives financial liabilities-option contracts

	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ 3,560	$ 7,482	$ 2,380	$ 2,480	$ -	$ 15,902

	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ (1,318)	$ (3,018)	$ (2,567)	$ (3,924)	$ -	$ (10,827)

e. Market risk

1) Source and definition of market risk

Market risk is defined as an unfavorable change in market prices (such as interest rates, exchange rates, stock prices and commodity prices), which may cause financial instruments classified in the trading book to give rise to a potential loss on or off the balance sheet.

2) Market risk management strategy and processes

The Bank implements the “Market Risk Management Standards of Union Bank of Taiwan”, which had been approved by the board of directors, as the basis of market risk management.

The market risk management processes are risk identification, risk measurement, risk monitoring and control, risk reporting and risk mitigation.

a) Risk identification: For balance sheet and off-balance sheet items, the Company identifies and assesses market risk factors of products and the investment business and subjects them to risk management, monitoring and control procedures.

b) Risk measurement: In principle, each investment or transaction has at least one risk measurement tool - such as sensitivity analysis, value at risk and stress testing, which can be applied to variables, such as fair market value and notional amounts, to quantify market risk.

c) Risk monitoring and control: Each operation unit observes the risk limit regulation stated in its operating manual and regularly monitors risk control. The department of risk management is responsible for summarizing and reporting the Bank's overall market risk monitoring.

d) Risk reporting: The risk management reports are classified as regular report, over-limit report and exception report. Regular reports are the management statements sent to the appropriate level in accordance with certain requirements. Over-limit reports are about situations in which risk limits are exceeded. Exception reports contain operation units' recommendations on how to meet temporary business needs.

e) Risk mitigation: An operation unit may take certain action to reduce risk, such as hedging, investment combination adjustment, position adjustment, setting a break-even point, halting new transactions, etc.

3) Market risk management framework

a) The board of directors: The board of directors, the Company's top market risk supervisor, reviews risk management policies, operational risk limits and the design and change of the credit risk management framework.

b) Asset/Liability Management Committee: The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit in charge of the work related to three pillars of Basel and of the development of market risk management tools to assess and control the risk identified through setting risk limits.

d) Operation units: Operation units perform daily market risk management work and report the market risk of investment positions and related information to the authorities.

4) Market risk measurement, control and reporting

a) The market risk of the trading book financial instruments is measured in accordance with the fair market value or evaluation model and the profit and loss situation is evaluated regularly.

b) The business units and the risk management division prepares management reports periodically and report to the appropriate level.

c) The market risk management system combines the evaluation of the front and middle offices to generate information that will assist management in risk monitoring. Moreover, the system supports the capital accrual method being used by the Bank through generating internal and external reports for management's decision, making.

5) Market risk measurement of trading book

The Company assesses the market risk exposure of the trading book in conformity with an assessment model using publicly quoted market prices or other measurement methods, including interest rate sensitivity analysis (DV01 value) and stress tests. The interest rate sensitivity analysis (DV01 value) refers to changes in market interest by 1 basis point (0.01%); the abnormal stress test system deals with market volatility and involves the regular estimation of possible losses (stress loss) and of the impact of stress test scenarios on major asset portfolios and the Company's profit and loss.

6) Banking book market risk

a) Interest rate risk

The loans and deposits and other interest rate-related items in the Bank's balance sheet, including interest rate sensitive assets and interest rate sensitive liabilities, are measured from the viewpoint of earnings because there is a risk of decrease in earnings due to adverse changes in interest rates for loans and deposits.

The earnings viewpoint mainly emphasizes the impact of interest rates on earnings, especially short-term earnings. For 2017 and 2016, assuming all market risk indicators, except interest rates, remained constant, an interest rate increase or decrease by 100bps would result in an increase or decrease in profit before tax by \$393,900 thousand and \$(98,890) thousand, respectively.

b) Exchange rate risk

The exchange rate risk of the banking book refers to the business operation of the International Banking Department of the Bank's Head Office and the operating funds in foreign currencies required by the ROC or local regulations; if there are adverse exchange rate changes, the income statement or cumulative translation adjustments in equity would be negatively affected.

The International Banking Department (IBD) of the Bank's Head Office is a going concern, and its operating funds are foreign currencies for business needs. However, the exchange rate risk on these funds is not significant because the percentage of the operating funds to the Company's total assets is small, as shown by the immaterial ratio of the IBD's cumulative translation adjustment to the Banks's net worth.

7) Foreign currency rate risk information

The information of significant foreign financial assets and liabilities is as follows:

Unit: Each Foreign Currency (Thousands)/NT$(Thousands)

	December 31, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,811,480	29.848	$ 83,917,068
JPY	19,119,596	0.2650	5,065,966
GBP	1,409	40.2053	56,652
AUD	128,377	23.2635	2,986,498
HKD	276,796	3.8189	1,057,063
CAD	15,168	23.7795	360,685
CNY	706,005	4.5790	3,232,822
SGD	1,507	22.3246	33,654
ZAR	853,238	2.4191	2,064,030
CHF	1,687	30.5507	51,529
THB	331	0.9153	303
NZD	26,935	21.2010	571,041
EUR	32,026	35.6773	1,142,605
Financial liabilities			
USD	2,367,764	29.848	70,673,019
JPY	12,988,826	0.2650	3,441,545
GBP	5,479	40.2053	220,266
AUD	131,390	23.2635	3,056,585
HKD	251,512	3.8189	960,507
CAD	15,163	23.7795	360,568
CNY	719,522	4.5790	3,294,719
SGD	1,445	22.3246	32,255
ZAR	853,645	2.4191	2,065,015
CHF	1,650	30.5507	50,402
THB	89	0.9153	81
NZD	26,955	21.2010	571,476
EUR	46,206	35.6773	1,648,507

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,602,786	32.279	$ 84,015,342
JPY	19,737,491	0.2757	5,441,626
GBP	2,149	39.6192	85,123
AUD	117,932	23.3087	2,748,838
HKD	195,029	4.1622	811,757
CAD	15,701	23.9281	375,698
CNY	468,192	4.6219	2,163,913
SGD	2,547	22.3075	56,808
ZAR	740,320	2.6379	1,952,854
CHF	1,229	31.5533	38,774
THB	507	0.9011	456
NZD	23,878	22.4210	535,368
EUR	26,141	33.9091	886,431
Financial liabilities			
USD	2,179,910	32.279	70,365,333
JPY	14,405,613	0.2757	3,971,627
GBP	7,184	39.6192	284,610
AUD	117,806	23.3087	2,745,893
HKD	178,256	4.1622	741,944
CAD	15,758	23.9281	377,068
CNY	471,818	4.6219	2,180,670
SGD	2,611	22.3075	58,234
ZAR	739,785	2.6379	1,951,442
CHF	1,234	31.5533	38,941
NZD	23,918	22.4210	536,265
EUR	37,181	33.9091	1,206,766

f. Transfers of financial assets.

Most of the transferred financial assets of the Bank that are not derecognized in their entirety are securities sold under repurchase agreements. According to these transactions, the right on cash flow of the transferred financial assets would be transferred to other entities and the associated liabilities of the Bank's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Bank is restricted to use, sell or pledge the transferred financial assets throughout the term of transaction, and is still exposed to interest rate risks and credit risks on these instruments, the transferred financial assets are not derecognized in their entirety. The details of financial assets that are not derecognized in their entirety and the associated financial liabilities are as following:

December 31, 2017					
Category of Financial Assets	**Carrying Amount of Transferred Financial Asset**	**Carrying Amount of Associated Financial Liability**	**Fair Value of Transferred Financial Asset**	**Fair Value of Associated Financial Liability**	**Fair Value of Net Position**
Financial instruments at fair value through profit or loss Securities sold under repurchase agreements	$ 8,552,033	$ 8,557,700	$ 8,552,033	$ 8,557,700	$ (5,667)
Available-for-sale financial assets Securities sold under repurchase agreements	10,837,361	9,673,967	10,837,361	9,673,967	1,163,394
Debt instruments with no active market Securities sold under repurchase agreements	15,415,779	12,042,309	15,716,202	12,042,309	3,673,893

December 31, 2016					
Category of Financial Assets	**Carrying Amount of Transferred Financial Asset**	**Carrying Amount of Associated Financial Liability**	**Fair Value of Transferred Financial Asset**	**Fair Value of Associated Financial Liability**	**Fair Value of Net Position**
Financial instruments at fair value through profit or loss Securities sold under repurchase agreements	$ 7,054,785	$ 7,073,524	$ 7,054,785	$ 7,073,524	$ (18,739)
Available-for-sale financial assets Securities sold under repurchase agreements	14,636,448	13,634,152	14,636,448	13,634,152	1,002,296
Debt instruments with no active market Securities sold under repurchase agreements	10,163,828	8,166,461	10,438,839	8,166,461	2,272,378

g. Offsetting financial assets and financial liabilities.

The Bank is eligible to present certain derivative assets and derivative liabilities on a net basis on the balance sheet since the offsetting criteria are met. Cash collateral has also been paid by part of counterparties for the net amount of the derivative assets and derivative liabilities. The cash collateral does not meet the offsetting criteria, but it can be set off against the net amount of the derivative assets and derivative liabilities in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

The tables below present the quantitative information on financial assets and financial liabilities that have been offset in the balance sheet or that are covered by enforceable master netting arrangements or similar agreements.

December 31, 2017						
Financial Assets	**Gross Amount of Recognized Financial Asset (a)**	**Gross Amount of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instrument	**Cash Collateral Pledged**	
Derivatives	$ 537,334	$ -	$ 537,334	$ 158,636	$ -	$ 378,698

December 31, 2017						
Financial Liabilities	**Gross Amount of Recognized Financial Liabilities (a)**	**Gross Amount of Recognized Financial Assets Offset in the Balance Sheet (b)**	**Net Amount of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial instrument	**Cash Collateral Pledged**	
Derivatives	$ 183,384	$ -	$ 183,384	$ 49,868	$ -	$ 133,516

December 31, 2016						
Financial Assets	**Gross Amount of Recognized Financial Asset (a)**	**Gross Amount of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instrument	**Cash Collateral Pledged**	
Derivatives	$ 442,642	$ -	$ 442,642	$ 6,187	$ -	$ 436,455

December 31, 2016						
Financial Liabilities	**Gross Amount of Recognized Financial Liabilities (a)**	**Gross Amount of Recognized Financial Assets Offset in the Balance Sheet (b)**	**Net Amount of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial instrument	**Cash Collateral Pledged**	
Derivatives	$ 39,523	$ -	$ 39,523	$ 1,639	$ -	$ 37,884

49. CAPITAL MANAGEMENT

a. Strategies to maintain capital adequacy

Under the regulations set by the authorities, the Company complies with the requirements set each year for the minimum consolidated capital adequacy ratios, including the common equity Tier I capital ratio; the Company's leverage ratio is also in accordance with the requirements of the relevant authorities. These ratios are applied in accordance with the regulations announced by the authorities.

b. Capital assessment program

The capital ratios and leverage ratios are applied, analyzed, monitored and reported regularly, and are assigned to each business unit as the target capital adequacy ratios. The business units' compliance with the ratio requirements is tracked regularly, and remedial action is taken if the capital and leverage ratio requirements are not met.

c. Capital adequacy

(Unit: In Thousands of New Taiwan Dollars, %)

Items (Note 2)		Year	December 31, 2017	
			Own Capital Adequacy Ratio	**Consolidated Capital Adequacy Ratio**
Eligible capital	Common equity Tier 1 Ratio		$ 31,867,478	$ 31,226,900
	Other Tier 1 capital		12,146,864	12,878,925
	Tier 2 capital		5,726,391	8,534,948
	Eligible capital		49,740,733	52,640,773
Risk-weighted assets	Credit risk	Standard	262,318,162	271,978,233
		Internal rating-based approach	-	-
		Asset securitization	11,794,762	11,794,762
	Operational risk	Basic indicator approach	17,986,588	20,976,363
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	24,757,659	25,883,018
		Internal model approach	-	-
	Total risk-weighted assets		316,857,171	330,632,376
Capital adequacy rate			15.70%	15.92%
Ratio of common stockholders' equity to risk-weighted assets			10.06%	9.44%
Ratio of Tier 1 capital to risk-weighted assets			13.89%	13.34%
Leverage ratio			7.30%	7.21%

Items (Note 2)			December 31, 2016 Own Capital Adequacy Ratio	December 31, 2016 Consolidated Capital Adequacy Ratio
Eligible capital	Common equity Tier 1 Ratio		$ 30,419,225	$ 29,751,735
	Other Tier 1 capital		1,664,565	2,378,925
	Tier 2 capital		6,851,336	9,629,432
	Eligible capital		38,935,126	41,760,092
Risk-weighted assets	Credit risk	Standard	248,206,553	258,443,901
		Internal rating-based approach	-	-
		Asset securitization	919,153	919,153
	Operational risk	Basic indicator approach	17,384,500	19,969,925
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	22,483,575	23,893,763
		Internal model approach	-	-
	Total risk-weighted assets		288,993,781	303,226,742
Capital adequacy rate			13.47%	13.77%
Ratio of common stockholders' equity to risk-weighted assets			10.53%	9.81%
Ratio of Tier 1 capital to risk-weighted assets			11.10%	10.60%
Leverage ratio			5.68%	5.57%

Note 1: Eligible capital and risk-weighted assets are calculated under the "Regulations Governing the Capital Adequacy Ratio of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks."

Note 2: Formulas used were as follows:

1) Eligible capital = Common equity Tier 1 capital + Other Tier 1 capital + Tier 2 capital.

2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.

3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.

4) Ratio of Common equity Tier 1 capital to risk-weighted assets = Common equity Tier 1 capital ÷ Risk-weighted assets.

5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity Tier 1 capital + Other Tier 1 capital) ÷ Risk-weighted assets.

6) Leverage ratio = Tier 1 capital ÷ Exposure Measurement

The Banking Law and related regulations require that the Bank maintain its unconsolidated and consolidated CARs at a minimum of 8.625%, the Tier 1 Capital Ratio at a minimum of 6.625% and the Common Equity Tier 1 Ratio at a minimum of 5.125%. In addition, if the Bank's CAR falls below the minimum requirement, the authorities may impose certain restrictions on the amount of cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

50. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Union Bank of Taiwan

a. Credit risk

1) Asset quality

See Table 5.

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2017			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Group U - real estate development	$ 1,895,359	3.96
2	Company B - other financial intermediation	1,583,550	3.30
3	Company V - other telecommunications market	1,476,000	3.08
4	Group D - real estate development	1,172,543	2.45
5	Group H - retail of other food and beverages	1,115,000	2.33
6	Company T - real estate development	996,449	2.08
7	Company O - financial intermediation	930,000	1.94
8	Company T - real estate development	892,442	1.86
9	Group F - manufacture of chemical material	805,896	1.68
10	Company P - renting and leasing of other transport equipment	768,580	1.60

(In Thousands of New Taiwan Dollars, %)

December 31, 2016			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Group U - real estate development	$ 1,728,080	4.81
2	Company B - other financial intermediation	1,623,773	4.52
3	Company V - other telecommunications market	1,499,844	4.17
4	Group D - real estate development	1,495,115	4.16
5	Group H - retail of other food and beverages	1,248,800	3.47
6	Company T - real estate development	891,380	2.48
7	Company O - financial intermediation	865,000	2.41
8	Company T - real estate development	708,000	1.97
9	Group F - manufacture of chemical material	630,185	1.75
10	Company P - renting and leasing of other transport equipment	618,000	1.72

b. Market risk

Interest Rate Sensitivity
December 31, 2017

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 376,966,538	$ 9,601,587	$ 11,136,138	$ 38,825,399	$ 436,529,662
Interest rate-sensitive liabilities	197,693,904	153,613,569	58,382,557	19,977,717	429,667,747
Interest rate-sensitive gap	179,272,634	(144,011,982)	(47,246,419)	18,847,682	6,861,915
Net worth					47,621,711
Ratio of interest rate-sensitive assets to liabilities					101.60%
Ratio of interest rate sensitivity gap to net worth					14.41%

December 31, 2016

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 303,648,998	$ 13,621,567	$ 16,719,210	$ 65,246,623	$ 399,236,398
Interest rate-sensitive liabilities	163,766,946	148,972,674	66,453,129	20,884,794	400,077,543
Interest rate-sensitive gap	139,882,052	(135,351,107)	(49,733,919)	44,361,829	(841,145)
Net worth					36,171,130
Ratio of interest rate-sensitive assets to liabilities					99.79%
Ratio of interest rate sensitivity gap to net worth					(2.33%)

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank's Head Office and branches (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 are 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).

Interest Rate Sensitivity
December 31, 2017

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 727,760	$ 144,129	$ 512,407	$ 1,667,860	$ 3,052,156
Interest rate-sensitive liabilities	1,226,308	300,065	475,541	352,259	2,354,173
Interest rate-sensitive gap	(498,548)	(155,936)	36,866	1,315,601	697,983
Net worth					49,704
Ratio of interest rate-sensitive assets to liabilities					129.65%
Ratio of interest rate sensitivity gap to net worth					1,404.28%

December 31, 2016

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 89,734	$ 53,035	$ 118,086	$ 2,290,955	$ 2,551,810
Interest rate-sensitive liabilities	978,992	248,275	376,550	337,223	1,941,040
Interest rate-sensitive gap	(889,258)	(195,240)	(258,464)	1,953,732	610,770
Net worth					33,054
Ratio of interest rate-sensitive assets to liabilities					131.47%
Ratio of interest rate sensitivity gap to net worth					1,847.79%

Note 1: The above amounts included only U.S. dollar amounts held by the Bank's Head Office, domestic branches, OBU and overseas branches 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 are 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)

c. Liquidity risk

1) Profitability

(%)

Items		Year Ended December 31, 2017	Year Ended December 31, 2016
Return on total assets	Before income tax	0.62	0.64
	After income tax	0.50	0.51
Return on equity	Before income tax	8.02	9.28
	After income tax	6.55	7.46
Net income ratio		22.18	22.16

Note 1: Return on total assets = Income before (after) income tax ÷ Average total assets

Note 2: Return on equity = Income before (after) income tax ÷ Average equity

Note 3: Net income ratio = Income after income tax ÷ Total net revenues

Note 4: Income before (after) income tax represents income for the years ended December 31, 2017 and 2016.

2) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2017

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 480,358,390	$ 115,895,675	$ 33,432,390	$ 46,879,896	$ 86,634,132	$ 197,516,297
Main capital outflow on maturity	560,344,544	64,889,855	69,540,305	73,713,185	149,777,827	202,423,372
Gap	(79,986,154)	51,005,820	(36,107,915)	(26,833,289)	(63,143,695)	(4,907,075)

December 31, 2016

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 437,112,956	$ 111,586,563	$ 28,350,870	$ 38,197,116	$ 74,328,205	$ 184,650,202
Main capital outflow on maturity	529,154,086	55,838,927	52,344,727	62,887,509	137,719,453	220,363,470
Gap	(92,041,130)	55,747,636	(23,993,857)	(24,690,393)	(63,391,248)	(35,713,268)

Note: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance sheet amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

Maturity Analysis of Assets and Liabilities
December 31, 2017

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 3,323,479	$ 483,526	$ 466,456	$ 168,450	$ 512,438	$ 1,692,609
Main capital outflow on maturity	2,929,180	1,135,576	510,754	343,293	532,066	407,491
Gap	394,299	(652,050)	(44,298)	(174,843)	(19,628)	1,285,118

December 31, 2016

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 2,734,149	$ 126,023	$ 91,909	$ 59,878	$ 115,787	$ 2,340,552
Main capital outflow on maturity	2,346,293	1,059,256	245,393	269,163	401,994	370,487
Gap	387,856	(933,233)	(153,484)	(209,285)	(286,207)	1,970,065

Note: The above amounts are book value of the assets and liabilities held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

51. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau for the Bank and its investees:

a. Related information of significant transactions and investees and (b) proportionate share in investees:

1) Financing provided: The Company - not applicable; investee - Table 1 (attached)

2) Endorsement/guarantee provided: None

3) Marketable securities held: The Company - not applicable; investee - Table 2 (attached)

4) Marketable securities acquired and disposed of at costs or prices of at least $300 million or 10% of the paid-in capital: None

5) Acquisition of individual real estate at costs of at least $300 million or 10% of the paid-in capital: Table 3 (attached)

6) Disposal of individual real estate at costs of at least $300 million or 10% of the paid-in capital: None

7) Allowance of service fees to related parties amounting to at least $5 million: None

8) Receivables from related parties amounting to at least $300 million or 10% of the paid-in capital: Table 4 (attached)

9) Sale of nonperforming loans: None

10) Asset securitization under the "Regulations for Financial Asset Securitization": None

11) Other significant transactions which may affect the decisions of users of financial reports: Table 5 (attached)

12) Names, locations and other information of investees on which the Bank exercises significant influence: Table 6 (attached)

13) Derivative transactions: Note 8

b. Investment in Mainland China: None

c. Intercompany relationships and significant intercompany transactions.

The detailed information of intercompany relationships and significant intercompany transactions are referred to Table 7 (attached).

52. OPERATING SEGMENTS

The information reported to the Company's chief operating decision makers for the assessment of segment performance focuses mainly on operation and profitability. The Company's reportable segments are as follows:

a. Corporate banking unit: Corporate banking, foreign exchange business, debt management and public treasury business, etc.

b. Consumer banking unit: Consumer banking, financial management and loan business, credit card business and car-loan business, etc.

c. Wealth management and trust unit: Wealth management and trust business, etc.

d. Investing unit: Investing business in the financial market, etc.

e. Leasing unit: Leasing of vehicles, buildings, etc.

The analysis of the Bank's operating revenue and results by reportable segment was as follows:

	For the Year Ended December 31, 2017						
	Corporate Banking	Consumer Banking	Wealth Management	Investing	Leasing	Others	Total
Net interest (Note)	$ 1,175,116	$ 2,644,847	$ (218)	$ 1,424,301	$ (94,859)	$ 1,553,813	$ 6,703,000
Net commissions and fees revenues	118,891	882,967	942,673	122,926	(666)	231,226	2,298,017
Net revenues other than interest	120,443	(1,024)	4,682	664,553	2,338,384	343,310	3,470,348
Total net revenues	1,414,450	3,526,790	947,137	2,211,780	2,242,859	2,128,349	12,471,365
Provisions (reversal)	(43,264)	105,598	-	220,737	-	73,790	356,861
Operating expenses	697,608	2,500,534	543,350	192,373	2,042,365	2,751,703	8,727,933
Income before income tax	$ 760,106	$ 920,658	$ 403,787	$ 1,798,670	$ 200,494	($ 697,144)	$ 3,386,571

	For the Year Ended December 31, 2016						
	Corporate Banking	Consumer Banking	Wealth Management	Investing	Leasing	Others	Total
Net interest (Note)	$ 1,169,036	$ 2,508,959	$ (286)	$ 1,452,931	$ (98,413)	$ 1,436,041	$ 6,468,268
Net commissions and fees revenues	107,952	636,668	1,094,059	160,161	(1,015)	425,664	2,423,489
Net revenues other than interest	531,466	(6,102)	3,553	416,710	2,251,983	(77,707)	3,119,903
Total net revenues	1,808,454	3,139,525	1,097,326	2,029,802	2,152,555	1,783,998	12,011,660
Provisions (reversal)	(18,109)	(12,182)	-	(32,240)	-	234,073	171,542
Operating expenses	771,806	2,331,776	544,057	198,413	1,950,717	2,732,562	8,529,331
Income before income tax	$ 1,054,757	$ 819,931	$ 553,269	$ 1,863,629	$ 201,838	($ 1,182,637)	$ 3,310,787

Note: Include interest revenue of financial assets at fair value through profit or loss.

ancial nt Account	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
									Item	Value		
f receivable	$ 2,119,696 (JPY 8,000,000)	$ 2,119,696 (JPY 8,000,000)	$ 1,716,636 (JPY 5,639,163) (US$ 7,453)	1.50	Business transaction	$ 2,119,696 (JPY 8,000,000)	-	$ -	-	$ -	$ 2,664,239	$ 2,664,239
f receivable	980,359 (JPY 3,700,000)	980,359 (JPY 3,700,000)	709,363 (JPY 2,677,225)	1.50	Business transaction	980,359 (JPY 3,700,000)	-	-	-	-	2,664,239	2,664,239
f receivable	1,722,253 (JPY 6,500,000)	1,722,253 (JPY 6,500,000)	1,464,978 (JPY 5,523,808) (US$ 46)	1.50	Business transaction	1,722,253 (JPY 6,500,000)	-	-	-	-	2,664,239	2,664,239
f receivable	503,428 (JPY 1,900,000)	503,428 (JPY 1,900,000)	388,398 (JPY 1,465,865)	2.75	Business transaction	503,428 (JPY 1,900,000)	-	-	-	-	2,664,239	2,664,239
f receivable	874,375 (JPY 3,300,000)	874,375 (JPY 3,300,000)	596,907 (JPY 2,252,804)	2.75	Business transaction	874,375 (JPY 3,300,000)	-	-	-	-	2,664,239	2,664,239

elationship	Limits on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	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	Note
ancial and Leasing ional Corporation sidiaries	$ 2,664,239	$ 746,200 (US$ 25,000)	$ 746,200 (US$ 25,000)	$ -	$ -	28.01	$ 2,664,239	Yes	No	No	

pe and Issuer/ Marketable Security	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2017				Note
			Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
es Corporation.	-	Available-for-sale financial assets	931	$ 8,101	0.06	$ 8,101	Note 4
rporation	-	Available-for-sale financial assets	356	6,646	0.12	6,646	Note 4
tion	-	Available-for-sale financial assets	4,551	143,129	1.13	143,129	Note 4
rman) Corp.	Subsidiary	Equity investment - equity method	50	517,572	100.00	517,572	Note 1
es Ltd.	Subsidiary	Equity investment - equity method	-	85,652	100.00	85,652	Note 1
ons Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33	1,415	Note 1
tes							
Global FI Portfolio Fund	-	Available-for-sale financial assets	6,614	100,088		100,088	Note 4
nce Fund	-	Available-for-sale financial assets	854	19,603		19,603	Note 4
Co., Ltd.	-	Unquoted equity instruments	2,646	23,411	14.70	29,319	Note 3
Co., Ltd.	-	Unquoted equity instruments	566	7,235	0.94	6,534	Note 2
tes							
Global FI Portfolio Fund	-	Financial assets at fair value through profit or loss	1,068	17,478		17,478	Note 4
sia Bond A	-	Financial assets at fair value through profit or loss	486	5,539		5,539	Note 4
ket	-	Financial assets at fair value through profit or loss	1,230	16,154		16,154	Note 4
nce Fund	-	Financial assets at fair value through profit or loss	575	13,215		13,215	Note 4
rich Countries HYBd A	-	Financial assets at fair value through profit or loss	800	8,894		8,894	Note 4
	-	Financial assets at fair value through profit or loss	1,006	24,919		24,919	Note 4
Fund	-	Financial assets at fair value through profit or loss	1,460	18,266		18,266	Note 4
nced A	-	Financial assets at fair value through profit or loss	1,001	12,326		12,326	Note 4
Fund	-	Financial assets at fair value through profit or loss	513	5,403		5,403	Note 4
Yield Bond A		Financial assets at fair value through profit or loss	1,451	15,194		15,194	Note 4
ding LP	-	Available-for-sale financial assets	900 units	US$ 917		US$ 917	Note 4

(Continued)

arketable Security	with Holding Company		Units (In Thousands)	Carrying Value	Ownership (%)	of Net Asset Value	
c.	-	Financial assets at fair value through profit or loss	17	US$ 2,945		US$ 2,945	Note 4
	-	Financial assets at fair value through profit or loss	12	US$ 658		US$ 658	Note 4
	-	Financial assets at fair value through profit or loss	14	US$ 516		US$ 516	Note 4
	-	Financial assets at fair value through profit or loss	119	US$ 148		US$ 148	Note 4
	-	Financial assets at fair value through profit or loss	5	US$ 320		US$ 320	Note 4
	-	Financial assets at fair value through profit or loss	10	US$ 389		US$ 389	Note 4
	-	Financial assets at fair value through profit or loss	18	US$ 15		US$ 15	Note 4
ling Limited	-	Unquoted equity instruments	1,667	$ 64,320	0.81	US$ 2,714	Note 2
gapore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 58,927	100.00	JPY 58,927	Note 5
pore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 66,975	100.00	JPY 66,975	Note 5
UCJ1	Subsidiary	Equity investment - equity method	9	JPY 470,173	30.55	JPY 470,173	Note 5
Kaisha SSG15	Subsidiary	Equity investment - equity method	Note 7	JPY 700,750	49.00	JPY 700,750	Note 5
Kaisha SSG15	Subsidiary	Equity investment - equity method	Preferred stock 15	JPY 729,300	51.00	JPY 729,300	Note 5
Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 9	JPY 1,013,159	51.00	JPY 1,013,159	Note 5
Kaisha SSG16	Subsidiary	Equity investment - equity method	Preferred stock 26	JPY 1,290,300	51.00	JPY 1,290,300	Note 5
UCJ1	Subsidiary	Equity investment - equity method	21	JPY 1,068,923	69.45	JPY 1,068,923	Note 5
Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 8	JPY 973,477	49.00	JPY 973,477	Note 5
Kaisha SSG16	Subsidiary	Equity investment - equity method	Note 6	JPY 1,239,750	49.00	JPY 1,239,750	Note 5

aving no quoted market prices. The net asset values of these companies were based on the following:

ents of stockholders' equity as of December 31, 2016.
n) Corp. - the audited statements of stockholders' equity as of December 31, 2017.

):

stockholders' equity as of December 31, 2017.

f stockholders' equity as of December 31, 2017.

olders' equity as of September 30, 2017.

shares.

shares.

shares.

(Concluded)

G TO AT LEAST NT$300 MILLION OR 10% OF THE PAID-IN CAPITAL

se)

Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
				Amount	Actions Taken		
ayman) Corp.	Subsidiary	$ 1,716,636 (JPY 5,639,163) (US$ 7,453)	-	$ -	-	$ -	$ -
ingapore) Holding Pte. Ltd.	Subsidiary	709,363 (JPY 2,677,225)	-	-	-	-	-
gapore) Holding Pte. Ltd.	Subsidiary	1,464,978 (JPY 5,523,808) (US$ 46)	-	-	-	-	-
a UCJ1 (Japan)	Subsidiary	388,398 (JPY 1,465,865)	-	-	-	-	-
a UCJ1 (Japan)	Subsidiary	596,907 (JPY 2,252,804)	-	-	-	-	-

December 31, 2017					December 31, 2016				
Nonperforming Loan (Note 1)	Loan	Ratio of Nonperforming Loan (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
$ 126,078	$ 82,684,315	0.15%	$ 1,331,768	884.88%	$ 94,244	$ 75,045,075	0.13%	$ 1,276,561	1,056.99%
24,424	70,604,009	0.03%			26,529	57,311,972	0.05%		
151,347	132,069,243	0.11%	1,654,526	1,093.20%	57,784	122,449,989	0.05%	1,543,728	2,671.55%
682	45,043	1.51%	2,153	315.69%	1,047	60,542	1.73%	2,579	246.32%
61,359	17,032,760	0.36%	208,107	339.16%	64,924	13,535,125	0.48%	167,511	258.01%
18,868	16,886,175	0.11%	205,264	1,051.72%	28,153	15,998,751	0.18%	206,915	713.04%
649	2,704,621	0.02%			866	2,836,563	0.03%		
383,407	322,026,166	0.12%	3,401,818	887.26%	273,547	287,238,017	0.10%	3,197,294	1,168.83%
Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)	Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
42,074	14,575,314	0.29%	91,701	217.95%	40,754	13,959,135	0.29%	98,445	241.56%
-	396,449	-	3,964	-	-	799,844	-	3,504	-

disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans."

e authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Outstanding loan balance.
rforming credit card receivables ÷ Outstanding credit card receivables balance.

for loans ÷ Nonperforming loans.
or possible losses for credit card receivables ÷ Nonperforming credit card receivables.

nd is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

9, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

ured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance on these accounts.

(Continued)

erforming eivable	Nonperforming Loan	Nonperforming Receivable
178,460	$ 56,493	$ 234,830
768,034	67,968	798,500
946,494	124,461	1,033,330

are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

rance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref.

(Concluded)

NVESTEES

Main Business and Product	Percentage of Ownership (%)	Carrying Value	Investment Gain (Loss)	Proportionate Share of the Bank and Its Subsidiaries in Investees: Shares (Thousands)	Proportionate Share of the Bank and Its Subsidiaries in Investees: Pro Forma Shares (Note 2)	Proportionate Share of the Bank and Its Subsidiaries in Investees: Total: Shares (Thousands)	Proportionate Share of the Bank and Its Subsidiaries in Investees: Total: Percentage of Ownership (%)	Note
llment, leasing and accounts receivable factoring	100.00	$ 2,664,239	$ 148,356	117,000	-	117,000	100.00	Note 3
rt and export accommodation	99.99	99,514	33,476	30,000	-	30,000	99.99	Note 3
rities investment trust	35.00	144,248	11,333	10,500	-	10,500	35.00	Note 3
vare and hardware product retail and distribution, stem programming development, system velopment outsourcing, website design, commerce, etc.	99.99	20,244	864	1,000	-	1,000	99.99	Note 3
rd	16.25	123,320	-	13,000	-	13,000	16.25	
hase, sale and management of nonperforming loans om financial institutions	0.57	75,000	-	7,500	-	7,500	0.57	
erty auction	2.94	50,000	-	5,000	-	5,000	2.94	
rities finance	0.53	20,055	-	2,103	-	2,103	0.53	
hase, sell and manage nonperforming loans from ancial institution	6.44	3,864	-	386	-	386	6.44	
gn exchange brokering	0.81	2,113	-	160	-	160	0.81	
mation service	2.39	118,782	-	12,498	-	12,498	2.39	
ncial service	0.25	13,916	-	899	-	899	0.25	
res clearing	2.04	71,250	-	6,422	-	6,422	2.04	
national trade, data processing service	1.00	6,000	-	600	-	600	1.00	
truction plan review and consulting	40.00	53,121	(326)	2,000	-	2,000	40.00	Note 3
stments	5.00	9,852	-	990	-	990	5.00	
stment	4.76	5,837	-	607	-	607	4.76	
rity service	5.00	1,501	-	125	-	125	5.00	
ricity-related business	0.0012	6,124	-	395	-	395	0.0012	

ited financial reports as of December 31, 2017.

vertible bonds, warrants, etc., or derivative contracts such as stock options, are converted to shares

CTIONS AMONG THE BANK AND SUBSIDIARIES

Counterparty	Flow of Transaction (Note 2)	Description of Transaction			
		Financial Statement Account	Amount	Trading Terms	Percentage of Total Revenue or Total Assets (Note 3)
C and its subsidiaries	a	Deposits and remittances - demand deposits	$ 64,209	Note 4	0.01
C and its subsidiaries	a	Deposits and remittances - checking deposits	17,327	Note 4	-
C and its subsidiaries	a	Deposits and remittances - time deposits	19,200	Note 4	-
ank	b	Due from banks	100,736	Note 4	0.02
C and its subsidiaries	a	Deposits and remittances - time deposits	4,038	Note 4	-
ank	b	Other assets	4,038	Note 4	-
C and its subsidiaries	a	Discounts and loans - short-term, secured	1,895,359	Note 4	0.34
ank	b	Call loans and due to other banks - call loans from banks	1,895,359	Note 4	0.34
C and its subsidiaries	a	Other operating expenses	11,558	Note 4	0.09
ank	b	Rental revenue	11,558	Note 4	0.09
C and its subsidiaries	a	Interest revenue	35,385	Note 4	0.28
ank	b	Interest expense	35,385	Note 4	0.28
C and its subsidiaries	a	Rental revenue	1,814	Note 4	0.01
ank	b	Other operating expenses	1,814	Note 4	0.01
C and its subsidiaries	a	Exchange loss	4,884	Note 4	0.04
ank	b	Exchange gain	4,884	Note 4	0.04
n Finance International (HK) Limited	a	Deposits and remittances - demand deposits	3,291	Note 4	-
ank	b	Due from banks	3,291	Note 4	-
	a	Deposits and remittances - demand deposits	23,442	Note 4	-
ank	b	Due from banks	23,442	Note 4	-
	a	Deposits and remittances - time deposits	1,088	Note 4	-
ank	b	Other financial assets	1,088	Note 4	-
	a	Other assets	29,238	Note 4	0.01
ank	b	Other liabilities	29,238	Note 4	0.01
	a	Other operating expenses	111,589	Note 4	0.89
ank	b	Net revenues other than interest	111,589	Note 4	0.89
C	a	Deposits and remittances - demand deposits	2,052	Note 4	-
C	a	Deposits and remittances - time deposits	29,700	Note 4	0.01
C	a	Deposits and remittances - checking deposits	2	Note 4	-
ank	b	Due from banks	31,754	Note 4	0.01
C	a	Deposits and remittances - time deposits	198,300	Note 4	0.04
ank	b	Other financial assets	198,300	Note 4	0.04
C	a	Interest expense	2,547	Note 4	0.02
ank	b	Interest revenue	2,547	Note 4	0.02
C	a	Commissions and fee revenues	18,050	Note 4	0.14
ank	b	Commissions and fee expenses	18,050	Note 4	0.14

	(Note 2)				Assets (Note 3)
	c	Amortization expense	$ 2,819	Note 4	0.02
	c	Other operating expenses	2,766	Note 4	0.02
	c	Advertisement expense	29	Note 4	-
n Capital (Cayman) Corp.	c	Receivables - receivables from related parties	1,729,517	Note 4	0.31
C	c	Payables - payables to related parties	1,729,517	Note 4	0.31
n Capital (Cayman) Corp.	c	Interest revenue	24,707	Note 4	0.20
C	c	Interest expense	24,707	Note 4	0.20
n Capital (Singapore) Holding PTE. Ltd.	c	Receivables - receivables from related parties	710,476	Note 4	0.13
n Capital (Cayman) Corp.	c	Payables - payables to related parties	710,476	Note 4	0.13
Capital (Singapore) Holding PTE. Ltd.	c	Receivables - receivables from related parties	1,477,284	Note 4	0.26
n Capital (Cayman) Corp.	c	Payables - payables to related parties	1,477,284	Note 4	0.26
n Capital (Singapore) Holding PTE. Ltd.	c	Interest revenue	10,920	Note 4	0.09
n Capital (Cayman) Corp.	c	Interest expense	10,920	Note 4	0.09
Capital (Singapore) Holding PTE. Ltd.	c	Interest revenue	22,350	Note 4	0.18
n Capital (Cayman) Corp.	c	Interest expense	22,350	Note 4	0.18
shiki Kaisha UCJ1	c	Receivables - receivables from related parties	388,750	Note 4	0.07
n Capital (Singapore) Holding PTE. Ltd.	c	Payables - payables to related parties	388,750	Note 4	0.07
shiki Kaisha UCJ1	c	Receivables - receivables from related parties	601,772	Note 4	0.11
Capital (Singapore) Holding PTE. Ltd.	c	Payables - payables to related parties	601,772	Note 4	0.11
shiki Kaisha UCJ1	c	Interest revenue	10,912	Note 4	0.09
n Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	10,912	Note 4	0.09
shiki Kaisha UCJ1	c	Interest revenue	15,784	Note 4	0.13
Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	15,784	Note 4	0.13

nn as follows:

otal consolidated assets.
ted divided by consolidated net income.

ted parties were similar to those for unrelated parties.

(Concluded)