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This Annual Report may be accessed on the Market Observation Post System (<http://newmops.tse.com.tw>) and on the Bank's Website (<http://www.ubot.com.tw>)

The English version of annual report is a brief translation and is not part of official document of the shareholder's meeting.

The Chinese version shall prevail if there is any difference between these two.

2017 Annual Report





I. Spokesman

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Second Spokesman

Name: Mr. Yanger Yang / Title: Department Manager

Tel.: 02-27180001

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II. Head Office/Domestic Branch, address, and telephone:

Please refer to page 168 ~171.

III. Stock Registration Office

Name: MasterLink Securities Corp.

Homepage: <http://www.masterlink.com.tw>

Address: B1, No.35, Ln. 11, Guangfu N. Rd., Taipei City

Tel: (02) 2768-6688

IV. Credit Ratings Institution

Name: Taiwan Ratings Corp.

Homepage: <http://www.taiwanratings.com.tw>

Address: 49F, No.7, Hsin-Yi Rd., Sec. 5, Taipei, Taiwan

Tel.: (02) 8722-5800

V. CPA for Financial Statement Auditing

Name: Mr. Vincent Cheng / Mr. Charles Yang

Company: Deloitte & Touche

Homepage: <http://www.deloitte.com.tw>

Address: 12F, No.156, Minsheng E. Rd., Sec. 3, Taipei, Taiwan

Tel.: (02) 2545-9988

VI. Offshore marketable securities exchange company and transaction information: None

VII. Homepage: <http://www.ubot.com.tw>

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1. Results of Operation for 2017

(1) Domestic and International Financial Environment

During year 2017, as global trading revived in the economic cycle, financial environment remained loose and commodity prices went back to the stable state, and the revival of advanced economies keep strengthening, people's confidence in the economics was boosted and thus helped them walk out of the shadow of deflation. Emerging and developing economies were also in the trend of strong growth. .

(2) Changes in Bank Organization

In May, 2017, the Bank set up the "Information and Communication Security Management Division" as the unit responsible for information safety under the IT department. It is in charge of formulating and executing information safety plans and the work of information safety protection.

(3) Business Plan, Results of Operations and Budget Execution Status

Thanks to the dedication of our employees, the Bank is pleased to report outstanding performance across the various areas of business in 2017. With regard to profitability, the Bank reported an after-tax net income of NT\$ 2.745 billion for the year ended December 31, 2017; earnings per share (EPS) was NT\$ 1.05, return on assets (ROA) was 0.51% and return on equity (ROE) was 6.55%. In terms of asset quality, the Bank was able to maintain sound asset quality, reporting an NPL ratio of 0.12% and bad debt coverage ratio of 887.26%.

For many years now, the Bank has developed its various business based on the strategies of maintaining consistent growth and dedicating to cultivation of local business. On January 18, 2018, Taiwan Ratings Corp. awarded our Bank its long- and short-term issuer credit rating for "twA" and "twA-1" respectively, and the outlook on the long-term rating is stable. According to the rating report of Taiwan Ratings Corp., the Bank has prudent capital policy and appropriate risk control, which can help the Bank's credit rating remain stable in the following one to two years. Taiwan Ratings Corp. expects that the Bank's market position, asset quality, fund source and liquidity structure, etc., should be able to remain similar to the current state.

(4) Revenue/Expenditure and Profitability

For the year ended December 31, 2017, the Bank reported a net interest income of NT\$ 6.685 billion, net non-interest income of NT\$ 3.603 billion and net profit of NT\$ 10.288 billion; after deducting net bad debts expense totaling NT\$ 0.357 billion and

Letter to Shareholders

operating expenses totaling NT\$ 6.618 billion, the before-tax income amounted to NT\$3.313 billion; the after-tax income amounted to NT\$ 2.745 billion.

2. Credit Rating

Rating Agency	Date of Rating	Rating Results		Outlook
Taiwan Ratings Corporation	Jan. 18, 2018	Long-Term: twA	Short-Term: twA-1	Stable

3. 2018 Business Plan

(1) Operating plan and important operating policy:

1. Deposit business: In response of the trend of E-payment business, the Bank will strengthen VISA debit card and account function (e.g., business of “EasyCard A/C LINK” and “Apple Pay Debit Card”), in order to provide depositors with overall payment tools. We will also expand the functions of ATM (“ATM interbank deposit” and “iPASS certificate saving” function) to provide customers with a variety of service. Beside, we will continue holding marketing campaigns for VISA debit card to increase customer loyalty and demand deposits, and arrange for deposit campaigns for target customers to attract demand deposits and new customers.
2. Corporate banking: The Bank will actively expand business loans to MIT enterprises and visit existing customers’ operating offices in the industrial region near the branches more often, in order to obtain more business from the introduction to upstream and downstream firms by the existing customers. The Bank will also give priority to undertake self-liquidating loans and factory loans for production and manufacturing in Taiwan, while increasing the protection of claims through the Credit Guarantee Fund and requesting collateral with good quality. In addition, the Bank will undertake more premium stock investing loans, develop customer source from foreign exchange and export/import business to increase the niche in foreign exchange business and market share.
3. Consumer banking: Promote housing loans stably and choose owner occupants who possess sound repayment capabilities; increase the business in second-hand and new car loans, and adjust the percentages for different loan types to increase the average lending rate; continue increasing the number of credit lending account officers and business centres to focus on premium customers; keep promoting credit loan products and design strategic products for overall marketing.
4. Credit card: Plan for cards targeted at young people to attract young new customers; increase application rate, rate of usage and market share; continue the derivative application and expansions of digital credit card products (e.g., channel

Letter to Shareholders

of Co-Brand Card companies, employee introduction and increasing online application rate), in order to increase market share; continue maintaining and strengthening the functions of premium cards to attract high-consumption customers and increase card usage rate; improve new customers' application rate of digital bills to lower the paper bill cost; actively engage in "Union Day" in virtual channels; cooperate with new credit card paying channels to increase card usage rate, amount credited and effective card rate; expand small-amount loans, control risk and increase revenue.

5. Wealth management, insurance agency and trust: Increase the sales of wealth management products; further develop relations with customers and enhance development of effective clients; combine big-data analysis and cooperate with insurance companies in analysing target customer groups and factors affecting sales based on different insurance product types, in order to increase selling efficiency; in response of the interest rate raise of US dollars and the significant interest rate gap between USD and NTD insurance policies, promote the sales of USD policies to create more insurance fee income.
6. Digital finance business: continue integrating excellent mobile banking service, establish the Bank's digital virtual bank, combine cash-flow related services like IC card, QR Code, LINE application, and convenient store channel, etc., plan for cross-device and cross-platform digital finance application, and follow the involvement of technology to devote relevant human labor to the research of new financial services such as AI, block chain technology, and bio-identification; increase the application of APPs for digital virtual bank (including digital deposit account) and the number of applicant; provide a customer-service system that meets safety control standards and are stable and expandable.
7. Securities: Further develop in the institutional customer group and the management, and increase accounts opened and sales; promote business in digital order and increase the percentage of digital trading.

(2) Channel development:

1. The Bank operates 90 domestic branches and has been granted approval by the Financial Supervisory Commission to set up our Hong Kong branch, which is a part of our plan to expand our business territory overseas in line with globalization of the financial market.
2. The Bank has expanded our ATM service network to offer customers more convenient services and through which we hope to enhance our corporate image and reputation. As of December 31, 2017, the Bank has installed a total 916 ATMs to service our clients.

(3) The Bank's 2018 business goals

1. Deposits expected to reach NT\$ 496.8 billion by year end.
2. Loans expected to reach NT\$ 352.7 billion (excluding credit cards) by year end.

Letter to Shareholders

3. Foreign exchange turnover is forecasted to reach US\$ 6.234 billion.
4. Improvement in business performance targets: including a suppressed NPL ratio or one that is lower than the industry average, improvement in capital level to meet the requirement of 2019 in accordance with IFRS and Basel III, and the maintenance of stable fund source and high-quality liquid assets in order to meet the standards of Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR).

4. External Factors and Future Development Strategies


In 2018, the economic conditions domestically and abroad have revived gently, increasing businesses' demand of fund. The interest rate spread bumped to the bottom but reversed, mainly due to the government's effort in the reward project for industry lending and the relieving atmosphere of international interest rate lead by US's interest rate raise. In addition, the adjustment in the lending structure of domestic banking industry helped expanding customer groups of small and medium enterprises, the growth of interest rate spread and revenue, and the control of customers' real needs. These are all positive influence factors to the operation of domestic banking industry. Overall, besides the reason mentioned above, the Financial Supervisory Commission (FSC) continues following the government's New Southbound Policy to actively assisting domestic financial firms in expanding oversea market in order to enhance the overall competitiveness of domestic financial service industry. The fact that emerging countries in Southeast Asia have plenty of room to develop financial market also attracts lots of domestic banks. The future market is expected to have significant development and growth in business.

To meet with the challenges of different variations in the future, the Bank will continue to adopt the strategy of growing in stability: to enhance market share and the scale of core profit-making business by exerting branch network and marketing strategies to improve business performance under the premise that risk is controllable; at the same time, stick to the spirit of servicing locally and establishing brand value for Union Bank of Taiwan, moving toward the goal of being an excellent bank and sustainable operation.


We are very grateful to you for your long-term patronage and strong support in the past. We will endeavor to present a marvelous feat of performance under the Bank's operating mottoes of "Enthusiasm, Soundness, Efficiency and Innovation" through improving the quality of service and strengthening customer-bank relationships. Your continued support and encouragement in the future would be much appreciated.

Yours sincerely,

Letter to Shareholders

董事長 李憲章 

Chairman Shiang-Chang Lee

總經理 林鴻鼎 

President Jeff Lin

1. Date of Establishment and History

Union Bank of Taiwan was the third private-owned bank approved by the government to be established in the awakening of banking liberalization and globalization. The founders of the Bank shared a common interest of running a perpetual business and together they set up the preparatory office on Mar. 29, 1989 and business operation initiated on Jan. 21, 1992. The Bank was officially listed on the OTC on Sep. 19, 1995 and the Taiwan Stock Exchange Corporate on Jun. 29, 1998, and has now become a widely acclaimed and recognized listed company. The Bank set up the Ho Chi Minh City Representative Office in Vietnam and Hong Kong Representative Office in Hong Kong on February 25, 1998 and August 24, 1999, respectively. To expand business channels and the scale of operations, the Bank acquired Chung Shing Bank unconditionally on March 19, 2005.

To integrate the overall resources, strengthen management, and exert operating synergy, the Bank merged with Union Insurance Broker Co., Ltd. as resolved by the Board of Directors on August 26, 2015, and obtained the approval of the Financial Supervisory Commission dated March 21, 2016. The merger was completed on August 1, 2016, in which Union Bank of Taiwan served as the surviving bank, which continue to provide service for the insured customers of the Union Insurance Broker. .

2. Merger, Acquisition, Reinvestment in Affiliated Enterprises and Corporate Restructure During 2017 and Current Year Up to the Printing Date of the Annual Report : None.

3. Is the Bank a Member Firm of a Specific Financial Holding Company?

The Bank is a commercial bank limited by shares, but not a member of a financial holding company.

4. Significant Transfers or Changes in Shareholding of Directors, Supervisors and Parties Required to Declare Ownership of Shares Under Paragraph 3, Article 25 of the Banking Act. Refer to “Transfer of Equity and Changes in Equity Used as Collateral by Directors, Supervisors, Managers, and Others Required to Report Equity in accordance with Paragraph 3, Article 25 of the Banking Act” of the “Corporate Governance Report”.

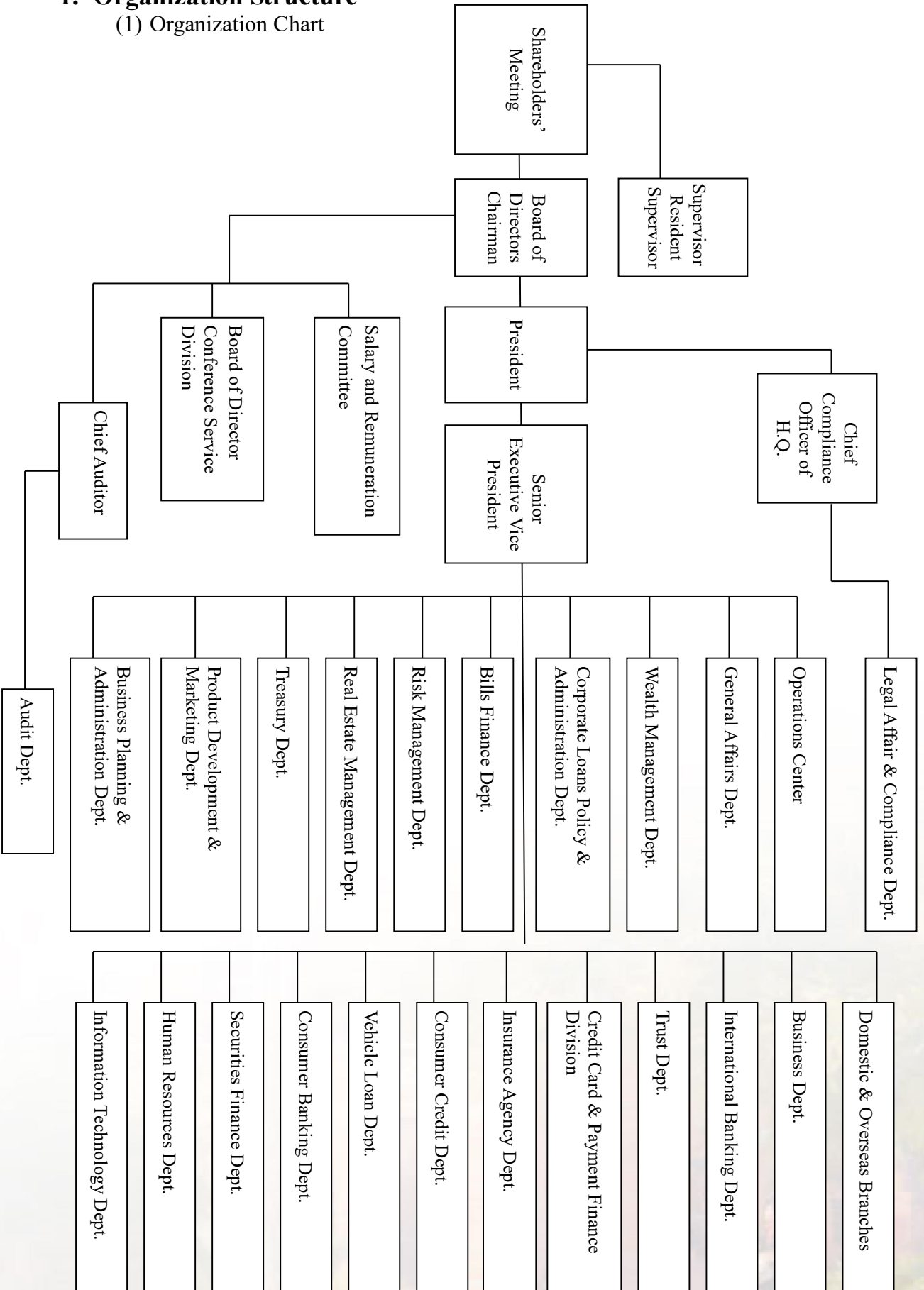
5. Changes in Management Rights, Management Mode or Other Significant Business Changes During 2017 and Current Year Up to the Printing Date of the Annual Report: None.

6. Other matters of material significance that could affect shareholders' equity and how such matters will affect the Bank: In order to fulfill operating capital and strengthen financial condition, the Bank first issued NT\$ 10 billion of preferred stock A and have successfully raised the funds. It was formally listed on Dec. 1, 2017.

Corporate Governance

1. Organization Structure

(1) Organization Chart



Corporate Governance

(2) Responsibilities of each department:

Audit Department:

Responsible for performing internal audit, planning internal controls systems and reviewing credit applications.

Business Planning & Administration Department:

Responsible for the Bank's organizational system, execution of budgets, risk management and deposit-taking and remittance businesses.

Product Development & Marketing Department:

Responsible for the planning and promotion of e-Commerce businesses.

Treasury Department:

Responsible for the Bank's fund appropriation and assets and liabilities management.

Real Estate Management Department:

Responsible for the appraisal of real estate collaterals and management of collateral received for loans.

Risk Management Department:

Responsible for managing the Bank's credit risks, market risks and operational risks.

Bills Finance Department:

Responsible for planning pursuing and managing the bills and bonds business.

Legal Affairs & Compliance Department:

Responsible for compliance affairs, processing of legal actions for the Bank, research of and advice on legal issues. Matters such as planning, supervision and compliance of anti-money laundering and countering the financing of terrorism.

Corporate Loan Policy & Administration Department:

Responsible for the promotion and management of corporate banking businesses.

Wealth Management Department:

Responsible for the promotion of wealth management businesses and administration of wealth management personnel.

General Affairs Department:

Response for the procurement of supplies, management of the bank's properties and acting as the bank's treasurer.

Operations Center:

Responsible for the establishment of files, disposition of transactional accounts and management of archives.

Information Technology Department:

Responsible for the design, execution and maintenance of the Bank's computer system.

Human Resources Department:

Responsible for planning human resources.



Corporate Governance

Securities Finance Department:

Responsible for entrusted trading, underwriting and purchase of marketable securities.

Consumer Banking Department:

Responsible for the promotion and management of consumer banking businesses.

Vehicle Loan Department:

Responsible for planning, promoting and managing the vehicle loan business.

Consumer Credit Department:

Responsible for the promotion and management of consumer credit businesses.

Credit Card & Payment Finance Division:

Responsible for the development of affairs related to credit cards and merchants, and processing of micro loans.

Trust Department:

Responsible for trust business, custodian banking and certification services.

International Banking Department:

Responsible for foreign exchange businesses and establishing and managing the overseas branches.

Insurance Agency Department:

Responsible for the promotion and management of insurance agency banking businesses.

Business Department:

Responsible for operating matters such as deposits, loans, exchange, agency, wealth management, safe deposit boxes and other businesses.

Corporate Governance

2. Information on Directors, Supervisors, and Executive Officers

(1) Directors and Supervisors A. General Information

Recordation Date: March 31, 2018 (Shares Holding Recordation Date: April 10, 2018)

Unit: Shares ; %:

Title	Name/Gender /Nationality T: Taiwan	Date of Elected	Term	Date of Initial Appointment	Shareholding at Appt. (Common Stock / Preferred Stock) Note2		Current Shareholding (Common Stock / Preferred Stock)		Current Shareholding of Spouse & Minor Children (Common Stock / Preferred Stock)		Shareholding Under Other's Title (Common Stock / Preferred Stock)		Experience & Qualification	Current Positions in the Bank and Other Company	Other Executive Officers, Directors or Supervisors Are Spouse or Within Second-degree Relatives of Consanguinity to Each Other		
					Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Title	Name	Relation
Chairman	Shiang-Chang Lee /M/T	2015.06.26	3 Yrs	1991.12.10	1,273,528	0.05%	1,349,939	0.04%	2,116,949	0.07%	-	-	National Taiwan University; President of UBOT	Union Finance International (HK) Director - Taiwan Futures Exchange supervisor	None	None	None
Independent Managing Director	Kao-Jing Wang /M/T	2015.06.26	3 Yrs	2009.06.19	-	-	-	-	-	-	-	-	Master's Degree, University of North Dakota; SEVP, Bank of Taiwan	Independent Director of Mechema Chemical International Corp.	None	None	None
Managing Director	Chen-Chern Investment Co., Representative: Zhen-Xong Jiang /M/T	2015.06.26	3 Yrs	2012.06.22	117,952,491	4.81%	125,029,640/ 4,245,959	4.45%/0.115%	2,598,056	0.09%	-	-	National Defense Medical School; Commissioner of International Rotary Club	.	None	None	None
Independent Director	Zen-Fa Lu /M/T	2015.06.26	3 Yrs	2009.06.19	-	-	-	-	-	-	-	-	4 th Judicial Training Program, The Judges and Prosecutors Training Institute; Prosecutor General of Supreme Prosecutors Office		None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date of Elected	Term	Date of Initial Appointment	Shareholding at Appt. (Common Stock / Preferred Stock) Note2		Current Shareholding (Common Stock / Preferred Stock)		Current Shareholding of Spouse & Minor Children (Common Stock / Preferred Stock)		Shareholding Under Other's Title (Common Stock / Preferred Stock)		Experience & Qualification	Current Positions in the Bank and Other Company	Other Executive Officers, Directors or Supervisors Are Spouse or Within Second-degree Relatives of Consanguinity to Each Other		
					Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Title	Name	Relation
Independent Director	Guo-Zhang Li /M/T	2015.06.26	3 Yrs	2015.06.26	28,802	-	-	-	-	-	-	-	National Taiwan University, Chairman of Union Bills Finance Corp..		None	None	None
Director	Yu-Quan Lee /M/T	2015.06.26	3 Yrs	2009.06.19	3,319,828	0.13%	3,519,017	0.12%	-	-	-	-	National Taiwan Normal University; Supervisor of First Commercial Bank	Manager and Chairman of TWT Communication Corp.; Director of Taiwan 1 st Media Co., Ltd.;	None	None	None
Director	Union Enterprise Construction Co., Ltd. Representative: Jeff Lin /M/T	2015.06.26	3 Yrs	1991.12.10	85,755,684	3.49%	90,901,025	3.24%	5,594,725	0.19%	-	-	Master's Degree, National Taiwan University; President of Union Bank of Taiwan	Supervisor of Union Recreation Enterprise Co., Ltd.; Director of The Liberty Times. Managing Director of Union Dyeing and Finishing Co., Ltd. Director of Kuosheng Investment Co.,Ltd. Director of Union Finance International (HK)	None	None	None
Director	Yu-Pang Co., Ltd. Representative: Sue-Feng Tsao /F/T	2015.06.26	3 Yrs	1994.06.01	35,823,584	1.46%	37,972,999	1.35%	3,535	-	-	-	Taipei Commercial Academy Director of Tien-Sheng Investment Co., Ltd.		None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date of Elected	Term	Date of Initial Appointment	Shareholding at Appt. (Common Stock / Preferred Stock) Note2		Current Shareholding (Common Stock / Preferred Stock)		Current Shareholding of Spouse & Minor Children (Common Stock / Preferred Stock)		Shareholding Under Other's Title (Common Stock / Preferred Stock)		Experience & Qualification	Current Positions in the Bank and Other Company	Other Executive Officers, Directors or Supervisors Are Spouse or Within Second-degree Relatives of Consanguinity to Each Other		
					Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Title	Name	Relation
Director	Chi-Shun Investment Co., Ltd. Representative: Jin-Fu Liu /M/T	2015.06.26	3 Yrs	2012.06.22	89,135,105	3.63%	97,059,211	3.46%	-	-	-	-	Taipei Technical Academy; Director of Li-Chang Ceramics Co., Ltd.	Director of Li-Chang Ceramics Co., Ltd.	None	None	None
Supervisor	Pao-Shing Investment Co., Ltd. Representative: (temporarily in vacancy)	2015.06.26	3 Yrs	2006.06.09	85,815,817	3.50%	90,964,766/ 5,586,760	3.24%/0.19%	-	-	-	-			Nobe	None	None

Corporate Governance

Title	Name/Gender /Nationality T:Taiwan	Date of Elected	Term	Date of Initial Appointment	Shareholding at Appt. (Common Stock / Preferred Stock) Note2		Current Shareholding (Common Stock / Preferred Stock)		Current Shareholding of Spouse & Minor Children (Common Stock / Preferred Stock)		Shareholding Under Other's Title (Common Stock / Preferred Stock)		Experience & Qualification	Current Positions in the Bank and Other Company	Other Executive Officers, Directors or Supervisors Are Spouse or Within Second-degree Relatives of Consanguinity to Each Other		
					Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio	Shares	Shareholding Ratio			Title	Name	Relation
Supervisor	Pai-Sheng Investment Co., Ltd. Representative: Si-Yong Lin /M/T	2015.06.26	3 Yrs	2015.06.26	125,454,092	5.11%	132,981,337/ 8,167,281	4.74%/ 0.29%	1,789,696	0.06%	-	-	National Taiwan Normal University Director of Hong-Bung Construction Enterprise Co., Ltd.	Director of Union Dyeing and Finishing Co., Ltd.; Director of Yeh-Shan Construction Co., Ltd.; Chairman of GreenIsland Hotel Co., Ltd.; Director of Jen-Yo Investment Co. Ltd.; Director of Sun-Che Investment Co., Ltd.; Supervisor of RSL Corporation.; Supervisor of Lung Shan Lin Realstate Management Corp.; Manager and Director of Hong-Bung Construction Enterprise Co., Ltd.; Director of Lung Shan Lin Construction Co., Ltd; Director of Kang-Hong investment Co., LtdSupervisor of Song-Mai investment;Chairman of Kuo-sheng investment Co., Ltd;Director of Pai-Sheng Investment Co., Ltd.; Director of Chu-Pao Investment; Supervisor of Lung Shan Lin Enterprise Co., Ltd.;Director of Union Bank of Taiwan; Director of Union Realstate Management Corp.;Director of Union Optronics Corp.	None	None	None

Corporate Governance

B. Major Institutional Shareholders

Name of Shareholder	Major Shareholders of Institutional Shareholder
Yu-Pang Co., Ltd.	Hong-Bang Lin, Jeff Lin
Union Enterprise Construction Co., Ltd.	Lin Chang Su-O, Hong-Yao Lin
Pao-Shing Investment Co., Ltd.	Chiu-Tze Lin, Hsiu-Ching Lee
Chen-Chern Investment Co., Ltd.	Tsong-Yu Lee, Hong-Yao Lin
Chi-Shun Investment Co., Ltd.	Jyh-Dong Chen, Union Enterprise Construction Co., Ltd.
Pai-Sheng Investment Co., Ltd.	Si-Yong Lin, Hsiu-Ching Lee

C. Major Shareholders of Institutional Shareholders

Name of Shareholder	Major Shareholders of Institutional Shareholder
Union Enterprise Construction Co., Ltd.	Lin Chang Su-O, Hong-Yao Lin

Corporate Governance

D. Professional Knowledge and Independence Information of Directors and Supervisors

Qualification Name	Over five years of experience in related fields and the following professional qualification (Note 1)			Independent Status (Note 2)										Serving as an independent director of other public companies
	(1)	(2)	(3)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Shiang-Chang Lee			√	√		√	√	√		√	√	√	√	-
Kao-Jing Wang			√	√	√	√	√	√	√	√	√	√	√	-
Zhen-Xong Jiang			√	√	√	√	√	√	√	√	√	√		-
Zen-Fa Lu		√	√	√	√	√	√	√	√	√	√	√	√	-
Guo-Zhang Li			√	√	√	√	√	√	√	√	√	√	√	-
Jin-Fu Liu			√	√	√	√	√	√		√	√	√		-
Yu-Quan Lee			√	√	√	√	√	√		√	√	√	√	-
Jeff Lin			√			√		√		√	√	√		-
Sue-Feng Tsao			√	√	√	√	√			√	√	√		-
Si-Yong Lin			√	√	√	√	√			√	√	√		-

Note 1: With over 5 years of work experience and the following professional qualification

- (1): Instructor, or higher up, of a public or private junior college, college or university, in Business, Law, Finance, Accounting or other departments as required by corporate business.
- (2): Judge, prosecutor, solicitor, Certified Public Account or professionally qualified and technical person as required by the company.
- (3): Experience in Business, Law, Finance, Accounting or as required by corporate business.

Note 2: Two years before the directors and supervisors are elected or during the period they are on the jobs, if they meet the following criteria, please make a “√” mark in the space under the criteria codes.

- (1): Not an employee of the Bank; nor an employee of its affiliated enterprises.
- (2): Not a director or supervisor of the Bank’s affiliated enterprises (Does not include the independent directors of the Bank’s parent company or subsidiaries in which the Bank holds more than 50% of the shares).
- (3): Not directly or indirectly own more than 1% of the Bank’s outstanding shares; nor is one of the top ten non-institutional shareholders of the Bank.
- (4): Not a spouse or within second-degree relation or third-degree immediate relation to any person specified in the preceding three criteria.
- (5): Not a director, supervisor, or employee of a legal entity which directly owns more than 5% of the Bank’s issued shares; nor a director, supervisor or employee of

Corporate Governance

the top five legal entities which are owners of the Bank's issued shares.

- (6): Not a director, supervisor, or manager of a company which has a business relationship with the Bank; nor a shareholder who owns more than 5% of such a company.
- (7): Not an owner, partner, director, supervisor, manager or spouse of any sole proprietor business, partnership, company or institution which has provided the Bank and its affiliates with financial, business consulting, or legal services. Excluding members of the remuneration committee that exercise powers in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
- (8): Not a spouse or within second-degree relation to other directors.
- (9): Not a person under the circumstances specified in Article 30 of the R.O.C. Company Act.
- (10): Not a government agency, juristic person or its representative pursuant to Article 27 of the R.O.C. Company Act.

E. Director and Supervisors' Training Records

Title	Name	Date of Training		Organizer	Course Name	Hours	Has the Director or Supervisor Met the Training Requirements ^{Note}
		From	To				
Chairman	Shiang-Chang Lee	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Chairman	Shiang-Chang Lee	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes
Independent Managing Director	Kao-Jing Wang	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Independent Managing Director	Kao-Jing Wang	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes

Corporate Governance

Title	Name	Date of Training		Organizer	Course Name	Hours	Has the Director or Supervisor Met the Training Requirements ^{Note}
		From	To				
Managing Director	Zhen-Xong Jiang	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Managing Director	Zhen-Xong Jiang	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes
Independent Director	Zen-Fa Lu	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Independent Director	Zen-Fa Lu	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes
Independent Director	Guo-Zhang Li	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes

Corporate Governance

Title	Name	Date of Training		Organizer	Course Name	Hours	Has the Director or Supervisor Met the Training Requirements ^{Note}
		From	To				
Independent Director	Guo-Zhang Li	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes
Director	Jin-Fu Liu	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Director	Jin-Fu Liu	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes
Director	Yu-Quan Lee	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Director	Yu-Quan Lee	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes
Director	Jeff Lin	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Director	Jeff Lin	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes

Corporate Governance

Title	Name	Date of Training		Organizer	Course Name	Hours	Has the Director or Supervisor Met the Training Requirements ^{Note}
		From	To				
Director	Sue-Feng Tsao	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Director	Sue-Feng Tsao	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes
Director	Si-Yong Lin	2017.06.26	2017.06.26	Taiwan Academy of Banking and Finance.	Board of Directors Practices and Corporate Governance Workshop (The legal responsibility of director and supervisor under Corporate Governance)	3	Yes
Director	Si-Yong Lin	2017.11.27	2017.11.27	Taiwan Academy of Banking and Finance	Board of Directors Practices and Corporate Governance Workshop (The analysis of regulation in AML and CFT)	3	Yes

Corporate Governance

(2) President, SEVP, Chief Auditor, EVP and Managers of Departments/Branches

Recordation Date: March 31, 2018 (Shares Holding Recordation Date: April 10, 2018)

Unit: Shares ; %

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other		
			Share	%	Share	%	Share	%			Title	Name	Relation
President	LIN, HONG-LIAN (Jeff Lin) /M/T	2006.08.02	5,594,725	0.19%	0	0	0	0	Master's Degree, National Taiwan University; SEVP of UBOT	Supervisor of Union Recreation Enterprise Corp.; Director of The Liberty Times; Executive Director of Union Dyeing and Finishing Co., Ltd. Union Finance International (HK) Director	None	None	None
SEVP	CHAN, YING-PO (Yin-Bor Chan) /M/T	2006.07.01	385,753/ 20,000	0.01%/ 0%	0	0	0	0	Tamkang University; EVP of UBOT	Supervisor of Union Finance & Leasing (International) Co., Ltd., ,	None	None	None
SEVP .	TU, HER-MAN (Herman Tu) /M/T	2006.07.01	233,506	0	0	0	0	0	Chinese Culture University; EVP of UBOT	Director of Union Securities Investment Trust Co., Ltd. Director of Union Finance & Leasing (International) Co., Ltd.	None	None	None
SEVP	LIU, CHENG-YU (Cheng-Yu Liu)/M/T	2010.07.01	42,749/ 20,000	0	0	0	0	0	Takming College EVP of UBOT	Director of Union Information Technology Co., Ltd. Director of Union Finance International (HK)	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other		
			Share	%	Share	%	Share	%			Title	Name	Relation
SEVP	HSU, WEI-WEN /M/T	2018.3.26	0	0	0	0	0	0	Master's Degree, N National Chengchi University, Director General of Bureau of Agricultural Finance,	-	None	None	None
Chief Auditor	KANG, KUO-PAO (Kuo-Pao Kang)/M/T	2010.11.01	34,874/ 2,141	0	0	0	0	0	National Chiao Tung University; VP & Branch Manager of E. Taipei Branch of UBOT	-	None	None	None
Chief Compliance Officer and VP & GM of Legal Affair and Compliance Dept.	CHEN, CHING-WEN /M/T	2017.06.01	22,425/ 10,000	0	0	0	0	0	Soochow University VP & Branch Manager of Nanking E.Branch of UBOT	-	None	None	None
EVP & GM of Consumer Banking Dept	HSIEH CHENG-JUH (Cheng-Juh Hsieh)/M/T	2017.07.01	312,139/ 65,000	0.01% /	0	0	0	0	Graduate School, University of South Australia, EVP & GM of Vehicle Loan Department	Director of Union Finance & Leasing (Int'l) Corporation, Director of Union Capital (Cayman) Corp, Director of New Asian Ventures Ltd.	None	None	None
SVP	CHIEN, HUNG-MING (Peter Chien)/M/T	2006.06.26	100,330/ 20,000	0	0	0	0	0	Panchiao Senior High School; VP & Branch Manager of Hsinchung Branch of UBOT	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
SVP & GM of Business Planning & Admin. Dept.	YANG, CHU-CHANG (Yanger Yang)/M/T	2006.06.22	31,425/ 28,930	0	0	0	0	0	0	Master's Degree, Tunghai University; VP and Deputy GM of Business Planning & Admin. Dept. of UBOT	Director of Lian-An Service Co. Ltd. & I Pass Corporation. Director of Euroc III Venture Capital. Corp.	None	None	None
VP & GM of Consumer Credit Dept.	TANG, PI-CHIU (Joy Tang)/F/T	2004.03.22	66,361	0	0	0	0	0	0	Master's Degree, Memphis State University; VP & Deputy GM of Consumer Banking Dept.	-	None	None	None
VP & GM of Trust Dept.	TSAI, HANN-TSAU (Hann-Tsau Tsai)/M/T	2006.06.22	253,012/ 10,000	0	2,005	0	0	0	0	Chung Yuan Christian University; VP & GM of Business Planning & Admin. Dept of UBOT	-	None	None	None
VP & GM of Wealth Management Dept.	HSU, TING-YU (Sophie Hsu)/F/T	2005.11.21	26,283/ 10,000	0	0	0	0	0	0	Master's Degree, Canada Royal University; Executive VP of Business Development Dept. of ING	Director of Union Securities Investment Trust Co., Ltd.	None	None	None
VP & GM of Securities Finance Dept.	YANG, HUI-CHIN/F/T	2013.03.20	0/ 3,000	0	0	0	0	0	0	Feng Jia University First Securities Fong Yuan Branch Manager	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & GM of Bills Finance Dept.	LEE, YAO-HSIEN (Yao-Hsien Lee)/M/T	2010.08.16	87,809/ 16,000	0	0	0	0	0	0	Feng Jia University Manager of Union Bills Finance Corp.	-	None	None	None
VP & GM of Treasury Dept.	CHENG, WEN-CHIH /M/T	2016.03.16	19,600	0	0	0	0	0	0	Feng Jia University; AVP & Division Head of Treasury Dept	-	None	None	None
VP & GM of Corporate Loans Policy & Admin. Dept.	LIU, CHUEH-LING /F/T	2014.4.01	31,913/ 10,000	0	0	0	0	0	0	Master's degree, George Washington University Deputy GM of Corporate Loans Policy & Admin Dept.				
VP & GM of Vehicle Loans Dept.	TU, SHUM-CHEN/ M/T	2017.07.01	10,175/ 12,000		4,000					National Chung Hsing University,;AVP & Division of Vehicle Loans Dept.				
VP & GM of Real Estate Management Dept.	LI, JUN-NAN (Michael Lee)/M/T	2004.03.05	621/ 6,000	0	0	0	0	0	0	Master's Degree, National Cheng Chi University; VP & Branch Manager of Hueilong Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & GM of Product Development &Marketing Dept.	KAO, YI-CHUN (June Kao)/F/T	2015.08.01	6,275/ 20,000	0	0	0	0	0	0	National Cheng Chi University; AVP & Division Head of Wealth Management Dept.		None	None	None
VP & GM of Information Technology Dept.	YANG, FENG-JUNG (Luke Yang)/M/T	2006.07.01	90,833	0	0	0	0	0	0	Master's Degree, National Taiwan University; Deputy GM of IT Dept. of UBOT	Director of Union Information Technology Co., Ltd.	None	None	None
VP & GM of Human Resources Dept.	LIN, HSIAO-CHEN (Michael Lin)/M/T	1999.12.01	31,995	0	0	0	0	0	0	National Chung Hsing University; VP & Deputy GM of Human Resources Dept.Of UBOT	-	None	None	None
VP & GM of General Affairs Dept.	CHANG, YU-CHANG (Russell YC Chang)/M/T	2003.10.01	137,041	0	0	0	0	0	0	Taiwan Institute of Technology; VP & Deputy GM of General Affairs Dept.of UBOT	-	None	None	None
VP & GM of Operations Center	HSUEH, SHU-FENG (Shu-Feng Hsueh)/F/T	2005.09.06	23,598/ 10,000	0	2,149	0	0	0	0	National Cheng Chi University; AVP of Hsintien Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & GM of International Banking Department	TSENG, MENG -YUN (Connie Tseng)/F/T	2010.09.01	20,499/ 2,000	0	0	0	0	0	0	Master's degree of National University, USA CA; VP of International Banking Dept. and OBU, Jih Sun Commercial Bank	Director of Union Finance International (HK)	None	None	None
VP & GM of Branch of OBU and Rep. of Hong Kong Rept. Office & Ho Chi Minh Rept. Office	LU, MEI-CHIH (Lisa Lu)/F/T	2010.09.01	53,148/ 8,000	0	0	0	0	0	0	MBA University of Birmingham, UK; AVP of OBU and representative of Hong Kong Representative Office & Ho Chi Minh Representative Office (FRM)	-	None	None	None
VP & GM of Credit Card & Payment Finance Division	HSIUNG, LING-JUNG/F /T	2016.06.15	0	0	0	0	0	0	0	Master's degree of New Jersey Institute of Technology; SVP of Citibank	Director of I Pass Corporation. Supervisor of Union Information Technology Co., Ltd	None	None	None
VP & GM of Risk Management Department	CHANG, HUEI-WEN /F/T	2016.08.24	15,440/ 2,000	0	0/ 2,000	0	0	0	0	Tamkang University; AVP & Division Head of Risk Management Dept.				

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
Insurance Agency Department	LEE, Kuan-Hong /M/T	2017.12.01	11,403/ 10,700	0	0	0	0	0	0	Tamkang University; VP & Branch Manager of Tenshin Branch				
VP & Branch Manager of Taipei Branch	Jane Lu /F/T	2017.06.01	54,579	0	0	0	0	0	0	Master' s Degree, University of Illinois; VP & Branch Manager of Chunghsiao Branch	-	None	None	None
VP & GM of Business Dept	Jen-Chung Cheng/M/T	2013.05.16	24,651/ 1,513	0	0	0	0	0	0	National Cheng Chi University; VP & Branch Manager of Taoyuan Branch	-	None	None	None
EVP & Branch Manager of Taoyuan Branch	Ching-Shou Liu /M/T	2013.05.16	43,360/ 45,663	0	0	0	0	0	0	National Taipei College of Commerce-Open Junior College of Commerce VP & Branch Manager of Taoying Branch	-	None	None	None
VP & Branch Manager of Taichung Branch	Hung-Min Chen /M/T	2017.12.01	34,427/ 16,114	0	244/ 26,000	0	0	0	0	Feng Chia University; VP & Branch Manager of Wugu Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Nanking E. Road Branch	Jeffery Tsai /M/T	2017.06.01	43,355/ 29,662	0	0	0	0	0	0	Master's Degree, Fu Jen Catholic University; VP & Branch Manager of Hsinchuang Branch	-	None	None	None
VP & Branch Manager of Chungli Branch	Chang-Yung Chen/M/T	2017.12.01	21,252/ 1,305	0	0	0	0	0	0	Feng Chia University; VP & Branch Manager of Gaorong Branch	-	None	None	None
VP & Branch Manager of Sanchung Branch	Chia-Wei Lin/M/T	2015.11.16	13,792/ 14,000	0	0	0	0	0	0	Tung Hai University; VP & Branch Manager of Breeze Mini Branch	-	None	None	None
VP & Branch Manager of East Taipei Branch	Yeong-Jin Hwang/M/T	2017.06.01	20,783	0	0	0	0	0	0	Master's Degree, University of Dallas. VP & Branch Manager of Luchu Branch	-	None	None	None
VP & Branch Manager of Kaohsiung Branch	Feng-Li Lin /F/T	2017.12.01	50,480	0	0	0	0	0	0	Feng Chia University; VP & Branch Manager of Lingya Branch	Director of I Pass Corporation	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Panchiao Branch	Jacky Liao /M/T	2009.04.01	15,455/ 16,000	0	0	0	0	0	0	Chungyu Institute of Technology; Deputy manager of Taipei Corporate Banking Center	-	None	None	None
VP & Branch Manager of Tainan Branch	Yu-Show Hsu/F/T	2017.12.01	30,957	0	0/ 20,000	0	0	0	0	Kun Shan University; VP & Branch Manager of South Tainan Branch	-	None	None	None
VP & Branch Manager of Yuanlin Branch	Wen-Jui Chou /M/T	2013.04.01	15,932	0	0	0	0	0	0	Master's Degree, Tamkang University; Branch manager of Minchuan Branch of Bill Finance Dept.	-	None	None	None
VP & Branch Manager of Jenai Branch	Wendy Chi /F/T	2009.11.16	66,932	0	0	0	0	0	0	Master's Degree, University of Texas; VP & Branch Manager of Kungkuan Branch	-	None	None	None
VP & Branch Manager of Nankan Branch	Ru-Ji Cheng M/T	2017.03.21	19,169/ 10,000	0	0	0	0	0	0	Feng Chia University; VP & Branch Manager of Hueilong Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Hsinchu Branch	Cheng-Hsien Tseng /M/T	2017.05.15	11,769/ 6,722	0	0	0	0	0	0	Tamsui Oxford College; VP & Deputy Branch Manager of Hsinchu Branch	-	None	None	None
VP & Branch Manager of Luchou Branch	Fei-Kun Lin /M/T	2017.06.01	21,654/ 21,329	0	0	0	0	0	0	Tamkang University;. VP & Manager of Taipei Corporate Banking Center	-	None	None	None
VP & Branch Manager of Chiujou Branch	Ya-Yun Yang /F/T	2017.03.27	6,103	0	0	0	0	0	0	National Kaohsiung University of Applied Sciences; AVP & Division Head of Kaohsiung Branch	-	None	None	None
VP & Branch Manager of Shuanho Branch	Chang-Chen Lin/M/T	2012.07.09	16,230/ 4,000	0	0	0	0	0	0	National Taiwan University VP & Branch Manager of Hsintien Branch	-	None	None	None
VP & Branch Manager of Hueilong Branch	Kuang-Yi Kuo /M/T	2017.12.01	26,000/ 11,596	0	0/ 4,000	0	0	0	0	Tamkang University; AVP & Division Head of Tenshin Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other		
			Share	%	Share	%	Share	%			Title	Name	Relation
VP & Branch Manager of Chiayi Branch	Liang- Kuei Kuo/M/T	2013.08.12	0	0	0	0	0	0	Master of National Yunlin University of Science and Technology; Tainan Branch manager of J.P.Morgan Asset Management	-	None	None	None
VP & Branch Manager of Kungkuang Branch	Fang-Ni Wang/F/T	2014.4.1	18,643/ 5,000	0	0	0	0	0	Master's Degree, National Central University; AVP & Division Head of Corporate loans policy & Administration Dept.	-	None	None	None
VP & Branch Manager of Neili Branch	Shen-Yung Peng/M/T	2013.04.01	35,851	0	8,797	0	0	0	Ching Yun University; VP & Branch Manager of Tunhwa Branch	-	None	None	None
VP & Branch Manager of Chunghsiao Branch	Zhi-Zhong Zhang/M/T	2017.06.01	4,173/ 100,000	0	0	0	0	0	National Chao Tung University; VP & Branch Manager of East Taipei Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Hsinchuang Branch	Wen-Shien Chu /M/T	2017.06.01	21,510/ 20,000	0	0	0	0	0	0	Fu Jen Catholic University; VP & Deputy General Manager of the Law and Compliance Dept.	-	None	None	None
VP & Branch Manager of Fengshan Branch	Miao-Hui Yeh /F/T	2017.12.01	97,612	0	0	0	0	0	0	Master's Degree, New York University; VP & Branch Manager of North Kaohsiung Branch	-	None	None	None
VP & Branch Manager of Taoying Branch	Jyh-Chiang, Huang /M/T	2013.05.16	72,402	0	16,422/ 5,008	0	0	0	0	National Chiao Tung University VP & Branch Manager of Dajhu Branch	-	None	None	None
VP & Branch Manager of Lungtan Branch	Lawrence Chen /M/T	2009.12.01	40,095	0	0	0	0	0	0	Master's Degree, National Central University; VP & Branch Manager of Neili Branch	-	None	None	None
VP & Branch Manager of Hsintien Branch	Shih-Shien Chene /M/T	2012.07.09	6,026	0	0	0	0	0	0	National Taiwan University of Science and Technology; Sindian Branch Manager of Yuanta Bank	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Tatze Branch	Tereasa Lin /F/T	2009.01.01	20,554/ 7,262	0	0	0	0	0	0	Chihlee Institute of Technology; Head of Jenai Consumer loan center, Consumer Banking Dept.	-	None	None	None
VP & Branch Manager of Chungshan Mini Branch	Ye-Yan Lin /F/T	2013.11.25	15,984/ 8,981	0	0	0	0	0	0	Shih Chien University, Manager of Business Dept.	-	None	None	None
VP & Branch Manager of Wenshin Branch	Ta-Yu Chin /M/T	2017.12.01	46,345/ 12,846	0	0	0	0	0	0	Tamkang University; VP & Branch Manager of Fongyuan Branch	-	None	None	None
VP & Branch Manager of Chienshin Branch	Tawei Shih /M/T	2009.12.06	20,006/ 20,000	0	0	0	0	0	0	Master's Degree, Tamkang University; VP & Branch Manager of Hsinchu Branch	-	None	None	None
VP & Branch Manager of Chungho Branch	Wen-Hui Lin /M/T	2017.12.01	51,983/ 19,192	0	0	0	0	0	0	Tamkang University University; VP & Branch Manager of Yongchun Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other		
			Share	%	Share	%	Share	%			Title	Name	Relation
VP & Branch Manager of Neihu Branch	CM Hwang /M/T	2011.11.01	347,310/ 4,000	0.01%	0	0	0	0	Chung Yuan Christian University; VP & Branch Manager of Hoping Branch	-	None	None	None
VP & Branch Manager of Dayuan Branch	Chang-Yung Chen /M/T	2017.12.01	174,851/ 10,738	0	0	0	0	0	National Taipei College of Commerce- Open Junior College of Commerce; VP & Branch Manager of Chungli Branch	-	None	None	None
VP & Branch Manager of Yungho Branch	Chun-Hsien Chang /M/T	2017.12.01	502/ 6,000	0	0	0	0	0	National Chung-Shin University; Vice President & General Manager of Insurance Agency Dept.	-	None	None	None
VP & Branch Manager of Chungkung Mini Branch	Shu-Huey Huang /F/T	2017.06.01	51,899	0	0	0	0	0	Lunghwa University of Science and Technology; Head of Hueilong Consumer loan center, Consumer Banking Dept.	-	None	None	None
VP & Branch Manager of Tonghwa Mini Branch	Liang-Wen Liu /M/T	2017.05.15	11	0	0	0	0	0	Yanping High School ; Junior Manager of Tonghwa Mini Branch .	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Shihung Branch	Hsiu-Yun Su /F/T	2017.12.01	19,399/ 17,191	0	0	0	0	0	0	Master's Degree, Dallas Baptist University; VP & Branch Manager of Yungho Branch	-	None	None	None
VP & Branch Manager of Breeze Center Mini Branch	Sheng-Hsiu Chou /M/T	2015.11.16	9,786/ 14,000	0	0	0	0	0	0	National Taipei College of Commerce; Head of Jenai Consumer loan center, Consumer Banking Dept	-	None	None	None
VP & Branch Manager of Changchun Branch	Ming-Tsan Hung /M/T	2016.08.29	12,334/ 5,000	0	0	0	0	0	0	Chinese Culture University; Junior Manager of Neihu Branch.	-	None	None	None
VP & Branch Manager of Sungchiang Branch	Chien-Lung Chen M/T	2013.11.25	107,273/ 14,588	0	0	0	0	0	0	Master's Degree, Aletheia University; VP & Branch Manager of Breeze Center Mini Branch	-	None	None	None
VP & Branch Manager of Taan Branch	Chien-Hui Li/M/T	2011.11.01	14,947	0	0	0	0	0	0	Soochow University; Head of Jenai Loan Center, Consumer Banking Department	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Yungchi Branch	Candy Lin /F/T	2011.07.16	38,618/ 5,000	0	0	0	0	0	0	National Chung Hsing University; Head of Chunghsiao Loan Center, Consumer Banking Department	-	None	None	None
VP & Branch Manager of Wenlin Branch	Ju-Ling Kuo /F/T	2008.11.01	71,402	0	0	0	0	0	0	Takming College; VP & Deputy GM of Consumer Banking Dept.	-	None	None	None
VP & Branch Manager of Tungmen Branch	Cooper Kao /M/T	2015.11.16	44,139/ 16,710	0	416	0	0	0	0	Chinese Municipal Vocational School; Head of Chungho Loan Center Consumer Banking Dept	-	None	None	None
VP & Branch Manager of Tunhwa Branch	Gary Tsai /M/T	2013.04.01	13,249/ 1,243	0	0/ 50,000	0	0	0	0	Lunghwa University of Science & Technology; Head of Nanking E. Rd. Loan Center Consumer Banking Dept.	-	None	None	None
VP & Branch Manager of Hsihu Branch	Anita Hung /F/T	2016.03.21	16,565	0	513	0	0	0	0	Soochow University; AVP & Division Head of Business Dept.	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other		
			Share	%	Share	%	Share	%			Title	Name	Relation
VP & Branch Manager of Beitou Mini Branch	Wen-Chi Chiang /M/T	2014.11.17	10,896	0	6,958/ 10,000	0	0	0	National Chiao-Tong University; Head of Jenai Loan Center Consumer Banking Dept.	-	None	None	None
VP & Branch Manager of North Sanchung Branch	Shis-Wen Lu /M/T	2017.12.01	14,184	0	7,003	0	0	0	Takming Junior College of Commerce; VP & Branch Manager of Fuguo Branch	-	None	None	None
VP & Branch Manager of Houpu Branch	Chuen-Chour Li /F/T	2017.12.01	0/ 20,000	0	0	0	0	0	National Chung Hsing University; AVP & Division Head of East Taipei Branch	-	None	None	None
VP & Branch Manager of North Chungho Mini Branch	Vickie Chou /F/T	2016.03.21	25	0	0	0	0	0	Cheng Chi University; Vice President & Deputy Branch Manager of Chungho Branch	-	None	None	None
VP & Branch Manager of Fuguo Branch	Su-Yean Lo /M/T	2017.12.01	14,662	0	0	0	0	0	National Changhua Senior School of Commerce; VP & Branch Manager of Houpu Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Shulin Branch	Chao-Chuen Chuang /M/T	2016.05.17	12,926/ 10,793	0	0	0	0	0	0	Master' s degree, Fo Guang University; VP& Branch Manager of Wugu Branch	-	None	None	None
VP & Branch Manager of Hsichih Branch	Kun-Cheng Zhou /M/T	2017.12.01.	19,859/ 11,219	0	0/ 10,000	0	0	0	0	National Chung Hsing University; V.P. & Branch Manager of Tucheng Branch	-	None	None	None
VP & Branch Manger of North Taoyuan Branch	Kuo-Kuang Chou /M/T	2015.01.05	13,137/ 8,000	0	0/ 6,000	0	0	0	0	National Taipei College of Commerce- Open Junior College of Commerce ; Head of Daye Loan Center Consumer Banking Dept.	-	None	None	None
VP & Branch Manager of North Chungli Branch	James Tsai /M/T	2015.01.05	72,820	0	1,000	0	0	0	0	Tamkang University; VP & Branch Manager of North Taoyuan Branch	-	None	None	None
EVP & Branch Manager of North Taichung Branch	Jeng-Ping Liu /M/T	2017.12.01	32,673	0	0	0	0	0	0	Doctor' s Degree of Tunghai University; VP & Branch Manager of Minchuan Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other		
			Share	%	Share	%	Share	%			Title	Name	Relation
VP & Branch Manager of Minchuan Branch	Hui-Fen Chao /F/T	2017.12.01	101,317	0	0	0	0	0	Graduate School of National Yunlin University of Science and Technology ; VP & Branch Manager of North Taichung Branch	-	None	None	None
VP & Branch Manager of Hsitun Branch	Meng-Hsia Wu /F/T	2017.12.01	62,820	0	0	0	0	0	National Tsao-Tun Commercial & Industrial Vocational Senior High School; VP & Branch Manager of Taichung Branch	-	None	None	None
VP & Branch Manager of Shingchung Branch	Chien-Tsung Wu /M/T	2016.08.29	32,105	0	0	0	0	0	The Overseas Chinese Institute of Technology; VP & Branch Manager of Beitun Branch	-	None	None	None
VP & Branch Manager of Beitun Branch	Chen-Jen Chang /M/T	2017.06.01	20,040/ 3,000	0	0	0	0	0	Tonghai University; AVP & Deputy Manager of Minchuan Branch, Wealth Management Dept.	-	None	None	None
VP & Branch Manager of S. Yuanlin Branch	Wu-Yuan Chen /M/T	2005.03.19	51,543/ 20,000	0	0	0	0	0	Master's Degree, Dayeh University; Senior AVP of National Cash Card Dept.	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other		
			Share	%	Share	%	Share	%			Title	Name	Relation
VP & Branch Manager of East Chiayi Branch	Shan-Chih Yen /M/T	2005.03.19	61,319/ 17,766	0	3,542/ 6,217	0	0	0	Master's Degree, Chiayi University; Senior AVP of National Cash Card Dept.	Supervisor of Zhong-Guan Foods Enterprise Co., Ltd.	None	None	None
VP & Branch Manager of Fucheng Branch	Ping-Hui Lin /M/T	2017.12.01	22,796/ 20,000	0	0	0	0	0	Aletheia University; VP & Branch Manager of Tainan Branch	-	None	None	None
VP & Branch Manager of Fongyuan Branch	Amy Chung /F/T	2017.12.01	27,678/ 3,000	0	0	0	0	0	National Cheng Kung University; VP & Branch Manager of Wenshin Branch	-	None	None	None
VP & Branch Manager of Fuchiang Branch	Roger Chang /M/T	2017.12.01	0	0	0	0	0	0	National Open University; VP & Branch Manager of Kaiyuan Branch	-	None	None	None
VP & Branch Manager of Kaiyuan Branch	Alex Chiu /M/T	2017.12.01	074,200/ 4,557	0	0/ 5,000	0	0	0	Southern Taiwan University of Science Technology.; VP & Branch Manager of Fuchiang Branch.	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of South Tainan Branch	Huei-Jen Chiou /F/T	2017.12.01	22,545/ 3,384	0	0	0	0	0	0	National Kaohsiung Institute of Technology ;AVP & Division Head Of Law & Compliance Dept in South section.	-	None	None	None
VP & Branch Manager of Lingya Branch	Hsien-Ming Yen /M/T	2017.12.01	1,429	0	0	0	0	0	0	Feng Chia University; VP & Branch Manager of Fucheng Branch	-	None	None	None
VP & Branch Manager of North Kaohsiung Branch	Wen-Chian Chang/M/T	2017.12.01	10,000/ 614	0	10,000/ 614	0	0	0	0	Soochow University; VP & Branch Manager of Kaohsiung Branch	-	None	None	None
VP & Branch Manager of Sanmin Branch	I-Wen Ho /M/T	2017.12.01	5,858/ 16,000	0	0	0	0	0	0	Master's Degree, National Chung Hsing University;VP & Branch Manager of Wuchia Branch	-	None	None	None
VP & Branch Manager of Wuchia Branch	Miranda Tsai /F/T	2017.12.01	20,130/ 20,000	0	0	0	0	0	0	Tamkang University University ; VP & Branch Manager of Sanmin Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Pingtung Branch	Chi-Fang Chu /F/T	2014.03.19	11,026/ 8,000	0	0	0	0	0	0	Master's Degree, National Kaohsiung First University of Science and Technology; Manager of Pingtung Branch	-	None	None	None
VP & Branch Manager of Hoping Branch	Tsai-Ling Liao /F/T	2011.11.01	0	0	0	0	0	0	0	Taipei College of Commerce; VP & Branch Manager of Taan Branch	-	None	None	None
VP & Branch Manager of Yongchun Branch	Shiu-Lan Hsieh /F/T	2017.12.01	36,000/ 12,211	0	0	0	0	0	0	National Taipei College of Commerce- Open Junior College of Commerce; VP & Branch Manager of Linkou Branch	-	None	None	None
VP & Branch Manager of Tenshin Branch	Teh-Chin Tsai /M/T	2017.12.01	127,843/ 21,851	0	0	0	0	0	0	Kai Nan High School of Commercial and Industry; VP & Branch Manager of North Sanchung Branch	-	None	None	None
VP & Branch Manager of Ankang Branch	Chan-Kwei Chen /M/T	2009.12.01	73,653/ 8,523	0	0/ 4,000	0	0	0	0	Feng Chia University; VP & Branch Manager of Shihung Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other		
			Share	%	Share	%	Share	%			Title	Name	Relation
VP & Branch Manager of Dajhu Branch	Mei-Ling Lee /F/T	2013.05.16	28,510/ 8,000	0	0	0	0	0	Hsin Wu Business College, Senior AVP, Dajhu Branch	-	None	None	None
VP & Branch Manager of Gueishan Branch	Kuo-Yi Lu /M/T	2016.03.21	7,644/ 90,469	0	0/ 20,000	0	0	0	Tamsui Oxford University College; VP & Deputy Branch Manager of Taoyuan Corporate Banking Center	-	None	None	None
VP & Branch Manager of Linkou Branch	Cheng-Fa Huang /M/T	2017.12.01	13,907	0	0	0	0	0	Tamkung University; Manager of Linkou Branch	-	None	None	None
VP & Branch Manager of Wugu Branch	Yen-Jou Liu /M/T	2017.12.01	28,744	0	0	0	0	0	Shih Hsin Senior high School; VP & Branch Manager of Hsichih Branch	-	None	None	None
VP & Branch Manager of Gaorong Branch	I-Ho Ou /M/T	2017.12.01	12,232/ 14,000	0	21,040	0	0	0	National Chung Hsing University; AVP & Division Head of Gaorong Branch	-	None	None	None

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Daye Branch	Chien-Chou Chen /M/T	2017.12.01	17,421/ 15,060	0	0	0	0	0	0	Yuan Ze University; AVP & Division Head of Real Estate Management Dept , Taoyuan Center	-	None	None	None
VP & Branch Manager of Luzhu Branch	Chu-Shih Wei /M/T	2017.12.01	16,756/ 7,029	0	0	0	0	0	0	Feng Chia University ; VP & Branch Manager of Dayuan Branch	-	None	None	None
VP & Branch Manager of Tucheng Branch	Ching-Shyong Huang /M/T	2017.12.01	14,983	0	0/ 6,000	0	0	0	0	Fu Jen Catholic University; AVP of Hueilong Branch	-	None	None	None
VP & Branch Manager of South Taoyuan Branch	Chang-Fu Tsai /M/T	2010.03.30	17,001/ 1,044	0	0/ 20,000	0	0	0	0	Feng Jia University; AVP, SME Banking and Risk Management Dept., Standard Chartered Bank	-	None	None	None
VP & Branch Manager of JiSian Branch	Shih-Fu Liu /M/T	2015.08.01	25,564	0	4,256/ 14,000	0	0	0	0	Master's degree, Fu Jen Catholic University VP & Deputy Branch Manager of JiSian Branch	-			

Corporate Governance

Title	Name/Gender /Nationality T: Taiwan	Date Appointed	Shareholding (Common Stock /Preferred stock)		Shareholding of Spouse & Minor Children(Com mon Stock /Preferred stock)		Shareholding Under Others' Title(Commo n Stock /Preferred stock)		Education/Experience	Also Serve Concurrently As	Managers are Spouse or Within Second-degree of Consanguinity to Each Other			
			Share	%	Share	%	Share	%			Title	Name	Relation	
VP & Branch Manager of Sanxia Branch	Chia-Yu Chuo /F/T	2013.08.05	16,248/ 6,000	0	0	0	0	0	0	Master's degree, Yuan Ze University Head of Taoying Loan Center, Consumer Banking Department		None	None	
VP & Branch Manager of Donghu Branch	Chien-Chung Su /M/T	2014.01.07	11,187/ 14,867	0	0/ 100,000	0	0	0	0	Soochow University, VP & Deputy Branch Manager of Taipei Corporate Banking Center		None	None	

Note 1: The Nationality of President, SEVP, EVP and VP are Taiwan.

Note 2: The shares of Preferred Stock shows while occurs.

Corporate Governance

(3) Remuneration of Directors, Supervisors, President and SEVP for the Latest Fiscal Year A. Director's Remuneration

Unit: NT Dollar Thousand, December 31, 2017

Title	Name	Directors' Remuneration					Total of (A,B,C and D) as a % of Net profit after tax	Remuneration of Part-time Employees							Total of (A, B,C,D, E,F & G) as a % of Net profit after tax			
		Remuneration (A)	Termination payment and pension costs (B)	Remuneration (C)	Costs Incurred to Perform Duties(D)	Director's Remuneration (C)		Salaries, Bonus and Special	Termination payment and	Shares Issued for Employee Stock	Earnings Distribution for Employees' Bonus (G)	Stock Dividend	Cash Dividend	Cash Dividend				
																All Companies in the Consolidated Statement	All Companies in the Consolidated Statement	All Companies in the Consolidated Statement
Chairman	Shiang-Chang Lee																	286
Independent Managing Director	Kao-Jing Wang																	Nil
Managing Director	Chen-Chern Investment Co., Representative: Zhen-Xong Jiang																	Nil
Independent Director	Zen-Fa Lu	8,789																Nil
Director	Chi-Shun Investment Co., Representative: Jin-Fu Liu	8,789	0	0	2,494	2,494	0.52%											Nil
Director	Yu-Quan Lee																	Nil
Director	Union Enterprise Construction Co., Ltd. Representative: Jeff Lin																	Nil
Director	Yu-Pang Investment Co., Representative: Sue-Feng Tsao																	Nil
Director	Pao-Shing Investment Co., Representative: Zhen-Lu Lin																	Nil
Director	Pai-Sheng Investment Co., Representative: Si-Yong Lin																	Nil
Indepent Director	Guo-Zhang Li																	Nil

Note 1 : The latest annual surplus distribution proposal of the amount of the directors 'remuneration paid by the board of directors before the shareholders' meeting

Note 2: Remuneration to the driver amounted to NT\$744,000.

Note 3 : The employee bonus to President ,SEVP, Chief Auditor and Chief Compliance Officer be distributed as approved by the Board of Directors before the shareholders' meeting for the motion of distribution of earnings for the most recent year (the projected amount based on the proportion of distribution last year)

Corporate Governance

Remuneration Range

Unit: NT Dollar

Range of Remuneration Paid to Directors	Name of Directors			
	Total of A,B,C and D		Total of A, B,C,D, E,F & G	
	UBOT	All the Companies in the Consolidated Statement	UBOT	All the Companies in the Consolidated Statement
Less than 2,000,000	Kao-Jing Wang, Zhen-Xong Jiang, Zen-Fa Lu, Jin-Fu Liu, Yu-Quan Lee, Jeff Lin, Sue-Feng Tsao, Pao-Shing Investment Co.Ltd Si-Yong Lin, Guo-Zhang Li	Kao-Jing Wang, Zhen-Xong Jiang, Zen-Fa Lu, Jin-Fu Liu, Yu-Quan Lee, Jeff Lin, Sue-Feng Tsao, Pao-Shing Investment Co.Ltd Si-Yong Lin, Guo-Zhang Li	Kao-Jing Wang, Zhen-Xong Jiang, Zen-Fa Lu, Jin-Fu Liu, Yu-Quan Lee, Jeff Lin, Sue-Feng Tsao, Pao-Shing Investment Co.Ltd Si-Yong Lin, Guo-Zhang Li	Kao-Jing Wang, Zhen-Xong Jiang, Zen-Fa Lu, Jin-Fu Liu, Yu-Quan Lee, Jeff Lin, Sue-Feng Tsao, Pao-Shing Investment Co.Ltd Si-Yong Lin, Guo-Zhang Li
5,000,000 (inclusive) ~ 10,000,000 (non-inclusive)	Shiang-Chang Lee	Shiang-Chang Lee	Shiang-Chang Lee	Shiang-Chang Lee
Total	11	11	11	11

Corporate Governance

B. President, SEVP, Chief Compliance Officer & Chief Auditor's Remuneration and Range

Unit: NT Dollar Thousand, December 31, 2017

Title	Name	Remuneration (A)		Termination payment and pension costs (B)		Bonus & Special Allowance (C)		Employees' Bonus from Earnings (D)				Total of (A+B+C+D) as a % of Net profit after tax		Remuneration from Investee Companies Excluding Subsidiaries
		The Bank	All Companies in the Financial Statement	The Bank	All Companies in the Financial Statement	The Bank	All Companies in the Financial Statement	The Bank		All Companies in the Financial Statement		The Bank	All Companies in the Financial Statement	
								Cash Dividend	Stock Dividend	Cash Dividend	Stock Dividend			
President	Jeff Lin	12,858	12,858	5,147	5,147	4,305	4,305	561	0	561	0	0.83	0.83	Nil
SEVP	Yin-Bor Chan													
SEVP	Herman Tu													
SEVP	Cheng-Yu Liu													
Chief Auditor	Kuo-Pao Kang													
Chief Compliance Officer	Ching-Wen, Chen													
Chief Compliance Officer	Kao-Yao-Tsung													

Note1: The employee bonus to President, SEVP, Chief Auditor and Chief Compliance Officer be distributed as approved by the Board of Directors before the shareholders' meeting for the motion of distribution of earnings for the most recent year (the projected amount based on the proportion of distribution last year)

Note2: Remuneration to the Company's three drivers totalled NT\$ 2,169,000.

Unit: NT Dollar

Range of Remuneration Paid to President, SEVP, Chief Compliance Officer & Chief Auditor	Name of President, SEVP, Chief Compliance Officer & Chief Auditor	
	UBOT	All the Companies in the Financial Statement
Less than NT\$ 2,000,000	Jeff Lin, Ching-Wen Chen	Jeff Lin, , Ching-Wen Chen
NT\$2,000,000 (inclusive) ~ NT\$5,000,000	Herman Tu, Yin-Bor Chan, Cheng-Yu Liu, Kuo-Pao Kang,	Herman Tu, Yin-Bor Chan, Cheng-Yu Liu, Kuo-Pao Kang,
NT\$5,000,000 (inclusive) ~ NT\$10,000,000	Yao-Tsung Kao	Yao-Tsung Kao
Total	7	7

Corporate Governance

C. Bonus to Managers :

Unit NT Dollar Thousand, Dec 31 2017

Title	Name	Stock Dividend	Cash dividend	Total	Total as % of Net Profit after Tax
Please refer Page 1* to Page 38.		0	6,793	6,793	0.25

Note: The employee bonus to managers to be distributed as approved by the Board of Directors before the shareholders' meeting for the motion of distribution of earnings for the most recent year (the projected amount based on the proportion of distribution last year).

- (4) Analysis of Payments of Remuneration to Directors, Supervisors, President, Senior Executive Vice President and Chief Auditor, as a percentage of net profit after tax in the latest two years, Remuneration Policy, Standard and Combination, Procedure for determining remuneration and their relationship to operating results and future risk
- A. The remuneration paid to Directors, Supervisors, President, Senior Executive Vice President and Chief Auditor in 2016 is NT\$31,835,000 and its ratio to net profit after tax is 1.20%.
 - B. The remuneration paid to Directors, Supervisors, President, Senior Executive Vice President and Chief Auditor in 2017 is NT\$37,195,000 and its ratio to net profit after tax is 1.34%.
 - C. Remuneration paid to directors and supervisors primarily include meeting attendance fees and salaries. All remuneration is paid on a fixed basis. The President did not receive any form of remuneration. Remuneration to SEVPs and Chief Auditor was made in accordance with their respective experience, degree of business involvement and contribution, and compare with the salary and remuneration standard of the Industry peers. The salary and remuneration schedule will be submitted to the Board of Directors for resolution after it is examined by Salary and Remuneration Committee.
The Board is authorized to determine remuneration which is granted to the management pursuant to the Bank's Articles of Incorporations. In addition to monthly basic salaries and allowances, executives may also be eligible for the annual and the performance bonuses and the employee bonuses depending on the Bank's annual results of operation and individual performance. As such, remuneration to SEVPs and Chief Auditor is closely related to the Bank's operating performance. The occurrence of major risk events that may impair the Bank's goodwill, or incidents of deficiency in internal management, or employee fraud would vastly affect the amount of bonuses to SEVPs and the Chief Auditor. The Risk Management Dept. should report directly to the Board of Directors regarding the status of the Bank's risk control and risk exposure on a quarterly basis.

Corporate Governance

3. Execution of Corporate Governance

(1) Board of Directors

The Board of Directors held 6 meetings in 2017. The status of attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	p.s.
Chairman	Shiang-Chang Lee	6	0	100%	
Independent Managing Director	Kao-Jing Wang	6	0	100%	
Managing Director	Chen-Chern Investment Co., Representative: Zhen-Xong Jiang	6	0	100%	
Independent Director	Zen-Fa Lu	6	0	100%	
Independent Director	Guo-Zhang Li	5	1	83.33%	
Director	Yu-Quan Lee	2	0	33.33%	
Director	Union Enterprise Construction Co., Ltd. Representative: Jeff Lin	4	0	66.66%	
Director	Yu-Pang Investment Co., Representative: Sue-Feng Tsao	6	0	100%	
Director	Chi-Shun Investment Co., Representative: Jin-Fu Liu	5	0	83.33%	
Director	Pai-Sheng Investment Co., Ltd. Si-Yong Lin	6	0	100%	

Any other matters that require reporting:

1 Where any of the following circumstances have occurred during operations of the Board of Directors, the date, term, issue, all opinions of the independent director(s) and how the company handles it thereof:

(1) Matters listed in Article 14-3 of the Securities and Exchange Act:

Date	Session (term)	Content of the resolution	All opinions of the independent director(s) and how the company handles it thereof
January 18, 2017	The 12th meeting of the 9th term	1. Revise the Bank's "Policy on Legal Compliance". 2. Revise the Bank's "Principles Governing Corporate Governance Practices". 3. Renew the appointment of Deloitte Taiwan in 2017 to handle relevant matters to the Bank's financial statements and income tax settlement audit and declaration. 4. Revise the Bank's "internal control	Resolutions were adopted unanimously.

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		system". 5. "2017 operating budget and operating policy by business for the bank".	
March 22, 2017	The 13th meeting of the 9th term	<ol style="list-style-type: none"> 1. Revise the "Position and Loss Limit on Industry Credit Lending". 2. Revise the Bank's "Regulations governing the Management of Enterprise Group Credit Risk". 3. Revise the Bank's "Regulations Governing the Division of Authorities and Responsibilities on Credit Extensions for the Bank's Staff at All Levels" and authorization and operational rules for "TMU Derivatives Product Risk Limit". 4. Revise the "Standards for Foreign Currency Security Investment". 5. Revise the "Guidelines for the Bank's Concurrent Operation of Insurance Agent Business". 6. Revise the "Guidelines for Structural Investment Portfolio". 7. Revise the "Guidelines for Exchange Rate Swap Business between NTD vs. Foreign Currency/Foreign Currency vs. Foreign Currency". 8. Revise the "Procedures for Obtaining or Decomposing Assets". 9. Revise the "Credit Limit on Real Estate Collateral Loans". 10. Revise the "Standards for Capital Adequacy Management". 11. Submit the Bank's self-inspections of internal control system, the overall assessment inspection report made by the Auditing Department, and the auditing results for the whole year of 2016. 12. The Bank's 2016 Business Report and Financial Reports audited by a CPA. 13. The Bank's 2016 earning distribution. 14. Distribution of remuneration for employees and directors in 2016. 15. Revise the Bank's "Articles of Association". 16. Plan for long-term fund raising. 	Resolutions were adopted unanimously.
May 10, 2017	The 14th meeting of	<ol style="list-style-type: none"> 1. Revise the "internal audit operation of the Bank's concurrent operation of bonds proprietary business of the 	Resolutions were adopted unanimously.

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	the 9th term	<p>securities firms”.</p> <ol style="list-style-type: none"> 2. Revise the “internal control system of the Bank’s concurrent operation of securities firms”. 3. Revise the Bank's "Operational Procedures for Full Authorization of Investing Marketable Securities". 4. Revise the "Guidelines for recognition of non-performing loans, overdue receivables and bad debts in consumer credit business operation". 5. Revise the Bank’s “Organization Regulations”. 6. Revise the Bank’s “Articles of Association”. 7. Submit the Bank’s Consolidated Financial Report for the first quarter of 2017 audited by a CPA. 	
June 28, 2017	The 15th meeting of the 9th term	<ol style="list-style-type: none"> 1. Revise the internal control system of the Bank’s concurrent operation of securities firms in the futures introducing broker business. 2. “Submission and Report of the Bank’s ‘Information that Should be Declared in Compliance with the Principle of Supervision and Management’ for 2017”. 3. Preparation of the Bank’s shares issuance by cash of Registered Series A Preferred Stock. 	The resolution was adopted unanimously.
August 23, 2017	The 16th meeting of the 9th term	<ol style="list-style-type: none"> 1. Revise the internal control system of the Bank’s concurrent operation of securities firms. 2. Revise the Bank's "Pricing Policy on Consumer Credit Business". 3. Revise the Bank's "Performance Review Procedures of Vehicle Loan Business". 4. Revise the "Manual for OBU Business". 5. Revise the Bank's "Guidelines for Issuing Financial Bond". 6. Revise the Bank's "Banking Book Interest Rate Risk Management Policy". 7. Proposal of applying to the FSC in increasing domestic branches. 8. Revise the Bank's "Audit Committee 	<p>The left Item 1. ~2., 4. ~6. and 8.~15 : Resolutions were adopted unanimously.</p> <p>The left Item 3. Independent Managing Director Kao-Jing Wang: has no explicit opinions but suggests future revisions referred to the</p>

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		<p>Foundation Rules" and "Parliamentary Rules for Directors' Meetings".</p> <p>9. Revise the Bank's "Rules for Ethical Conducts of Directors and Managers".</p> <p>10. Revise the Bank's "Work Rules".</p> <p>11. Revise the Bank's "Policy for Fair Treatment of Customers" and the "Implementation Strategy for Fair Treatment of Customers".</p> <p>12. Revise the Bank's "Execution Guidelines for Legal Compliance System".</p> <p>13. Revise the Bank's "Money Laundering and Terrorist Financing Risk Assessment and Control Policy" and "Risk Assessment Report and Risk Control Project".</p> <p>14. Revise the Bank's "Internal Auditing System".</p> <p>15. Submit the Bank's Business Report and Consolidated Financial Report for the first half of 2017 audited by a CPA.</p>	<p>industry practice.</p> <p>The Bank's handling situation: Will take notice and revise it in the future.</p> <p>The left Item 7. Independent Managing Director Kao-Jing Wang: Shall we first move the branches with poorer performance?</p> <p>The Bank's handling situation: Since the branch locations in the application this time do not include Taipei and New Taipei City, in order to establish a complete channel in Taiwan, besides proposing the application we will evaluate the moving of branches with poor performance or nearby locations.</p>
November 8, 2017	The 17th meeting of the 9th term	1. Revise the Bank's "Operational Procedures for Full Authorization of Investing Marketable Securities".	The left Item 1. ~12., 14. And 15.:

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			<ol style="list-style-type: none"> 2. Revise the procedures for Derivatives Trading by the Bank. 3. Revise the Bank's "Regulations Governing the Division of Authorities and Responsibilities on Credit Extensions for the Bank's Staff at All Levels" and authorization and operational rules for "TMU Derivatives Product Risk Limit". 4. Revise the Bank's "Restrictions on lending to employees and related parties under the Banking Act". 5. Revise the Bank's "Management Directions Concerning Credit Extensions by the Bank to a Same Juristic Person, Group Enterprise, or Industry Type". 6. Revise the Bank's "Investment Policy". 7. Revise the Bank's "Operational Standards for Supervision and Control on Subsidiaries". 8. Revise the Bank's "Audit Committee Foundation Rules" and "Guideline Governing the Responsibilities of Independent Directors". 9. The subsequent planning for the Bank's cash issuance of Series A Preferred Stock. 10. Revise the Bank's "Notices for Personal Information Protection". 11. Revise the Bank's "Internal Management Rules and Operational Procedures for using the competent authority's financial examination reports". 12. The Internal Audit Operation Audit Plan for 2018. 13. The Bank's appointment of Deloitte Taiwan in auditing the project of anti-money laundering and countering the financing of terrorism in the first half of 2017 will be signed by the Chairman, President, Chief Auditor and Compliance Officer in the Statement of Internal Controls System. 14. Submit the Bank's Consolidated Financial Report for the third quarter of 2017 audited by a CPA. 15. The improving measure report on the Bank's former employee's 	<p>Resolutions were adopted unanimously.</p> <p>The left Item 13. Independent Managing Director Kao-Jing Wang: Appendix I mainly declares that the Bank has adopted internal control and management in accordance with laws, and conducted evaluation on the system to ensure effectiveness of the design and execution. But the title of the Statement illustrates that the design and execution has not been effective. Is it appropriate?</p> <p>The Bank's handling situation: Since we have evaluated what shall be improved by ourselves and the improving measures are presented in the fifth point, we directly</p>
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			self-reporting on making fake loans and the summary table of amended credit business operation control procedures.	revised the item into: “Internal Control System Statement of Anti-money Laundering and Countering the Financing of Terrorism of Union Bank of Taiwan, Co., Ltd.”
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(2) In addition to previous matters, other board of directors who have objected to or retain opinions and have a recorded or written statement by an independent director:

None.

- 2 Execution status of directors, avoidance on motions with conflict of interests. The names of directors, the content of the motion, the reasons of avoidance, and the voting participation status should be clearly stated:

Meeting	Proposal	Name of Director	Reasons of Recusal	Participated in Voting
12 th meeting/9 th Board	Property Rental	Zhen-Xong Jiang, Jeff Lin, Sue-Feng Tsao, Jin-Fu Liu and Si-Yong Lin	Stakeholder	No. Stakeholders did not participate in discussion and voting in accordance with laws. The other directors had no opinions and resolutions were adopted unanimously.
13 th meeting/9 th Board	Loan	Jin-Fu Liu	Stakeholder	No. Jin-Fu Liu did not attend the meeting. The other directors had no opinions and resolutions were adopted unanimously.
14 th meeting/9 th Board	Property Rental	Jeff Lin, Zhen-Xong Jiang, Jin-Fu Liu, Sue-Feng Tsao	Stakeholder	No. Stakeholders did not participate in

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				discussion and voting in accordance with laws. The other directors had no opinions and resolutions were adopted unanimously.
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3. Measures taken to strengthen the functionality of the Board:

(1) The Bank, in accordance with the regulation in Article 14-2 of Securities and Exchange Act, sets three seats of independent directors and enacts "Guideline governing the responsibilities of independent directors in Union Bank of Taiwan Co., Ltd." to adhere. It also formulates "Rules for the conduct of directors meetings in Union Bank of Taiwan Co., Ltd." for following in the execution of meetings. Besides, in order to strengthen the Bank's corporate governance and the functions of the Board of Directors, the Audit Committee was established in June, 2015. The Audit Committee is composed of all independent directors, and related organization regulations are formulated for adhering.

(2) The Bank establishes a Salary and Remuneration Committee under the Board of Directors and sets "Regulation Governing the Organization of Salary and Remuneration Committee in Union Bank of Taiwan Co., Ltd.". The major responsibilities of the Committee is to set and regularly review the pertaining policy, system, standard and structure, and conduct the performance evaluation and of directors, supervisors and management executives.

(2) Audit Committee

The Audit Committee held 6 meetings in 2017. The status of attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	p.s.
Independent Director	Guo-Zhang Li	5	1	83.33%	
Independent Director	Zen-Fa Lu	6	0	100%	
Independent Managing Director	Kao-Jing Wang	6	0	100%	

Other supplementary notes:

- Where any of the following circumstances have occurred during operations of the audit committee, the date, term, issue, resolution results of the audit committee and how the company handles opinions of the audit committee thereof:

(1) Matters listed in Article 14-5 of the Securities and Exchange Act:

Date	Session (term)	Content of the resolution	Resolution results of the audit committee and how the company handles opinions of the audit committee thereof
January 18, 2017	The 9th meeting of the	1. Renew the appointment of Deloitte Taiwan in 2017 to	1. Resolutions were adopted

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		1st term	<p>handle the relevant matters of the Bank's financial statements and income tax settlement audit and declaration.</p> <ol style="list-style-type: none"> 2. Submit the Bank's self-inspections of its internal control systems. 3. Revise the Bank's "Internal Auditing System". 	<p>unanimously.</p> <ol style="list-style-type: none"> 2. Submitted to the Board for resolution
March 22, 2017	The 10th meeting of the 1st term	<ol style="list-style-type: none"> 1. Revise the Bank's "Procedure guidelines for concurrent operation of insurance agent business". 2. Revise the Bank's "Procedures for Obtaining or Decomposing Assets". 3. Submit the Bank's self-inspections of its internal control system, the overall assessment inspection report, and the audit results of the audit business for the whole year of 2016. 4. Submit the Bank's Business Report and Individual Financial Statements of 2016 audited by a CPA. 5. The Bank's earnings distribution in 2016. 6. Plan for long-term fund raising. 	<ol style="list-style-type: none"> 1. Resolutions were adopted unanimously. 2. Submitted to the Board for resolution 	
May 10, 2017	The 11th meeting of the 1st term	<ol style="list-style-type: none"> 1. Revise the internal control system of the Bank's concurrent operation of bonds proprietary business of the securities firms. 2. Revise the internal control system of the Bank's concurrent operation of securities firms. 	<ol style="list-style-type: none"> 1. The left items Director Kao-Jing Wang: since the rules are revised according to the letter by the regulatory authority, I suggest unifying the proposal illustration and the relevant reference data for auditing. Besides, Attachment II of the second 	

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				<p>item was not specified. Please make the correction.</p> <p>The Bank's handling situation: we have directly corrected the error and will be more careful in the future.</p> <ol style="list-style-type: none"> 2. Resolutions were adopted unanimously. 3. Submitted to the Board for recognition.
June 28, 2017	The 12th meeting of the 1st term	<ol style="list-style-type: none"> 1. Revise the internal control system of the Bank's concurrent operation of securities firms in the futures introducing broker business. 2. Prepare for the cash issuance of Registered Series A Preferred Stock in 2017.. 	<ol style="list-style-type: none"> 1. Resolutions were adopted unanimously. 2. Submitted to the Board for resolution. 	
August 23, 2017	The 13th meeting of the 1st term	<ol style="list-style-type: none"> 1. Revise the internal control system of the Bank's concurrent operation of securities firms. 2. Revise the Bank's "Audit Committee Foundation Rules" and "Parliamentary Rules for Directors' Meetings". 3. Revise the Bank's "Internal Auditing System". 4. Submit the Bank's Business Report and financial statements of the first half of 2017 audited by a CPA. 	<ol style="list-style-type: none"> 1. Resolutions were adopted unanimously. 2. Submitted to the Board for recognition or resolution. 	
November 08, 2017	The 14th meeting of the 1st term	<ol style="list-style-type: none"> 1. Revise the procedures for Derivatives Trading by the Bank. 2. Revise the Bank's "Audit Committee Foundation Rules" and "Guideline Governing the Responsibilities of Independent Directors". 3. The Internal Audit Operation Audit Plan for 2018. 	<ol style="list-style-type: none"> 1. The left Item 3. Director Kao-Jing Wang: Please illustrate in p.6 of the audit plan this time, the difference between the 	

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			<p>4. The Bank's appointment of Deloitte Taiwan in auditing the project of anti-money laundering and countering the financing of terrorism in the first half of 2017 will be signed by the Chairman, President, Chief Auditor and Compliance Officer in the Statement of Internal Controls System.</p>	<p>audit content of Society for Worldwide Interbank Financial Telecommunication (SWIFT) and that of the original version.</p> <p>The Bank's reply: Originally the SWIFT only audited on the oversea department's operation. As the central bank formulated operation notices for SWIFT last year, the Bank has made relevant compliance measures and audited on the oversea and IT departments.</p> <p>2. Resolutions were adopted unanimously.</p> <p>3. Submitted to the Board for resolution.</p>
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(2) In addition to the preceding items, any resolution that has not been approved with the consent of the audit committee members but approved with the consent of two-thirds or more of all directors: None.

2. Execution status of directors, avoidance on motions with conflict of interests. The names of directors, the content of the motion, the reasons of avoidance, and the voting participation status should be clearly stated: None

3. Communication between independent directors and auditors:

(1) Communication between independent internal directors and auditors:

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The Chief Auditor is involved in all Board of Directors meetings and Audit Committee meetings, and reports regularly to the Audit Committee on the progress of ongoing audits. Before the end of the financial year, the internal audit department would submit in writing the next year's audit plan for review by the Audit Committee. Furthermore, internal auditors engage independent directors in half-yearly meetings to present internal audit reports and to discuss any weaknesses found in the internal control system.

Date	Points of communication	Status of implementation
January 18, 2017	Audit the work report for the second half of 2016; report the status of implementation of the audit business on a regular basis	<ol style="list-style-type: none"> 1. Allowed for future reference 2. Submit to the Board of Directors for future reference
March 22, 2017	Review internal control system deficiencies every half year; hold seminars by the auditors and independent directors	Follow up the status of the implementation of the opinions of the independent directors in the seminars, and submit the meeting minutes to the Board of Directors for report
August 23, 2017	Audit work report for the first half of 2016; report the status of implementation of the audit business on a regular basis	<ol style="list-style-type: none"> 1. Allowed for future reference 2. Submit to the Board of Directors for future reference
August 23, 2017	Review internal control system deficiencies every half year; hold seminars by the auditors and independent directors	Follow up the status of the implementation of the opinions of the independent directors in the seminars, and submit the meeting minutes to the Board of Directors for report
November 08, 2017	2017 Audit Plan	<ol style="list-style-type: none"> 1. Resolutions were adopted unanimously. 2. Submitted to the Board for resolution

- (2) Communication between independent directors and external auditors,
 The Bank's financial statement auditor briefs the Audit Committee every six months about the audit methods taken and any material findings or adjustments discovered during their work. They also discuss with independent directors on other relevant issues.

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Date	Points of communication	Status of implementation
March 22, 2017	The CPAs explained the results and adjustment items of the financial statements for the year of 2016, and engaged in two-way communication on the Bank's finance and business.	The Bank invited the CPAs with the Bank's internal audit supervisor and independent directors to explain and engage in two-way communication on the Bank's finance and business at the 10th meeting of the 1st term of the audit committee, and completed the examination on the financial statements.
August 23, 2017	The CPAs explained the results and adjustment items of the financial statements for the first half of 2016, and engaged in two-way communication on the Bank's finance and business.	The Bank invited the CPAs with the Bank's internal audit supervisor and independent directors to explain and engage in two-way communication on the Bank's finance and business at the 13th meeting of the 1st term of the audit committee, and completed the examination on the financial statements.

(3) Items to be disclosed in Accordance with “Principles Governing Corporate Governance Practices of Banks”: Please Refer to the Bank’s Official Website: <http://www.ubot.com.tw>

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(4) Status of implementation of The Corporate Governance, stating Discrepancy, if any, with Best Corporate Governance Practices of Banks and giving Reasons:

Item	Implementation Status (Note 1)			Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons
	Yes	No	Memo	
1. The Bank's shareholder structure and shareholder equity				
(1) Way in which the Bank defines any internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and to implement the procedure.	v		(1) According to the Bank's Corporate Governance Best-Practice Principles, the Bank has delegated the spokesman and deputy spokesman and established an email box to take care of the suggestions, questions and disputes from shareholders. A dispute, if any, will be handed over to the Bank's legal counsel. The way to contact said spokesman is disclosed in the "investor relations" on the Bank's website and on the cover page of the Bank's annual report. Meanwhile, the Bank has also established the e-Service Center responsible for answering to and processing of the questions raised by customers via phone, processing of customers' complaints and opinions, and follow-up on various assignments. Therefore, the inquiries about the Bank's business and shareholders' suggestions or disputes may be referred to the related units by customer service attendants, if necessary.	No material discrepancy
(2) Ways in which the Bank regularly monitors the list of key shareholders who have management control of the Bank, or those who have ultimate control of key shareholders.	v		(2) Based on the information detailed in the current Shareholder Register on the ex-dividend date, the Bank will report changes in shareholding to Taiwan Stock Exchange Corp. on a monthly basis pursuant to Article 25 of the Securities and Exchange Act and keep track of the shareholding status of major shareholders.	No material discrepancy
(3) Ways in which the Bank establishes proper risk control mechanisms and firewalls between the Bank and its affiliated enterprises.	v		(3) The Bank's credit dealings with affiliated companies are carried out in accordance with the stakeholders section of the Banking Act. As for non-credit Transactions Between Union Bank of Taiwan and Related Parties", which stipulate the risk management policies between the Bank and its subsidiaries.	No material discrepancy
2. Composition and responsibilities of Board of Directors:				
(1) Does the Board of Directors make diversifying guidelines	v		(1) 1. The Bank formulated the "Principles Governing Corporate Governance Practices	No material discrepancy

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Item	Implementation Status (Note 1)			Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons
	Yes	No	Memo	
<p>for member composition and implement them precisely?</p> <p>(2) Whether the Bank, in addition to establishing the remuneration committee and audit committee pursuant to laws, is willing to establish any other functional committees voluntarily?</p>	V		<p>of Banks” in 18th Meeting of 8th Board of Directors on March 18, 2015, in which diversifying guidelines were made in Chapter 4, “Strengthening the functions of the Board of Directors”. The nomination and election of the board members are in accordance of the Bank’s “Articles of Association”, in which the system of candidate nomination is adopted. In addition to evaluating the education level, experience and other qualifications of each candidate, we also refer to the opinions of stakeholders and adhere to the “Procedures for electing directors” and “Principles Governing Corporate Governance Practices of Banks” to ensure board diversity and board independency.</p> <p>2. In the member list of 9th Board of Directors, in addition to one female member, the ones who are good at operation judgement and management are Shiang-Chang Lee, Yu-Quan Lee, Kao-Jing Wang, Guo-Zhang Li, Zhen-Xong Jiang and Jeff Lin; the ones with rich financial industry experience, knowledge and global view are Shiang-Chang Lee, Kao-Jing Wang and Guo-Zhang Li; the one who has deep understanding in laws and once served as the Prosecutor General in the Supreme Prosecutors Office is Zen-Fa Lu; Sue-Feng Tsao, Jin-Fu Liu, Si-Yong Lin are good at leading and administrative management.</p> <p>3. The policy of board member diversification is disclosed on the Bank’s website and Market Observation Post System.</p> <p>(2)</p> <p>1 The Bank has set up a Remuneration Committee according to regulations and the Bank’s Article of Incorporation in 19th Meeting of 7th Board of Directors on August 24, 2011 and formulated “Regulations Governing the Organization of Remuneration Committee” for compliance.</p> <p>2 The Audit Committee was assembled in accordance with law and the Company's Articles of Incorporation during the 1st extraordinary meeting of the 9th board of directors held on June 26, 2015. A set of “Audit Committee Foundation Rules” has</p>	

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Item	Implementation Status (Note 1)			Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons
	Yes	No	Memo	
(3) Regular evaluation of external auditors' independence.			<p>been implemented for guidance.</p> <p>3 Additionally, in order to strengthen management mechanism, the Bank has set up committees such as "Asset Liability Management Committee", "Operation Automation Committee", "Investment and Credit Examination Committee", "Overdue Credit, Overdue Loan and Non-Performing Loan Handling Committee", "Trust Property Examination Committee" and "Human Resource Arbitration Committee", and their resolutions are all submitted to relevant level of authorities for approval according to Regulations governing separation of duties.</p> <p>(3) The Bank evaluates the independence of the CPA each year in accordance with the CPA Standard of Professional Ethics and Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies, and submits the evaluation result to the Board of Directors for review.</p> <p>1. The CPA never holds the position of director/supervisor or manager of the Bank, or thea position likely to render significant influence on the Bank.</p> <p>2. The CPA does not have any direct or significantly indirect financial interest with the Bank.</p> <p>3. The CPA never acts as the Bank's independent auditor for seven years.</p> <p>4. The Statement of Independence has been issued by the CPA. Upon evaluation, the independent auditor retained by the Bank is held meeting the independence requirements under the corporate governance.</p>	
3. If the bank is a TWSE/TPEX listed company, has it set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs	V		<p>1. The Bank has set up the Board of Director Conference Service Division, which belongs to the Board of Directors and take charge of board meetings.</p> <p>2. The Bank's Business Planning & Administration Dept. is the responsible unit for business related to corporate governance. It is supervised by the senior</p>	No material discrepancy.

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Item	Implementation Status (Note 1)			Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons
	Yes	No	Memo	
(including but not limited to furnishing information required for business execution by directors and supervisors, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings, etc.)?			<p>executive vice president in the department, which has at least three years of management experience related to legal affairs, financial or shareholders service in public companies. The corporate governance affairs mentioned above include providing directors with the data needed in executing business, assisting directors in legal compliance, preparing for board meetings in accordance with regulations.</p> <p>3. The execution process in 2017:</p> <p>(1) Company amendment registration.</p> <p>(2) Preparing for board meetings in accordance with regulations.</p> <p>(3) Registering in advance the board meeting date, preparing meeting notices within the required time period, meeting handbook and memorandum.</p> <p>(4) Assisting the Bank in adhering to laws related to the Board of Directors and shareholders' meetings.</p> <p>(5) Providing directors with the data needed in executing business.</p> <p>(6) Revising the Bank's "Articles of Association".</p> <p>(7) Revising regulations related to corporate governance such as "Rules for the conduct of directors meetings in Union Bank of Taiwan Co., Ltd.", "Guideline governing the responsibilities of independent directors in Union Bank of Taiwan Co., Ltd." and "Audit Committee Foundation Rules".</p>	
4. Establishment of communication channels with stakeholders	V		<p>1. The Bank has created a stakeholders section on its website. In addition, related parties should also contact with the Bank through mail, telephone, fax and internet etc. All communication channels are easily accessible and smooth.</p>	No material discrepancy
5. Information Disclosure (2) Establishment of corporate website to disclose information regarding the Bank's financials, business and corporate governance status. (3) Other information disclosure channels (e.g. English website, designating particular	V V		<p>1. The Bank has regularly disclosed financial and corporate governance status in the Bank's website (Web address: http://www.ubot.com.tw), and will disclose related information following the relevant regulations of the competent authority.</p> <p>2. Information Disclosure Method (1) A designated department is to take charge of the collection and disclosure of information on the</p>	No material discrepancy.

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Item	Implementation Status (Note 1)			Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons
	Yes	No	Memo	
person to handle information collection and disclosure, appointing spokesperson, webcasting investor conference)			<p>Bank's website.</p> <p>(2) The Bank has set spokesperson and acting spokesperson position to be the sole outlet of the statement to the publics, and the Bank has also formulated "Procedures for Handling Significant Internal Information" for compliance.</p> <p>(3) The annual report is prepared each year, disclosing the relevant information in accordance with the "Standards Governing Information to be published in the Annual Report of Banks".</p>	
6. Other important information that helps to understand the Bank's corporate governance status (such as rights of employees, care for employees, investor relations, rights of stakeholders, Directors' and Supervisors' training records, implementation of risk management policies and risk evaluation measures, implementation of customer protection policies, purchasing liability insurance for directors and supervisors, and donate to political parties, related parties and charitable foundations):	V		<p>(1)Rights of employees and care for employees: The Bank has put in place the "Rules of Employment" to clearly define the rights and obligations of the Bank and employees. The Bank also convenes regular labor relations meeting to enhance the bank-employee relationships and ensure rights of employees. In addition, the Bank undertakes evaluation of the various remuneration and welfare policies to maximize benefits for the employees. The Bank has also put in place the "Criteria for Prevention, Reporting and Punishment of Sexual Harassment Incidences" to ensure equal employment opportunities and human dignity.</p> <p>(2)Investor relations: The Bank has set up an investor's relationship window for a smooth communication channel.</p> <p>(3)Any transaction between the Bank and our stakeholders are carried out treated in accordance with the "Operational Standards for Non-Credit Transactions Between Union Bank of Taiwan and Related Parties" and relevant regulations governing credit transactions.</p> <p>(4)Directors and Supervisors' training records: the Bank's directors and supervisors have taken related trainings of practical operation and company governance. The record may be accessed on the Market Observation Post System (http://newmops.tse.com.tw) and is included in the annual report.</p> <p>(5)Risk management policy and execution of the risk evaluation standards: The Bank has put in place a Risk Management Policy, established necessary risk management system and standard to effectively manage</p>	No material discrepancy.

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Item	Implementation Status (Note 1)			Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons
	Yes	No	Memo	
			<p>risks. (Qualitative and quantitative information for assessing the various risks.).</p> <p>(6)The implementation of customer protection policies: Customers may offer comments or lodge complaints on the website or via the hotline for complaints and suggestions. The Bank’s responsible department will re-direct the issues to the relevant department for handling and follow-up. The Bank has also put in place the “Criteria and Operational Regulations Governing the Management of Suspected Illegal or Abnormal Deposit Account” and the “Organization of the Customer Dispute Processing Team & Procedures for Handling Customer Disputes” to protect the rights of customers. Take the initiative to care and effectively remind customers to prevent the suffering of loss from being cheated.</p> <p>(7)The status of the Bank taking out director liability insurance: The Bank has contacted MSIG Mintai Insurance Co., Ltd. in Nov., 2017 to buy director liability insurance for directors.</p> <p>(8)Donation to Political Parties, Related Parties and Charitable Foundations: (i). Held a kids drawing campaign of “Drawing Mommy Together” in April. Donated to “Lunch Fee Donation Account for Junior-High and Elementary School Students in Chia-Yi City” based on the drawings received and the online participant numbers.(ii) Donated and sponsored the annual concert of Children Are Us Foundation and participated in the “Work Training Plan for Kids with Intellectual Disabilities” (iii) Held mother’s day welfare carnivals. In the carnivals in Taipei and Kaohsiung we invited 13 charity organizations like “Eden Social Welfare Foundation”, “Workshop with Happiness”, “Garden of Hope Foundation”, “Children Are Us Foundation” and “Taiwan blind person welfare National Christian Council”. The revenues are all donated to those charities. (iv) Introduced activities of donating charities by credit card payment. The projects include “Supporting Flying-Slow Angels with Love” held with Eden Social Welfare Foundation, “Give Independent Young people an</p>	

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons
	Yes	No	Memo	
			Opportunity to Dream Together” held with Chinese Childrenhome & Shelter Association, “2017 Hope is Here” held with Hope Foundation for Cancer Care, “Care Program for Old Kids” held with Down Syndrome Foundation, “Donation to Poor People at Year End” held with Genesis Social Welfare Foundation, and “With the Eye on It: Love is in 17” held with Institute for the Blind of Taiwan.	
7 Explain the status of the improvement for the corporate governance evaluation results issued by the Corporate Governance Center of Taiwan Stock Exchange Corporation for the latest year, and propose priority enhancement items and measures for those not have been improved.	V		<p>The Bank intend to improve the items in the Corporate Governance in accordance to the evaluation result and benchmark of the Corporate Governance in 2017 as follow:</p> <p>(I) Disclose implementation of resolutions in the shareholder’s meeting in the annual report.</p> <p>(II) Disclose the points of communication among independent director, CPA and Chief Auditor on the bank’s website.</p> <p>(III) Disclose the opinions of independent director and audit committee in the major , resolution at the BOD’s meeting in the annual report.</p> <p>(IV) Buy director liability insurance for directors for the all the member of BOD of the Bank.</p>	No material discrepancy.

Note 1: The status of operation must be specified in the Memo section, irrelevant with whether the answer is “Yes” or “No”..

(5) The composition, responsibilities and operation status of the Salary and Remuneration Committee of the Bank:

A. Members of Salary and Remuneration Committee of the Bank

Corporate Governance

Title	Qualification	Over five years of experience in related fields and the following professional qualification (Note 1)			Independent Status (Note 2)								Serving as an independent director of other public companies	p.s. (Note 3)
	Name	(1)	(2)	(3)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
Independent Director	Zen-Fa Lu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Guo-Zhang Li			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Other	Tzung-Hang Lee	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1: With over 5 years of work experience and the following professional qualification

(1): Instructor, or higher up, of a public or private junior college, college or university, in Business, Law, Finance, Accounting or other departments as required by corporate business.

(2): Judge, prosecutor, solicitor, Certified Public Account or professionally qualified and technical person as required by the company.

(3): Experience in Business, Law, Finance, Accounting or as required by corporate business.

Note 2: Two years before the directors and supervisors are elected or during the period they are on the jobs, if they meet the following criteria, please make a “✓” mark in the space under the criteria codes.

(1): Not an employee of the Bank; nor an employee of its affiliated enterprises.

(2): Not a director or supervisor of the Bank or its affiliated enterprises. (Does not include the independent directors of the Bank or its parent company or subsidiaries in which the Bank holds more than 50% of the shares).

(3): Not directly or indirectly own more than 1% of the Bank's outstanding shares; nor is one of the top ten non-institutional shareholders of the Bank.

(4): Not a spouse or within second-degree relation or third-degree immediate relation to any person specified in the preceding three criteria.

(5): Not a director, supervisor, or employee of a legal entity which directly owns more than 5% of the Bank's issued shares; nor a director, supervisor or employee of the top five legal entities which are owners of the Bank's issued shares.

(6): Not a director, supervisor, or manager of a company which has a business relationship with the Bank; nor a shareholder who owns more than 5% of such a company.

(7): Not an owner, partner, director, supervisor, manager or spouse of any sole proprietor business, partnership, company or institution which has provided the Bank and its affiliates with financial, business consulting, or legal services.

(8): Not a person under the circumstances specified in Article 30 of the R.O.C. Company Act.

B. Operations of Salary and Remuneration Committee of the Bank

a. There are three people in the Salary and Remuneration Committee of the Bank.

b. The term of commissioner: 2015.6.26 to 2018.6.25 Salary and Remuneration Committee of the Bank held 2 meetings in 2017. The status of attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	p.s.
Convenor	Zen-Fa Lu	2	0	100%	
Commissioner	Guo-Zhang Li	2	0	100%	
Commissioner	Tzung-Hang Lee	2	0	100%	

Corporate Governance

Other Necessary Notes:

- 1 Board of director decline to adopt or require to modify recommendations of the remuneration committee: None.
- 2 Resolutions of the remuneration committee to which a member or members of the committee has or have expressed dissents or reservations which were recorded or made in writing: None.

Corporate Governance

(6) Fulfillment of Corporate Social Responsibilities:

Item	Implementation Status (Note 1)			Discrepancy, if any, with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo (Note 2)	
<p>1. Exercising Corporate Governance:</p> <p>(1) Formulation of the corporate social responsibility policies or systems and review of the status and results of implementation.</p> <p>(2) Whether the Bank has hold regular social responsibility educational and training activities?</p> <p>(3) Whether the Bank has established a dedicated unit (concurrently engaged in) to promote corporate social responsibility under supervision by the</p>	<p>V</p> <p>V</p> <p>V</p>		<p>(1) The Bank has enacted its corporate social responsibility best-practice principles and submitted the motion for the same to the shareholders' meeting and then implemented the same as the basis to be bound by the Bank and its subsidiaries. Further, the "Corporate Social Responsibility Committee" established by the Bank would review the status and implementation effect of the Bank's corporate social responsibility policy.</p> <p>(2) According to the Bank's corporate social responsibility best-practice principles, the Bank would hold regular educational and training activities each year, including propagation of the Bank's corporate social responsibility policy, system and related management policy and specific boosting program approved upon resolution of the Board of Directors, arrangement of directors/supervisors to attend the corporate governance programs organized by the training organizations, and arrangement of the Bank's staff to attend compliance educational and training programs.</p> <p>(3) The Bank enacted the "Regulations Governing Establishment of Corporate Social Responsibility Committee" established the Bank's "Corporate Social Responsibility Committee"</p>	<p>No material discrepancy</p>

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo (Note 2)	
<p>high-rank management authorized by the board of directors who shall be responsible for reporting the status thereof to the board of directors?</p> <p>(4) Whether the Bank has defined some reasonable compensation policy, integrated corporate social responsibility with employees' performance evaluation, and established some clear and effective reward/disciplinary system?</p>	V		<p>responsible for consolidating the Bank's corporate social responsibility policy, management policy and specific boosting programs, and reporting the status thereof to the Board of Directors regularly to fulfill its corporate social responsibility.</p> <p>(4) The Bank's "Guidelines for Payroll under Personnel Management Regulations" have defined the standards about granting of salary, allowance, compensation and bonus. In addition to the fixed monthly salary, the Bank would grant employees the year-end bonus and employee bonus based on the entire operating results and personal performance, and also defined reasonable compensation policy by integrating the corporate social responsibility policy. Compensation policy: the Bank enacts the "Criteria for Handling Employee Merit/Disciplinary Incidents" separately.</p>	
<p>2. Fostering a Sustainable Environment:</p> <p>(1) The Bank's endeavor to utilize all resources more efficiently and use renewable materials that have a low impact on the environment to improve sustainability of natural resources.</p>	V		<p>(1) In purchasing equipment, the Bank gives priority to buying green energy products with energy saving, green building material, environmental protection and water saving certification logos. Besides recycling, we have set up a database of the various idle facility and equipment, which is to be checked prior to procurement of new office equipment to ensure that existing resources are used efficiently. Spare equipment is used repeatedly to increase the re-usage rate of office</p>	No material discrepancy

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo (Note 2)	
<p>(2) Establishment of proper environment management systems based on the characteristics of its industry.</p> <p>(3) Monitoring of the impact of climate change on the Bank's operations and execution of greenhouse gas inspection and establishment of company strategies for energy conservation and carbon reduction and greenhouse gas reduction.</p>	V		<p>items.</p> <p>(2) The Bank delegated the personnel dedicated to environmental management in General Affairs Dept., who should be responsible for establishing the environmental management system. For the time being, they would conduct the environmental inspection about concentration of CO2 and lighting brightness once per six months according to the occupational safety & hygiene laws and regulations to control the quality of air indoor and maintain the adequate brightness in the operational environment. The Bank is not an industrial firm, and thus is not applicable to ISO14001 or ISO50001.</p> <p>(3) The Bank has completed the greenhouse gases inventory for 2017, and disclosed it on the website of the Company. The greenhouse gas emission by the bank in 2017 was 5,385.2 tons/CO2e, which is 12.7% less than the previous year. .</p>	
<p>3. Preserving Public Welfare</p> <p>(1) Whether the Bank has established the related management policies and procedures in accordance with the relevant laws and international human right conventions?</p> <p>(2) Whether the Bank has established any employee complaining mechanism and channel, and taken care of the complaint adequately?</p> <p>(3) Whether the Bank has provided safe and healthful work environments and training on safety and health for employees on a regular basis?</p>	V	V	<p>(1) The Bank complies with the related labor laws and regulations and also respects the standard labor human right conventions recognized internationally, protect employees' legal interest and right and non-discrimination employment policy, establish adequate management policies and procedure, and execute the same precisely.</p> <p>(2) The Bank has defined the "employee complaining system" and would take care of complaints adequately.</p> <p>(3) The Bank provides employees with safe and healthy work environment and performs labor</p>	No material discrepancy

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo (Note 2)	
			safety & health on-the-job education and training periodically.	
(4) Whether the Bank has constructed the periodical communication mechanism with employees and also informs them of operational change that might cause major impact to them in reasonable manner?	v		(4) The Bank has instituted several mechanisms including the web-based “Employees Corner” and “Employee Comments and Suggestions Form” to provide employees with the opportunity to offer comments and suggestions at any time.	No material discrepancy
(5) Whether the Bank has established some effective career development training plan for employees?	v		(5) In order to upgrade employees’ expertise, the Bank will organize various training programs and workshops and assign staff to attend various external professional training programs from time to time each year. Further, the training of the Bank clerks’ career capability is also executed through the job rotation system.	
(6) Whether the Bank has established the related consumer protection policies and complaining procedures toward the R&D, procurement, production, operation and service procedures?	v		(6) For the protection of consumers’ interests, a “Consumer Dispute Resolution Policy” was formulated and passed during the 2nd meeting of the 9th board on August 26, 2015. The Bank also maintains a 24-hour customer service hotline for every day of the year. Customers who find themselves in dispute against the Bank’s products or services, and believe to have suffered losses because of which are entitled to file complaints through proper channels (e.g. telephone, mail, web message, or personally at branches). All complaints will be handled in discretion	

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo (Note 2)	
(7) Whether the Bank markets and labels products and services in accordance with the related laws and international practices?	v		<p>according to the Bank's "Customer Complaint Handling Procedures," and followed up by dedicated personnel. The Bank will resolve every customer dispute in a fast and efficient manner, and perform statistical analyses on complaint cases to identify rooms of improvement and thereby prevent similar occurrences. A "Consumer Dispute Resolution Team" has also been assembled to resolve customers' dispute in a pro-active and efficient manner.</p> <p>(7) The Bank is used to marketing and labeling products and services in accordance with various laws and regulations. If necessary, the Bank will also ask the Legal Affairs & Compliance Dept. for opinion.</p>	
<p>(8) Whether the Bank has assessed the supplier's record about environmental protection and society before trading with the supplier?</p> <p>(9) Whether the contract between the Bank and its main supplier includes the provision stating that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Bank may terminate or rescind the contract at any time?</p>	v v		<p>(8) Before trading with any supplier, the Bank would meet the relevant requirements according to the Bank's procurement-related regulations and corporate social responsibility best-practice principles.</p> <p>(9) When the Bank is aware of any supplier suspected of violating its corporate social responsibility and renders remarkable effect on the environment or society (e.g., the food safety issue) during any special marketing activities, the Bank would stop the activities immediately.</p>	No material discrepancy

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo (Note 2)	
4. Enhancing Disclosure of Corporate Social Responsibility(CSR) Information: Whether the Bank has disclosed relevant and reliable information relating to corporate social responsibility on its website or Market Observation Post System?	v		The Bank has installed the CSR area on its website to disclose its CSR philosophy and policy. Meanwhile, the Bank would disclose the important information related to the Bank's CSR on MOPS. By preparing the CSR report, the Bank states its efforts and policies in respect of economy, society and environment. The report is posted on the Bank's website available for access and downloading by the public.	No material discrepancy
5. If the Bank has established its own corporate social responsibility best-practice principles based on the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the policies and their implementation: The Bank has put in place its own "Corporate Social Responsibility Best-Practice Principles" upon approval of 18 th Meeting of 8 th Board of Directors on March 18, 2015 and would implement the same upon resolution at a shareholders' meeting. The Bank upholds the belief of "giving back to society what we have benefited from it" and is dedicated to promoting the various charitable events on a long-term basis as a way of fulfilling our corporate social responsibilities and also comply with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies". Therefore, there is no material discrepancy.				
6. Other important information to facilitate better understanding of the Bank's corporate social responsibility practices (e.g., environmental protection, community involvement, social contribution, social work, social welfare, consumer rights, human rights, safety and hygiene and the adopted policies and measures to fulfill corporate social responsibilities and the status of performing such responsibilities).				
7. If any of the Bank's products or the CSR Report has been accredited to the standards of an external validation agency, provide details: None.				

Note 1: The status of operation must be specified in the Memo section, irrelevant with whether the answer is "Yes" or "No".

Note 2: Where the Bank has prepared the CSR report, the memo section may specify the way to access the CSR report and be replaced by index pages.

(7) Fulfillment of ethical Management and Adopted measures:

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo	
<p>1. Formulate the Policy and Procedures for Ethical Management</p> <p>(1) Whether the Bank has expressly stated the ethical policy and its fulfillment by the board of directors and the management in its Articles of Incorporation and public documents?</p>	V		<p>(1) The Bank has defined the "Union Bank of Taiwan Ethical Corporate Management Best-Practice Principles" upon approval of the Board of Directors on March 18, 2015, and also expressly stated in these Principles that the Board of Directors and management shall commit to fulfill these Principles actively.</p> <p>In order to perform the commitment, the Bank asks the Audit Dept. to supervise fulfillment of the ethical corporate management policy and check whether there is any unethical conduct in the Bank, and evaluate the compliance about the related operational flows to produce report to the Board of Directors.</p>	No material discrepancy
<p>(2) Whether the Bank has defined the policy against unethical conduct, and expressly stated the SOP, guidelines and reward and disciplinary & complaining systems for misconduct, and also implemented the policy precisely?</p>	V		<p>(2) To define the policy against unethical conduct, the Bank has expressly stated the Bank's operating procedures, conduct guidelines, and reward and disciplinary & complaining system for misconduct in the Bank's H.R. management regulations and work rules.</p>	
<p>(3) Whether the Bank takes any prevention measures against the operating activities involving high unethical conduct under Paragraph 2 of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or within other operating areas?</p>	V		<p>(3) Each of the Bank's business lines is subject to strict internal control and risk control. In addition to following the requirements of competent authorities and competent entities in charge of the business lines, the Bank also establishes such units as compliance, audit and risk management. The prevention programs referred to in the preceding paragraph also define the relevant regulations prohibiting bribery to ensure the Company's ethical management. Meanwhile, the Bank's directors will adhere to the high self-discipline principle, and recuse themselves from any discussion</p>	

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo	
			or voting for any motions in which they have conflict of interest voluntarily, and are free from any unjust enrichment resulting in damage to the interest and right of the Bank's customers and shareholders.	
<p>2. Implementation of Ethical Management</p> <p>(1) Whether the Bank has evaluated the ethical record of trading counterparts and specifically set out the ethical management clause in business contract?</p> <p>(2) Whether the Bank has established a dedicated unit (concurrently engaged in) to promote ethical corporate management under supervision by the board of directors who shall be responsible for reporting the status thereof to the board of directors periodically?</p> <p>(3) Whether the Bank has defined the policy to prevent conflict of interest and to offer appropriate channels for providing a statement in regard to the situation, and implemented the same precisely?</p> <p>(4) Whether the Bank has implemented effective accounting policies and internal controls system established by the Bank to carry out ethical management and the status of audits conducted by internal auditors or external auditors?</p>	<p>V</p> <p>V</p> <p>V</p> <p>V</p> <p>V</p>		<p>(1) The Bank's business activities shall avoid any trading with persons with unethical record, and the Bank planned to expressly state the clause about compliance with the Bank's ethical management policy in contracts. Meanwhile, before conclusion of any contract, the Bank will have the contract reviewed by the legal affairs unit to ensure the right, obligation and validity of the contract.</p> <p>(2) The Bank appoints the Audit Dept. to supervise the promotion of the Bank's ethical management policy and execution of the Bank's prevention programs, and to report to the Board of Directors periodically.</p> <p>(3) The Bank's policy and channel against conflict of interest are separately defined in the work rules, employees' service rules, employee complaining system (counterpart: employees) and parliamentary rules for directors' meetings (counterpart: directors), both of which are implemented precisely.</p> <p>(4) The Bank's accounting policies were established in accordance with laws, the FSC-approved IFRS, international accounting standards, and interpretations thereof, and have been adjusted to accommodate existing and future business requirements. The Bank's internal control system was developed based on "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries." It exists to facilitate good business practices and to provide assurances in terms of business performance, financial reporting, and regulatory compliance. The audit team also</p>	No material discrepancy

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo	
(5) Whether the Bank has organized internal/external educational and training programs for ethical corporate management periodically?	V		uses the internal audit and self-audit systems to evaluate the internal control design and the effectiveness of its execution. (5) (i) According to the Bank's ethical corporate management best-practice principles, the Bank will organize the internal propagation activity to communicate the importance of ethics to directors, employees and appointees from time to time. The related staff will also attend the related workshops and educational training programs organized by external entities. (ii) The Bank held internal and external trainings related to ethical management in 2017 (including compliance of ethical management regulations, accounting policy and internal control). There are 247 participants in total and 77 hours in total.	
3. Status of the Bank's complaint system (1) Whether the Bank has defined a specific complaints and rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation? (2) Whether the Bank has defined the standard operating procedure and non-disclosure mechanism toward the investigation on the complaints as accepted? (3) Whether the Bank has adopted the measures for protecting complainants from inappropriate disciplinary actions due to their complaints?	V V V		The Bank's ethical corporate management best-practice principles have defined the relevant complaining and operating procedures. The Bank also established an internal independent email box and hotline for complaints available to the Bank's internal and external personnel. The dedicated unit will designate competent dedicated personnel subject to the circumstances, declare in writing to keep confidential the complainant's ID and contents of the complaint and undertake to protect complainants from unfair treatment due to the complaints.	No material discrepancy
4. Enhancing Information Disclosure (1) Whether the Bank has disclosed the content and the status of implementation of its ethical corporate management best practice principles on its websites and the MOPS?	V		The "Corporate Governance Area" is set up on the Bank's website to disclose the requirements about ethical corporate management best-practice principles and status of the implementation thereof. Further, for transparency of information, the related information has been also uploaded to the MOPS for access by investors.	No material discrepancy
5. If the Bank has established corporate ethical management based on "Corporate Ethical Management Best Practice Principles for TWSE/GTSM-Listed Companies", please describe any discrepancy between the policies and their				

Corporate Governance

Item	Implementation Status (Note 1)			Discrepancy, if any, with Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Memo	
<p>implementation: The Bank has established the “Union Bank of Taiwan Corporate Ethical Management Best Practice Principles” and “Work Rules” setting out that employees are required to carry out their duties ethically and dutifully and comply with regulatory requirements, policies, and service standards prescribed by the Bank. The company shall be managed in accordance with regulatory requirements and internal procedures to maximise investor benefits. There is no discrepancy between the Bank's operation of ethical management and said “Corporate Ethical Management Best Practice Principles for TWSE/GTSE-Listed Companies”.</p>				
6. None.				

Note 1: The status of operation must be specified in the Memo section, irrelevant with whether the answer is “Yes” or “No”.

(8) Operating procedure for internal important information:

In order to establish the Bank’s fair important internal information processing and disclosure mechanism to prevent information from being disclosed inadequately and to ensure the accuracy and consistency of the information released by the Bank to the public and enhance the control over prevention of insider trading, the Bank defined the “Operating Procedure for Processing of Important Internal Information”. Please refer to the corporate governance at MOPS (<http://mops.twse.com.tw>).

(9) Corporate governance principles and methods for searching the relevant regulations:
Please refer to the corporate governance at MOPS (<http://mops.twse.com.tw>).

(10) Other material information sufficient to enhance understanding of the status of the Bank’s corporate governance practices:

Please refer to the Bank’s website (<http://www.ubot.com.tw>).

(11) Execution of the Internal Controls System

- A. Where an independent auditor is appointed to perform audit on the internal controls system, the auditor’s report shall be disclosed: None.
- B. Statement of Internal Control:

Union Bank of Taiwan



Statement of Internal Controls System

March 14, 2018

To Financial Supervisory Commission:

On behalf of Union Bank of Taiwan, we hereby state that from January 1, 2017 to December 31, 2017, we have duly complied with the “Enforcement Regulations for Bank Internal Audit Control System” in establishing its internal system, implementing risk management, designating an independent and objective department to conduct audits, and regularly reporting to the Board of Directors and the Supervisors. With respect to the securities business, evaluation of the effectiveness of the design and implementation of its internal control systems described in the “Regulations Governing the Establishment of Internal Control Systems of Service Enterprises in Securities and Futures Markets”, promulgated by the Securities and Futures Bureau, Financial Supervisory Commission. After prudent evaluation, the internal control and regulatory compliance of the units for the year have been effectively implemented, except for matters set forth in the attached table. This Statement will be included as the main content of the Bank’s annual report and prospectus, and be published to the public. If there is any illegal activity such as fraud or concealment, liabilities under Article 20, 32, 171, and 174 of the Securities and Exchange Law will be involved.

Chairman: Shiang-Chang Lee



President: Jeff Lin



Chief Auditor: Kuo-Pao Kang



Compliance Officer of the Bank
Ching-Wen Chen



Corporate Governance

Attachment: Internal Control Deficiencies and Improvement Plan

(Record Date: December 31, 2017)

Matters that should be improved	Improvement measures	Targeted completion date
I. When doing monetary trust business, the personnel asked the customer to sign the statement of paying debt with the trusted asset before lending, which violates Article 22-1 of Trust Enterprise Act.	The Bank has forbidden asking customers to sign the statement of paying debt with the trusted asset before the lending since August, 2016. Regarding the cases that have already been undertake, the bank has also forbidden the illegal act to protect customers' right.	Has been completed by the improvement measures.
II. One of the Bank's employee exploited his authority to withdraw the Bank's cash in treasury, which violates the rules for operation.	Punishments have been resolved by Human Resource Arbitration Committee in accordance with the Bank's Work Rules, and relevant operation principles in the multiple and detailed checking of cash in treasury for each operating unit have also been formulated in order to strengthen internal control and the management of cash in treasury.	Has been completed by the improvement measures.
III. The former employee of the Bank exploited his authority to produce fake stamps, signatures and deposit account. He subsequently applied for loans and withdrew the money with the name of customer.	We have conducted punishments in accordance with the Bank's Work Rules after resolution by the Human Resource Arbitration Committee. To strengthen the operational requirements of credit lending, the management unit has announced and restated the amendments of operational control items for each operational unit. We have also proposed concrete improving measures in terms of transferring account, signature checking, meeting borrowers in person, contract deliver, and started up prevention mechanism for credit lending to prevent the occurrence of fake loans	Has been completed by the improvement measures
IV. The Bank's current paper policy on anti-money laundering and blocking	The Bank have published the operational procedures of standardized control for each business item, formulated measures for risk evaluation	Part of the items that shall be improved have been processed

Corporate Governance

Matters that should be improved	Improvement measures	Targeted completion date
financing terrorism and the system of internal control have not been completely revised. Part of the suspicious trading characteristics have not been included in the checking items of supervisory report, and overall and timely name checking and risk evaluation have not been executed.	and strengthening auditing, and will review paper policies on anti-money laundering and blocking financing terrorism. Besides, we will design supervisory modules for suspicious trading activities, supervise systematically and suggest purchasing blacklist database and negative news database to facilitate name checking and risk evaluation.	according to the improvement measures. The remaining items are expected to be improved sequentially in 2018 Q1.

Union Bank of Taiwan



Statement of Internal Controls System

March 14, 2018

To Financial Supervisory Commission:

The following statement gives the results of a self-auditing of the internal control system of the Company, covering the period from Jan. 1, 2017 to Dec 31, 2017

- I. The Company understands that establishing, implementing, and maintaining an internal control system is the responsibility of the Company's Board of Directors and management team. The Company has established such a system. The internal control system aims to provide reasonable assurance regarding the achievement of the objectives of the operational soundness, reliable financial reporting, and compliance with applicable laws and regulations.
- II. The internal control system has its own limitations, and no matter how well it is designed, an effective internal control system can only provide reasonable assurance regarding the achievement of the three above-mentioned objectives. In addition, as the environment and circumstances of the company change, the effectiveness of its internal control system will change with it. However, the bond-operating department's internal control system is equipped with a self-monitoring mechanism, and as soon as a problem is identified, the company will take action to correct it immediately.
- III. The Company evaluates the design and effectiveness of its internal control system based on the Regulations Governing the Implementation of the Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies (hereinafter referred to as the "Regulations") of the FSC. The system should consist of at least five components: (1) control environment (2) risk assessment (3) control activities (4) information and communication (5) monitoring.
- IV. The Company has adopted the five components as mentioned above to evaluate the design and effectiveness of the internal control system.
- V. Based on the results of its evaluation as mentioned above, the Company believes that the design and execution of the internal control system during the aforementioned period was effective and was able to provide reasonable assurance regarding the achievement of the objectives of understanding operational soundness, financial reporting, and compliance with applicable laws and regulations.
- VI. This statement is a major part of the Company's annual report ad prospectus and will be made public. Under Articles 20, 32, 171 and 174 of the Securities and Exchange Act, any fraudulent statements or intentional failure to make the necessary disclosure will incur legal responsibility.
- VII. This statement was approved by the company's board of directors during its board meeting on March 14, 2018. Among the 8 directors who attended the meeting, none of them were opposed and all others agreed to the contents of this statement.

Chairman: Shiang-Chang Lee



President: Jeff Lin



Chief Auditor: Kuo-Pao Kang



Chief Compliance Officer of the Bank
Ching-Wen Chen



Corporate Governance

(12) Legal violations and the Bank's response for the most recent two years:

Disclosed Matter	Major Deficiency	Status of Improvement
(1) Responsible person or employees of the Bank violated the law when conducting business and resulted in an indictment by a prosecutor.	None	None
(2) A fine was levied on the Bank by the Financial Supervisory Commission for violations of laws and regulations.	1. The former employee of the Bank violated his authority and produced fake stamps, signatures and deposit account. He subsequently applied for loans and withdrew the money with the name of customer which violates Article 45-1 (1) of the Banking Act. He was fined with NT\$ 6 million in accordance with Article 129-7 of the Banking Act.	1. We have conducted punishments in accordance with the Bank's Work Rules after resolution by the Human Resource Arbitration Committee. To strengthen the operational requirements of credit lending, the management unit has announced and restated the amendments of operational control items for each operational unit. We have also proposed concrete improving measures in terms of transferring account, signature checking, meeting borrowers in person, contract deliver, and started up prevention mechanism for credit lending to prevent the occurrence of fake loans.
(3) Misconduct occurred and resulted in the Financial Supervisory Commission's imposing strict corrective measures.	None	None
(4) Punishment imposed by the Financial Supervisory Commission in accordance with Paragraph 1, Article 61-1 of the Banking Act of ROC	1. Invest in securities with a non-statutory investment grade exceeding the limits required by Article 74-1 of the Banking Act of the Republic of China(Taiwan). 2. Conduct the derivatives business:	1. In order to be able to respond immediately to changes in the assessment and exchange rates, the Bank has improved and revised the control mechanism as follows: (1) For those with only a BBB- rating, the current frequency of monthly monitoring is changed from every month to every ten days of each month. (2) Establish the early warning indicators for the exchange rate changes; that is, where the ratio of the Bank's investments in securities with a non-statutory investment grade reaches 9.5%, the exchange rate changes will be monitored every day. Through the above-mentioned control mechanism, the effective measures will be taken to comply with the statutory limits. 2. The Bank has improved and revised

Corporate Governance

Disclosed Matter	Major Deficiency	Status of Improvement
	<p>(1) Have personnel without legal qualifications handle the trading and understanding of customers, be engaged in the non-hedge TRF before the revisions were made to the internal operating regulations, the assessment standards for associated persons which have not been approved by the Board of Directors, and not included in the non-financial indicators, and be engaged in derivatives business and not report to the Financial Supervisory Committee (hereinafter referred to as the "FSC") for future reference.</p> <p>(2) Be engaged in complex high-risk derivatives trading not for hedge purposes with general customers.</p>	<p>relevant regulations to comply with the requirements of the management regulations:</p> <p>(1) The qualification of the working personnel will be managed in accordance with Article 17 of the "Directions for Banks Conducting Financial Derivatives Business" or the "Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business", revise the "Procedures for Derivatives Trading by the Bank", which has been approved by the Board of Directors on August 24, 2016, clearly specify the qualified personnel at the Department of Finance with to conduct KYC, formulate the regulations for requested documents, strengthen employee education and training, and include a non-financial indicators assessment mechanism in the personnel evaluation system; in addition, the business plan for a Bank engaged in the derivatives business has been approved by the board meeting on July 27, 2016 and reported to the FSC on August.12, 2016 for future reference</p> <p>(2) Carry out cross-checks on the relevant financial statements and documents, so that the assessment mechanism is more perfect.</p>
	<p>3. The same with Item 2 (1), the employee was laid off in accordance with of Article 61-1 Item 1-3 of the Banking Act.</p>	<p>The same with Item 2 (1).</p>
<p>(5) Accidents occurring as a result of a fraud, major non-recurring incidence or failure to comply with the Guidelines for Maintaining the Security of Financial Institutions, as a result of which individual or accumulated losses during the year amounted to NT\$ 50 million or more and therefore the nature and amount of loss for which shall be disclosed.</p>	<p>The same with Item 2 (1),the Bank recorded in account "Other receivables – fake amount in other receivable consumer loans" for NT\$96.78million.</p>	<p>The same with Item 2 (1).</p>
<p>(6) Other necessary disclosures prescribed by the Financial Supervisory Commission.</p>	<p>None</p>	<p>None</p>

Corporate Governance

(13) Material Resolutions of Shareholders Meetings or Board of Directors Meetings During the Current Fiscal Year up to the Date of Printing of the Annual Report

1. Material resolutions of a shareholders' meeting during 2017 and the status of implementation thereof
 - (1) Ratification of the surplus earnings distribution or loss make-up proposal for 2016: The resolution was adopted.
Status of implementation: The resolution of the dividend distribution of NTD 0.45 per share in cash was adopted by the Bank's shareholders' meeting. The distribution record date was determined to be July 29, 2017. Dividends were paid on August 23, 2017.
 - (2) Ratification of the 2016 Business Report and financial statements: The resolution was adopted.
 - (3) Revise part of Articles of the Bank's "Articles of Association": The resolution was adopted.
Approved by the Ministry of Economic Affairs for registration on July 5, 2017 and disclosed on the website of the Bank.
 - (4) Revise part of the Bank's "Procedures for Obtaining or Decomposing Assets": The resolution was adopted.
 - (5) Plan for long-term fund raising: The resolution was adopted.
The Bank completed the cash issuance of perpetual noncumulative preferred stock of NT\$ 10 billion on October 24, 2017.
2. Material resolutions of a board of directors meeting during 2017 or during the current fiscal year up to the date of publication of the annual report.
 - (1) On Jan. 18, 2017, the 12th meeting of the 9th Board of Directors resolved on the amendments of "Policy on Legal Compliance", "Principles Governing Corporate Governance Practices of Banks", "relevant matters to renew the appointment of Deloitte Taiwan in 2017 to handle the relevant matters to the Bank's financial statements and income tax settlement audit and declaration", "Internal Auditing System", and "2017 operating budget and operating policy by business for the whole bank".
 - (2) On March 22, 2017, the 13th meeting of the 9th Board of Directors resolved on the amendments of "Position and Loss Limit on Industry Credit Lending", "Regulations governing the Management of Enterprise Group Credit Risk", "Regulations Governing the Division of Authorities and Responsibilities on Credit Extensions for the Bank's Staff at All Levels" and authorization and operational rules for "TMU Derivatives Product Risk Limit", "Standards for Foreign Currency Security Investment", "Procedure guidelines for concurrent operation of insurance agent business", "Guidelines for Structural Investment Portfolio", "Guidelines for Exchange Rate Swap Business between NTD vs. Foreign Currency/Foreign Currency vs. Foreign Currency", "Procedures for Obtaining or Decomposing Assets", "Credit Limit on Real Estate Collateral Loans", "Standards for Capital Adequacy Management", and the submissions of the Bank's self-inspections of its internal control system, the overall assessment inspection report, and the audit results of the audit business for the whole year of 2016, "the Bank's 2016 Business Report and Financial Reports preliminarily audited by a CPA", "the Bank's 2016 surplus earning distribution", "compensation distribution of employees and directors for 2016", and revisions to "Articles of Association" and "Plan for long-term fund raising".

Corporate Governance

- (3) On May 10, 2017, the 14th meeting of the 9th Board of Directors resolved on the amendments of “internal audit operation of the Bank's concurrent operation of bonds proprietary business of the securities firms”, the Bank’s “internal control system of the Bank’s concurrent operation of securities firms”, formulation of the Bank’s “Operational Procedures for Full Authorization of Investing Marketable Securities”, revisions to “Guidelines for recognition of non-performing loans, overdue receivables and bad debts in consumer credit business operation”, “Organization Regulations”, “Articles of Association”, and the submission of the Bank’s Consolidated Financial Reports for the first quarter of 2017 audited by a CPA. .
- (4) On June 28, 2017, the 15th meeting of the 9th Board of Directors resolved on the revisions to the internal control system of the Bank’s concurrent operation of securities firms in the futures introducing broker business, “Submission and Report of the Bank’s ‘Information that Should be Declared in Compliance with the Principle of Supervision and Management’ for 2017”, and preparation of the Bank’s shares issuance by cash of Registered Series A Preferred Stock.
- (5) On August 23, 2017, the 16th meeting of the 9th Board of Directors resolved on the revisions to “the internal control system of the Bank’s concurrent operation of securities firms”, “Pricing Policy on Consumer Credit Business”, “Guidelines for Issuing Financial Bond”, “Banking Book Interest Rate Risk Management Policy”, proposal of applying to the FSC in increasing domestic branches, revisions to “Audit Committee Foundation Rules” and “Parliamentary Rules for Directors' Meetings”, formulation of the Bank’s “Rules for Ethical Conducts of Directors and Managers”, revisions to the “Bank’s policy for fair treatment of customers” and “the implementation strategy for fair treatment of customers”, “Money Laundering and Terrorist Financing Risk Assessment and Control Policy” and “Risk Assessment Report and Risk Control Project”, “Internal Auditing System”, and submission of the Bank’s Business Report and financial reports for the first half of 2017 audited by a CPA. .
- (6) On November 8, 2017, the 16th meeting of the 9th Board of Directors resolved on the revisions to “Operational Procedures for Full Authorization of Investing Marketable Securities”, “Procedures for Derivatives Trading by Union Bank of Taiwan Co., Ltd.”, “Regulations Governing the Division of Authorities and Responsibilities on Credit Extensions for the Bank’s Staff at All Levels” and authorization and operational rules for "TMU Derivatives Product Risk Limit", “Restrictions on lending to employees and related parties under the Banking Act”, formulation of “Management Directions Concerning Credit Extensions by the Bank to a Same Juristic Person, Group Enterprise, or Industry Type”, revisions to “Investment Policy”, “Operational Standards for Supervision and Control on Subsidiaries”, “Audit Committee Foundation Rules” and “Guideline Governing the Responsibilities of Independent Directors, proposal of the “subsequent planning for the Bank’s cash issuance of Series A Preferred Stock”, revisions to the Bank’s “Notices for Personal Information Protection”, “Internal Management Rules and Operational Procedures for using the competent authority’s financial examination reports”, “Internal Audit Operation Audit Plan for 2018”, “the Bank’s appointment of Deloitte Taiwan in auditing the project of anti-money laundering and countering the financing of terrorism in the first half of 2017 will be signed by the Chairman, President, Chief Auditor and Compliance Officer in the Statement of Internal Controls System”, and submission of the Bank’s Consolidated Financial Reports for 2017 Q3 audited by a CPA.

Corporate Governance

(14) During the current fiscal year up to the date of printing of the annual report, a director or supervisor has expressed a dissenting opinion with respect to a material resolution passed by the board of directors, and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal context thereof: None.

(15) A summary of resignations and dismissals, during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report, of persons connected with the company's financial report: None.

4. Information on CPA professional fees

(1)

Name of CPA Firm	Name of CPA		Audit Period	Note
Deloitte & Touche	Vincent Cheng	Charles Yang	January ~ December 2017	

CPA Professional Fees Bracket

In NT\$ thousand

Fees Bracket		Type of Fees	Audit Fees	Non-audit Fees	Total
1	Under 2,000				
2	2,000 (incl.) ~4,000				
3	4,000 (incl.) ~6,000		V	V	
4	6,000 (incl.) ~8,000				
5	8,000 (incl.) ~10,000				
6	10,000 and above				V

(2) Disclosure of the amount and service contents of payment to external auditors, the employer of the external auditors and affiliates on non-audit fees.

In NT\$ thousand

NAME OF CPA FIRM	Name of CPA	Audit Fee	Non-audit fee					Total	Period	Remark
			System Design	Business Register	H.R.	Others(ote1)	Total			
Deloitte & Touch	Vincent Cheng	5,227	0	83	0	5,121	5.204	Jan~Dec 2017		
	Charles Yang									

Corporate Governance

Note1: Other professional fees for non-auditing services referred to internal control review, business tax/annual report/bad debts verification, issuance of opinion letters, and so on.

- (3) Change of audit engagement and that the audit fee for the year of change is less than that charged for the year prior to the change: None.
- (4) Auditing fee is 15% or more below the fee charged for the previous year: The Auditing fee decrease by NT\$ 3,045 thousands (36.81%) due to the difference in payment time points.

5. Information on change of CPA: None

6. The Chairman, President and Executive Officers in charge of the Bank's financial or accounting affairs who have, during the past year, served a position in the CPA firm to which or its affiliated enterprises the independent auditor(s) belong to: None.

7. Transfer of Equity and Changes in Equity Used as Collateral by Directors, Supervisors, Managers, and Others Required to Report Equity in accordance with Paragraph 3, Article 25 of the Banking Act. :

(1) Changes in shareholding (preferred stock shows with "P" while occurs)

Title	Name	2017		April 10, 2018	
		Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)	Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)
Chairman	Shiang-Chang Lee	0	0	0	0
Independent Managing Director	Kao-Jing Wang	0	0	0	0
Independent Director	Zen-Fa Lu	0	0	0	0
Independent Director	Guo-Zhang, Li	(30,530) 1875(P) (1875)(P)	0	0	0
Director	Union Construction Enterprise Co., Ltd.	0	0	0	0
Managing Director	Chen-Chern Investment Co., Ltd.	4,245,959(P)	0	0	0
Director	Yu-Pang Co., Ltd.	0	0	0	0

Corporate Governance

Title	Name	2017		April 10, 2018	
		Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)	Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)
Director	Chi-Shun Investment Co., Ltd.	0	0	0	0
Director	Yu-Quan Lee	0	0	0	0
Supervisor	Pao-Shing Investment Co., Ltd.	5,586,760(P)	0	0	0
Supervisor	Pai-Sheng Investment Co., Ltd.	8,167,281(P)	0	0	0
President	Jeff Lin	0	0	0	0
SEVP	Yin-Bor Chan	20,000(P)	0	0	0
SEVP	Herman Tu	0	0	0	0
SEVP	Cheng-Yu Liu	20,000(P)	0	0	0
SEVP	Wei-Wen Hsu	0	0	0	0
Chief Auditor	Kuo-Pao Kang	2,141(P)	0	0	0
EVP	Cheng-Juh Hsieh	62,170(P)	0	2,830(P)	0
EVP	Ching-Shou Liu	45,663(P)	0	0	0
EVP	Jeng-Ping Liu	(48,000)			
Manager	Michael Lin	0	0	0	0
Manager	Huei-Wen Chang	2,000(P)	0	0	0
Manager	Chuen-Chour Li	20,000(P)	0	0	0
Manager	Chan-Kwei Chen	8,523(P)	0	0	0
Manager	Wendy Chi	0	0	0	0
Manager	Ming-Tsan Hung	5,000(P)			
Manager	Chien-Hui Li	10,000(P)	0	10,000(P)	0
Manager	Jen-Chung Cheng	1,513(P)	0	0	0
Manager	Ya-Yun Yang	10,000(P)	0	10,000(P)	0
Manager	Su-Yean Lo	0	0	0	0
Manager	Ru-Ji Cheng	10,000(P)	0	0	0
Manager	Liang-Kuei Kuo	0	0	0	0
Manager	Hann-Tsau Tsai	10,000(P)	0	0	0
Manager	Chang-Yung Chen	10,738(P)	0	0	0
Manager	Cheng-Fa Huang	0	0	0	0
Manager	Chia-Yu Chuo	6000(P)	0	0	0
Manager	Joy Tang	0	0	0	0
Manager	Luke Yang	0	0	0	0
Manager	June Kao	20,000(P)	0	0	0
Manager	Liu, Chueh-Ling	10,000(P)	0	0	0
Manager	Kuo-Kuang Chou	8,000(P)	0	0	0
Manager	Jacky Liao	16,000(P)	0	0	0
Manager	Wen-Chian Chang	614(P)	0	0	0
Manger	Anita Hung	0	0	0	0
Manager	Jane Lu	0	0	0	0
Manager	Wen-Chi Chiang	0	0	0	0
Manager	Ling-Jung Hsiung	0	0	0	0
Manager	Yu-Hsiu Hsu	0	0	0	0

Corporate Governance

Title	Name	2017		April 10, 2018	
		Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)	Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)
Manager	Peter Chien	20,000(P)	0	0	0
Manager	Shih-Shien Chene	0	0	0	0
Manager	Russell YC Chang	0	0	0	0
Manager	Chang-Chen Lin	4,000(P)	0	0	0
Manager	Gary Tsai	(7,000) 1,243(P)	0	0	0
Manager	Shum-Chen, Tu	12,000(P)	0	0	0
Manager	Ching-Shyong Huang	0	0	0	0
Manager	Chu-Shih Wei	7,029(P)	0	0	0
Manager	Sophie Hsu	10,000(P)	0	0	0
Manager	Michael Lee	(21,000) 6,000(P)	0	0	0
Manager	Chun-Hsien Chang	6,000(P)	0	0	0
Manager	Chien-Lung Chen	20,588(P)	0	(6,000)(P)	0
Manager	Tawei Shih	20,000(P)	0	0	0
Manager	Shu-Feng Hsueh	10,000(P)	0	0	0
Manager	Lawrence Chen	0	0	0	0
Manager	Yeong-Jin Hwang	0	0	0	0
Manager	Meng-Hsia Wu	0	0	0	0
Manager	Chien-Chung Su	14,687(P)	0	0	0
Manager	Hui-Chin Yang	16,000(P)	0	(13,000)(P)	0
Manager	Ye-Yan Lin	8,981(P)	0	0	0
Manager	Ching-Wen Chen	10,000(P)	0	0	0
Manager	Chih-Chung Chang	(18,000) 100,000(P)	80,000(P)	0	0
Manager	Fang-Ni Wang	5,000(P)	0	0	0
Manager	Lanny Liaw	0	0	0	0
Manager	Yen-Jou Liu	0	0	0	0
Manager	Shih-Fu Liu	0	0	0	0
Manager	Vickie Chou	0	0	0	0
Manager	Shen-Yung Peng	0	0	0	0
Manager	I-Ho Ou	14,000(P)	0	0	0
Manager	Sheng-Hsiu Chou	14,000(P)	0	0	0
Manager	Teh-Chin Tsai	21,851(P)	0	0	0
Manager	Kuo-Yi Lu	90,469(P)	0	0	0
Manager	Hsiu-Yun Su	17,191(P)	0	0	0
Manager	Shis-Wen Lu	0	0	0	0
Manager	Kuan-Hong Lee	10,700(P)	0	0	0
Manager	Hung-Min Chen	16,114(P)	0	0	0
Manager	James Tsai	10,000	0	0	0
Manager	Alex Ciu	4,557(P)	0	0	0
Manager	Hui-Fen Chao	0	0	0	0
Manager	Chia-Wei Lin	14,000(P)	0	0	0
Manager	Huei-Jen Chiou	3,384(P)	0	0	0
Manager	Chien-Chung Wu	0	0	0	0

Corporate Governance

Title	Name	2017		April 10, 2018	
		Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)	Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)
Manager	Wu-Yuan Chen	20,000(P)	0	0	0
Manager	Shan-Chih Yen	17,766(P)	0	0	0
Manager	Ta-Yu Chin	12,846(P)	0	0	0
Manager	Chi-Fang Chu	8,000(P)	0	0	0
Manager	Candy Lin	5,000(P)	0	0	0
Manager	Roger Chang	0	0	0	0
Manager	Hsien-Ming Yen	(10,000)	0	(9,000)	0
Manager	Feng-Li Lin	0	0	0	0
Manager	Miao-Hui Yeh	0	0	0	0
Manager	CM Huang	4,000(P)	0	0	0
Manager	I-Wen Ho	16,000(P)	0	0	0
Manager	Cheng-Hsien Tseng	6,722(P)	0	0	0
Manager	Jeffery Tsai	29,622(P)			
Manager	Ju-Ling Kuo	(79,000) 16,000(P) (1,000)(P)	0	(15,000)(P)	0
Manager	Wen-Hui Lin	19,192(P)	0	0	0
Manager	Miranda Tsai	20,000(P)	0	0	0
Manager	Kuen-Cheng Chou	11,219(P)	0	0	0
Manager	Jyh-Chiang Huang	0	0	0	0
Manager	Wen-Jui Chou	2,000(P) (2,000)(P)	0	0	0
Manager	Ping-Hui Lin	20,000(P)	0	0	0
Manager	Shiu-Lan Hsieh	12,211(P)	0	0	0
Manager	Tereasa Lin	7,262(P)	0	0	0
Manager	Amy Chung	3,000(P)	0	0	0
Manager	Cooper Kao	16,710(P)	0	0	0
Manager	Yao-Hsien Lee	16,000(P)	0	0	0
Manager	Chao-Chuan Chuang	10,793(P)	0	0	0
Manager	Jung-Hsiang Chung	1,305(P)	0	0	0
Manager	Kuang-Yi Kuo	11,596(P)	0	0	0
Manager	Chang-Fu Tsai	1,044(P)	0	0	0
Manager	Connie Tseng	2,000(P)	0	0	0
Manager	Lisa Lu	8,000(P)	0	0	0
Manager	Liang-Wen Liu	0	0	0	0
Manager	Mei-Ling Lee	8,000(P)	0	0	0
Manager	Wen-Shien Chu	20,000(P)	0	0	0
Manager	Fei-Kun Lin	21,329(P)	0	0	0
Manager	Shu-Huey Huang	0	0	0	0
Manager	Chien-Chou Chen	15,069(P)	0	0	0
Manager	Chen-Jen Chang	3,000(P)	0	0	0
Manager	Wen-Chih Cheng,	0	0	0	0
Manager	Yanger Yang	28,930(P)	0	0	0
Major Shareholder	Tsong-Li Investment Co., Ltd.	0	0	0	0

Corporate Governance

Title	Name	2017		April 10, 2018	
		Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)	Shareholding Increase (Decrease)	Share Pledges Increase (Decrease)
Major Shareholder	Pai-Sheng Investment Co., Ltd.	8,167,281(P)	0	0	0
Major Shareholder	Tien-Sheng Investment Co., Ltd.	0	0	0	0
Major Shareholder	Chen-Chern Investment Co., Ltd.	4,245,959(P)	0	0	0
Major Shareholder	Chien-Tuan Investment Co., Ltd.	0	0	0	0
Major Shareholder	Wei-Chih Investment Co., Ltd.	0	0	0	0
Major Shareholder	Chuo-Pao Investment Co., Ltd.	0	0	0	0
Major Shareholder	Kun-Che Investment Co., Ltd.	0	0	0	0
Major Shareholder	Chi-Shun Investment Co., Ltd.	0	0	0	0
Major Shareholder	Jan-Pang Investment Co., Ltd.	0	0	0	0
Major Shareholder	Pao-Shing Investment Co., Ltd.	5,586,760(P)	0	0	0
Major Shareholder	Union Enterprise Construction Co., Ltd.	0	0	0	0
Major Shareholder	Hung-Hsiang Investment Co., Ltd.	0	0	0	0
Major Shareholder	Hong-Gow Investment Co., Ltd.	0	0	0	0
Major Shareholder	Bai-Ing Investment Co., Ltd.	0	0	0	0
Major Shareholder	Chen-Sheng Investment Co., Ltd.	0	0	0	0
Major Shareholder	Lin, Chang Su-O	0	0	0	0
Major Shareholder	Lin Rong San Foundation of Culture and Social Welfare	0	0	0	0
Major Shareholder	Hong-Pern Construction Co., Ltd.	0	0	0	0
Major Shareholder	Hong-Pang Construction Co., Ltd.	0	0	0	0
Major Shareholder	Union Recreation Enterprise Co., Ltd.	0	0	0	0
Major Shareholder	Yu-Pang Co., Ltd.	0	0	0	0

Note: Preferred Stock shows with "P" while occurs.

- (2) Information on Share Transfer: Not applicable as the counter parties to the share transfer are non-related parties.
- (3) Information on Share Pledge: Not applicable as there is no change on the share pledge.

Note: Share number change is for preferred stocks; the unmarked numbers are for common stocks

8. Information for Top 10 Shareholders Being the Related Parties

April 10, 2018 Unit: Shares ; %

Shareholder ^(Note 1)	Shareholding		Spouse or minor children's shareholding		Top 10 shareholders being the related parties to each other		Name of and Relationship Between the Top Ten Shareholders Being A Related Party as Defined in Statements of Financial Accounting Standards No. 6	
	Shares (Preferred Stock Included)	%	Shares	%	Shares	%	Name	Relation
Tsong Li Investment Co., Ltd. Representative: Hong-Bung Lin	208,737,794 5,594,725	7.44% 0.19%	- -	- -	- -	- -		
Pai-Sheng Investment Co., Ltd. Representative: Si-Yong Lin	141,148,618 289,836	5.03% 0.01%	- 1,499,860	- 0.05%	- -	- -	Chu-Pao Investment Co., Ltd. Pai-Sheng Investment Co., Ltd.	The Company's responsible person is the same as that of the other company
Tien-Sheng Investment Co., Ltd. Representative: Chung- Yu Lee	129,498,269 122,445	4.61% 0	-	-	-	-		
Chen-Chern Investment Co., Ltd. Representative: Chung- Yu Lee	129,275,599 122,445	4.60% 0						
Chien-Yuan Investment Co., Ltd. Representative: C.C. Chang	120,557,234 583,311	4.29% 0.02%	- -	- -	- -	- -		-

Corporate Governance

Shareholder ^(Note 1)	Shareholding		Spouse or minor children's shareholding		Top 10 shareholders being the related parties to each other		Name of and Relationship Between the Top Ten Shareholders Being A Related Party as Defined in Statements of Financial Accounting Standards No. 6	
	Shares (Preferred Stock Included)	%	Shares	%	Shares	%	Name	Relation
Wei-Chih Investment Co., Ltd. Representative: S.S. Yeh	115,417,866 0	4.11% 0	-	-	-	-		
Chu-Pao Investment Co., Ltd. Representative: Si-Yong Lin	108,600,778 289,836	3.87% 0.01%	- 1,499,860	- 0.05%	-	-	Chu-Pao Investment Co., Ltd. Pai-Sheng Investment Co., Ltd.	The Company's responsible person is the same as that of the other company
Kun-Che Investment Co., Ltd. Representative: Y. C. Huang	104,496,932 8,201	3.72% 0%	-	-	-	-		-
Chi-Shun Investment Co., Ltd. Representative: Jyh-Dong Chen	97,059,211 324,655	3.46% 0.01%	-	-	-	-		-
Pao-Shing Investment Co., Ltd. Representative: Lin Chiou-Tzy Lin	96,551,526 563,735	3.44% 0.02%	-	-	-	-		-

Note: Calculation of shares and holding rate includes the Preferred Stock ◦

9. Ownership of Investee Companies

December 31, 2017 Unit: Shares ; %

Investee Companies ^{Note}	Invested by the Bank (A)		Investments from Directors, Supervisors, Executive Officers and Directly or Indirectly Controlled Entities of the Bank (B)		Total Investments (C=A+B)	
	Shares	%	Shares	%	Shares	%
Union Finance Int'l (HK)Ltd.	30,000,000	99.999993%	2	0.000007%	30,000,002	100.00%
Union Information Technology Corp.	999,923	99.99%	0	0.00%	999,923	99.99%
Union Finance and Leasing Int'l Corp.	117,000,000	100.00%	0	0.00%	117,000,000	100.00%
Union Securities Investment Trust Corp.	10,500,000	35.00%	2,595,656	8.652%	13,095,656	43.65%
Union Real-Estate Management Corp.	2,000,000	40.00%	1,450,000	29.00%	3,450,000	69.00%
Taiwan Asset Management Corp.	7,500,000	0.57%	0	0.00%	7,500,000	0.57%
Li Yu Venture Corporation	606,804	4.76%	0	0.00%	606,804	4.76%
Taiwan Financial Asset Service Corp.	5,000,000	2.94%	0	0.00%	5,000,000	2.94%
Financial Information Service Co., Ltd.	12,497,985	2.39%	0	0.00%	12,497,985	2.39%
Fu Hua Venture Corporation	990,000	5.00%	0	0.00%	990,000	5.00%
Taiwan Depository & Clearing Corp.	899,441	0.25%	0	0.00%	899,441	0.25%
Taiwan Futures Exchange Co., Ltd.	6,421,799	2.04%	0	0.00%	6,421,799	2.04%
Taipei Forex Inc.	160,000	0.81%	0	0.00%	160,000	0.81%
Huan Hua Securities Finance Co.	2,102,512	0.53%	0	0.00%	2,102,512	0.53%
Lian An Service Corporation	125,000	5.00%	0	0.00%	125,000	5.00%
I-Pass Corporation	13,000,000	16.25%	0	0.00%	13,000,000	16.25%
Taipower Corporation	394,879	0.0012%	0	0.00%	394,879	0.0012%
Taiwan Mobile Payment Corporation	600,000	1%	0	0.00%	600,000	1%
Sunny Asset Management Co.	386,376	6.44%	0	0.00%	386,376	6.44%

Note : Investments made in accordance with Article 74 of the Banking Act.

Fund Raising Status

1. Capital and Shares

(1) Sources of Capital

Date	Issued Price	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount (\$)	Shares	Amount (\$)	Source of Capital	Notes
Dec. 1991	10	1,200,000,000	12,000,000,000	1,200,000,000	12,000,000,000	The promoters of a company subscribed shares for 9,600,000,000 Publicly soliciting subscription to shares for 2,400,000,000	—
Jul 1995	10	1,230,000,000	12,300,000,000	1,230,000,000	12,300,000,000	Capital Increase Via Return Earning	1
Jul 1997	10	1,281,660,000	12,816,600,000	1,281,660,000	12,816,000,000	Capital Increase Via Return Earning	2
Jul 1998	10	1,361,516,990	13,615,169,900	1,361,516,990	13,615,169,900	Capital Increase Via Return Earning	3
Jul 1999	10	1,418,700,704	14,187,007,040	1,418,700,704	14,187,007,040	Capital Increase Via Return Earning	4
Jul 2000	10	1,488,926,389	14,889,263,890	1,488,926,389	14,889,263,890	Capital Increase Via Return Earning	5
Mar 2005	10	2,488,926,389	24,889,263,890	1,788,926,389	17,889,263,890	Cash Capital Increase	6
Jun 2005	10	2,488,926,389	24,889,263,890	1,825,394,074	18,253,940,740	C.B. Conversion	7
Dec. 2006	10	2,488,926,389	24,889,263,890	1,827,797,807	18,277,978,070	C.B. Conversion	8
Mar 2007	10	2,488,926,389	24,889,263,890	1,828,066,183	18,280,661,830	C.B. Conversion	9
Sep 2007	10	3,000,000,000	30,000,000,000	2,228,066,183	22,280,661,830	Preferred Stocks of Private Placement	10
Sep 2007	10	3,000,000,000	30,000,000,000	2,318,824,429	23,188,244,290	C.B. Conversion	11
May 2010	10	3,000,000,000	30,000,000,000	1,753,661,989	17,536,619,890	Capital reduction offset loss	12
Sep 2010	10	3,000,000,000	30,000,000,000	1,948,499,589	19,484,995,890	Capital Increase Via Amalgamation	13
Sep 2012	10	3,000,000,000	30,000,000,000	2,026,439,572	20,264,395,720	Capital Increase Via Return Earning	14
Aug 2013	10	3,000,000,000	30,000,000,000	2,216,525,121	22,165,251,210	Capital Increase Via Return Earning & Bonus Share	15
Aug 2014	10	3,000,000,000	30,000,000,000	2,450,930,628	24,509,306,280	Capital Increase Via Return Earning & Bonus Share	16
Sep 2015	10	3,000,000,000	30,000,000,000	2,605,152,427	26,051,524,270	Capital Increase Via Return Earning & Bonus Share	17
Oct 2017	50	4,500,000,000	45,000,000,000	2,805,152,427	28,051,524,270	Issuance of preferred stock by cash	18 (revised in Articles of Association)

Notes: 1. According to Tai-Tsai-Zheng Tze (1) Letter No. 35096 issued by the Ministry of Finance on June 14, 1995. 2. According to Tai-Tsai-Zheng Tze (1) Letter No. 44753 issued by the Ministry of Finance on June 6, 1997. 3. According to Tai-Tsai-Zheng Tze (1) Letter No. 55074 issued by the Ministry of Finance on June 23, 1998.

4. According to Tai-Tsai-Zheng Tze (1) Letter No. 57967 issued by the Ministry of Finance on June 25, 1999.

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5. According to Tai-Tsai-Zheng Tze (1) Letter No. 57163 issued by the Ministry of Finance on July 4, 2000.
6. According to Jin-Kuan-Zheng Tze (1) Letter No. 0930160237 issued by the Financial Supervisory Commission on January 10, 2005.
7. According to Jing-Shou-Shang Tze Letter No. 09401110140 issued by the Ministry of Economic Affairs on June 21, 2005.
8. According to Jing-Shou-Shang Tze Letter No. 09601055460 issued by the Ministry of Economic Affairs on March 20, 2007.
9. According to Jing-Shou-Shang Tze Letter No. 09601248450 issued by the Ministry of Economic Affairs on October 16, 2007.
10. According to Jin-Kuan-Yin Tze (2) Letter No. 09600410990 issued by the Financial Supervisory Commission on September 21, 2007.
11. According to Jing-Shou-Shang Tze Letter No. 09601305020 issued by the Ministry of Economic Affairs on December 14, 2007.
12. According to Jin-Kuan-Zheng Tze (1) Letter No. 0990020484 issued by the Financial Supervisory Commission on May 14, 2010.
13. According to Jing-Shou-Shang Tze Letter No. 09901196320 issued by the Ministry of Economic Affairs on September 1, 2010.
14. According to Jing-Shou-Shang Tze Letter No. 10101199660 issued by the Ministry of Economic Affairs on September 24, 2012.
15. According to Jing-Shou-Shang Tze Letter No. 10201171350 issued by the Ministry of Economic Affairs on August 22, 2013.
16. According to Jing-Shou-Shang Tze Letter No. 10301166960 issued by the Ministry of Economic Affairs on August 26, 2014.
17. According to Jing-Shou-Shang Tze Letter No. 10401185290 issued by the Ministry of Economic Affairs on September 10, 2015.
18. According to Jin-Kuan-Zheng Tze Letter No. 1060033586 issued by the Financial Supervisory Commission on September 1, 2017.

Type of Shares	Authorized Capital			Remark
	Issued Shares	Unissued Shares	Total	
Common Stock	2,605,152,427	1,694,847,573	4,500,000,000	Listed shares
Preferred Stock	200,000,000			

Note: The Bank revised the “Articles of Association” on June 20, 2017 after the resolution of Annual Shareholders General Meeting, in which the amount of share capital authorized was raised from NT\$ 30 billion to NT\$ 45 billion. But the actual capital amount issued as of the record date has not reached the limit of NT\$ 30 billion listed in the Change Registration Form of Ministry of Economic Affairs, and thus the Bank has not registered for the increase in the amount of share capital authorized.

(2) Shareholder Composition

A. Common Stock

April 10, 2018

Shareholder Composition Amount	Government Agencies	Financial Institutions	Other Legal Entities	Individuals	Foreign Institutions & Individuals	Total
	No. of Shareholders	0	0	84	29,643	92
No. of Shares Held	0	0	2,058,275,096	491,203,693	55,673,638	2,605,152,427
% of Shareholding	0.00%	0.00%	79.00%	18.86%	2.14%	100%

Fund Raising Status

B. Preferred Stock

April 10, 2018

Shareholder Composition Amount	Government Agencies	Financial Institutions	Other Legal Entities	Individuals	Foreign Institutions & Individuals	Total
No. of Shareholders	0	4	102	12,586	3	12,695
No. of Shares Held	0	5,750,000	99,696,143	94,480,283	73,574	200,000,000
% of Shareholding	0.00%	2.87%	49.85%	47.24%	0.04%	100%

(3) Distribution of Shareholding

A. Common Stock

Par value per share NTS 10; April 10, 2018

Class of Shareholding	Number of Shareholders	Shareholding (Shares)	Shareholding (%)
1 ~ 999	12,224	3,031,795	0.12%
1,000 ~ 5,000	8,402	18,588,535	0.71%
5,001 ~ 10,000	2,928	20,924,664	0.80%
10,001 ~ 15,000	3,127	38,901,763	1.49%
15,001 ~ 20,000	587	10,476,957	0.40%
20,001 ~ 30,000	745	18,269,268	0.70%
30,001 ~ 50,000	556	21,712,573	0.84%
50,001 ~ 100,000	537	37,267,475	1.43%
100,001 ~ 200,000	334	45,624,263	1.75%
200,001 ~ 400,000	193	55,206,261	2.12%
400,001 ~ 600,000	66	33,094,590	1.27%
600,001 ~ 800,000	26	17,985,809	0.69%
800,001 ~ 1,000,000	15	13,454,102	0.52%
Over 1,000,001	79	2,270,614,372	87.16%
Total	29,819	2,605,152,427	100.00%

B. Preferred Stock

Par value per share NTS 50; April 10, 2018

Class of Shareholding	Number of Shareholders	Shareholding (Shares)	Shareholding (%)
1 ~ 999	1,253	311,844	0.16%
1,000 ~ 5,000	9,239	12,070,347	6.04%
5,001 ~ 10,000	832	6,799,679	3.40%
10,001 ~ 15,000	191	2,415,197	1.21%
15,001 ~ 20,000	399	7,792,985	3.90%
20,001 ~ 30,000	127	3,338,209	1.67%
30,001 ~ 50,000	194	7,948,877	3.97%
50,001 ~ 100,000	226	17,917,460	8.96%
100,001 ~ 200,000	150	25,988,426	12.99%
200,001 ~ 400,000	33	10,886,156	5.44%
400,001 ~ 600,000	18	10,227,517	5.11%
600,001 ~ 800,000	4	2,853,000	1.43%
800,001 ~ 1,000,000	3	2,988,000	1.49%
Over 1,000,001	26	88,462,303	44.23%
Total	12,695	200,000,000	100.00%

Fund Raising Status

(4) Major Shareholders

April 10, 2018

Major Shareholders	Shares	No. of shares Held (preferred stocks included)	% of shareholding
Tsong-Li Investment Co., Ltd.		208,737,794	7.44%
Pai-Sheng Investment Co., Ltd.		141,148,618	5.03%
Tien-Sheng Investment Co., Ltd.		129,498,269	4.61%
Chen-Chern Investment Co., Ltd.		129,275,599	4.60%
Chien-Yuan Investment Co., Ltd.		120,557,324	4.29%
Wei-Chih Investment Co., Ltd.		115,417,866	4.11%
Chu-Pao Investment Co., Ltd.		108,600,778	3.87%
Kun-Che Investment Co., Ltd.		104,496,932	3.72%
Chi-Shun Investment Co., Ltd.		97,059,211	3.46%
Pao-Shing Investment Co., Ltd.		96,551,526	3.44%
Jen-Pang Construction Co., Ltd.		96,351,542	3.43%
Union Enterprise Construction Co., Ltd.		90,901,025	3.24%
Hung-Hsiang Investment Co., Ltd.		90,018,809	3.20%
Hong-Gow Construction Co., Ltd.		84,190,558	3.00%
Bai-Ing Investment Co., Ltd.		82,938,825	2.95%
Chen-Sheng Investment Co., Ltd.		78,043,543	2.78%
Lin, Chang Su-O		77,589,307	2.76%
Lin Rong San Foundation of Culture and Social Welfare		65,977,797	2.35%
Hong-Pern Construction Co., Ltd.		59,230,866	2.11%
Hong-Pang Construction Co., Ltd.		50,123,345	1.78%
Union Recreation Enterprise Co., Ltd.		43,973,644	1.56%
Yu-Pang Co., Ltd.		37,972,999	1.35%

Notes:

1. The list above shows the shareholders with shareholding over 1% or ranked top 10.
2. The number of shares held and the % of shareholding include preferred stocks.

(5) Market Price, Net Worth, Earning & Dividend per Share and Other Relative Information for the Past Two Years

Item	Year	2016	2017
		Market price per share	
	Highest	9.55	9.37
	Lowest	8.46	8.83
	Average	8.92	9.10
Net Worth per share	Before Distribution	13.80	14.56
	After Distribution	13.35	Note4
Earnings per	Weighted Average Shares	2,605,152	2,605,152

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Item		Year	
		2016	2017
share	Earning Per Share(NT\$)	1.01	1.05
	Cash Dividends	0.45	0.40 (Note 4)
Dividend per share	Stock Dividends	Dividends from retained earning	0.3
		Dividends from capital reserve	-
	Accumulated Dividends	-	-
Return on investments	Price/Earning Ratio ^{Note1}	8.83	8.67
	Price/Dividend Ratio ^{Note2}	19.82	22.75
	Cash dividends yield rate ^{Note3}	5.04%	4.40%

Notes:

1. P/E ratio= Average closing share price for the current fiscal year/ earnings per share.
2. P/D ratio= Average closing share price for the current fiscal year/ cash dividends per share.
3. Cash dividend yield to maturity= Cash dividends per share/ average closing share price for the current fiscal year.
4. The distribution of 2017 earnings will be confirmed when it is passed by a resolution at the 2018 Shareholders' Meeting.
5. Net worth per share and earnings per share have been audited by independent auditors.

(6) Dividend Policy and Implementation

A. Dividend policy set out in the Bank's Articles of Incorporation:

If there are earnings, they shall first be used to make tax payments and offset against prior year losses and 30% of the remaining, if any, shall be set aside as a legal reserve. The Bank may, according to regulatory requirements and business needs, set aside or reverse a special reserve and distribute the remaining balance plus unappropriated earnings from the previous year in the form of preferred stock dividends. The types and percentage in cash and shares of the dividends and bonuses distributed are decided by the Board of Directors based on current financial condition, future profitability and the Bank's capital budget planning. In principle, the Bank may distribute stock dividends if, after the distribution of the dividends, the ratio of the Bank's core capital as a percentage of risk-based assets is less than the statutorily required ratio plus one percent point. However, the maximum cash profits which may be distributed shall not exceed fifteen percent (15%) of the Bank's paid-in capital unless and until the accumulated legal reserve equals the Bank's paid-in capital.

B. Proposal for dividend distribution for the current year:

The Board of Directors resolved in the meeting held on March 14, 2018 to approve the earnings distribution proposal for 2017 as follows: cash dividends on preferred stocks are NT\$ 0.45369863 per share (based on the 69 days of shares outstanding in 2017 and the dividend rate of 4.8%); cash dividends on common shares are NT\$ 0.40 per share and stock dividends on common shares are NT\$ 0.30. The actual earnings per share distributed described above may be adjusted by the Board of

Fund Raising Status

Directors based on the number of outstanding shares as recorded in the common shareholders' register on the record date.

(7) Impact on the bank's Operations Results and Earning per Share resulting from the Proposal for Stock Dividend Distribution

Item	Year	Year2018 (Forecast)
Beginning Paid-In Capital		Common shares: 26,051,524,000 NT \$ Preferred stocks: 2,000,000,000 NT\$
Stock and Cash Dividend in this Year	Cash Dividend per share	Preferred stocks: 0.453698 63 NTdollars per share Common shares: 0.40 NTdollars per share
	Capitalization of Retained Earnings Stock Dividend per share	0.03 shares per share (common shares)
	Capitalization of Capital Reserves Stock Dividend per share	None
Operation Result Changes	Operating Profit	Not Applicable (Note)
	Ratio of Increase (Decrease) in Operating Profit Compared to the same period last year	
	Net Profit after Tax	
	Ratio of Increase (Decrease) in After Tax Net Profit Compared to the same period last year	
	Earnings per Share (NT\$)	
	Ratio of Increase (Decrease) in Earnings per share Compared to the same period last year	
Pro forma Earnings per Share and P/E Ratio	If Capitalization of Surplus is all changed to the Issuance of Cash Dividend	Pro forma earnings per share (NT\$)
		Pro forma annual average return on investment
	If Capitalization of Capital Reserve in not conducted.	Pro forma earnings per share (NT\$)
		Pro forma annual average return on investment
	If Capitalization of Capital Reserve is not conducted and Capitalization of Surplus is all changed to the Issuance of Cash Dividend	Pro forma earnings per share (NT\$)
		Pro forma annual average return on investment

Note: The Bank has not published the financial forecasts for the 2018 fiscal year. According to Tai-Tsai-Zheng Tze (1) Letter No. 00371 issued by the Ministry of Finance on February 1, 2000, companies that have not published their financial forecasts are not required to disclose this information.

(8) Employees' Bonus and Directors' & Supervisors' Remuneration

- A. The percentages or ranges with respect to employee bonuses and director/supervisors' remuneration, as set forth in the Bank's Articles of Incorporation:
- a. Employees' remuneration: Between 1% and 5% of net profit; where employees' remuneration is paid in shares, the beneficiaries may include

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employees of subordinated companies that satisfy certain criteria. These criteria shall be determined by the board of directors.

b. Directors' remuneration: No more than 0.1% of net profit.

The board of directors is authorized to change the rules of employees' and directors' remuneration described above.

In any case, however, profits must first be taken to offset against cumulative losses, if any, before the remainder can be distributed as employees' and directors' remuneration according to the above percentages.

B. If the estimated bonus to employees and remuneration to directors and supervisors, differ from the actual amounts subsequently resolved by the stockholders meeting the differences are to be recorded the profit (loss) of the year as result of a change in accounting estimate.

C. The proposals to distribute remuneration approved by the Board of Directors are as follows:

(1) Employees' and directors' remuneration distributed by cash or stocks: The Bank's Board of Directors resolved on March 14, 2018 to distribute the employees' remuneration and directors' remuneration in 2017 totaling NT\$ 62,163,553 and NT\$ 3,040,609, respectively. The employees' remuneration will be distributed in stocks and calculated based on the Bank's common stock closing price of NT\$ 9.27 on March, which are 6,705,884 shares in total with face value of NT\$ 10 per share (the remaining remuneration of NT\$ 8.32 that is not enough for one share will be distributed by cash); the remuneration for directors are all distributed by cash. The amounts mentioned above have no difference with that estimated in the year of expense recognition.

(2) The ratio of the employees' stock remuneration to the after-tax income in the individual financial report for the current period and the total amount of employees' remuneration: 2.21%.

D. Actual employees', directors', and supervisors' remuneration in the previous year:

Unit: NTD

	Amount proposed and passed by the board	Amount actually paid	Difference	Remarks
Employees' remuneration	60,601,611	60,601,611	—	
Directors' and supervisors' remuneration	2,964,209	2,964,209	—	
Total	63,565,820	63,565,820	—	

Note: The above-mentioned amount will be paid entirely in cash.

(9) Share Repurchases by the bank: None

2. Issuance of Financial Debentures

Type of Financial Debentures	1st Subordinated Financial Debentures issued in 2011	1st Subordinated Financial Debentures issued in 2012	1st Subordinated Financial Debentures issued in 2013	1st Subordinated Financial Debentures issued in 2015	1 st Perpetual Non-Cumulated Subordinated Financial Debentures issued in 2016	1 st Perpetual Non-Cumulated Subordinated Financial Debentures issued in 2017

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Type of Financial Debentures	1st Subordinated Financial Debentures issued in 2011	1st Subordinated Financial Debentures issued in 2012	1st Subordinated Financial Debentures issued in 2013	1st Subordinated Financial Debentures issued in 2015	1 st Perpetual Non-Cumulated Subordinated Financial Debentures issued in 2016	1 st Perpetual Non-Cumulated Subordinated Financial Debentures issued in 2017
Date & No. Approved by Central Competent Authority	Jin-Kuan-Yin-Kuo-Zi-No. 10000158270 May 12, 2011	Jin-Kuan-Yin-Kuo-Zi-No. 10000387590 Nov. 8, 2011	Jin-Kuan-Yin-Kuo-Zi-No. 10200321780 Nov.20, 2013	Jin-Kuan-Yin-Kuo-Zi-No. 10400055530 Apr.1 , 2015	Jin-Kuan-Yin-Kuo-Zi-No. 10500034480 Feb.24, 2016	Jin-Kuan-Yin-Kuo-Zi-No. 10500034480 Feb.24, 2016
Issuing Date	Jun. 15, 2011	Mar. 1, 2012	Dec 19, 2013	Apr 22, 2015	March 29,2016	March 23,2017
Face Value	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Issuance/ Trade Place	Domestic	Domestic	Domestic	Domestic	Domestic	Domestic
Currency	NTD	NTD	NTD	NTD	NTD	NTD
Issuance Price	Issued at par	Issued at par	Issued at par	Issued at par	Issued at par	Issued at par
Issuance Amount	2 billion	1.5 billion	3 billion	2.2 billion	2.5 billion	0.5 billion
Interest Rate	2.78%, fixed rate	2.32%, fixed rate	2.10%, fixed rate	2.08%, fixed rate	4.2%, fixed rate	4.2%, fixed rate
Term	Maturity Date: Jun. 15, 2018	Maturity Date: Mar. 1, 2019	Maturity Date: Dec 19, 2020	Maturity Date: Apr 22, 2022	Perpetual	Perpetual
Order of Redemption	Subordinate	Subordinate	Subordinate	Subordinate	Subordinate	Subordinate
Guarantor	Nil	Nil	Nil	Nil	Nil	Nil
Trustee	Nil	Nil	Nil	Nil	Nil	Nil
Underwriter	Nil	Nil	Nil	Nil	Nil	Nil
Auditor	S.S. Lai	S.S. Lai	S.S. Lai	S.S. Lai	S.S. Lai	S.S. Lai
CPA	Deloitte & Touche (Terence Huang/ Jih-Yen Chang)	Deloitte & Touche (Terence Huang/ Jih-Yen Chang)	Deloitte & Touche (Terence Huang/ Jih-Yen Chang)	Deloitte & Touche (Terence Huang/ Vincent Cheng)	Deloitte & Touche (Vincent Cheng)	Deloitte & Touche (Vincent Cheng)
Certifying Financial Institution	“Book-Entry”	“Book-Entry”	“Book-Entry”	“Book-Entry”	“Book-Entry”	“Book-Entry”
Method of Redemption	Repaid in full upon maturity	Repaid in full upon maturity	Repaid in full upon maturity	Repaid in full upon maturity	Refer to the terms of redemption or advance payment for details.	Refer to the terms of redemption or advance payment for details.
Unredeemed Balance	2 billion	1.5 billion	3 billion	2.2 billion	2.5 billion	0.5 billion
Paid-in Capital For the Previous Fiscal Year	19.48 billion	19.48billion	20.26billion	24.51billion	26.05billion	26.05billion
After-tax Net Worth for the Previous Fiscal Year	20.09 billion	21.97 billion	24.07 billion	32.38 billion	34.89 billion	35.95 billion
Performance	Normal	Normal	Normal	Normal	Normal	Normal
Redemption or Early Redemption	Nil	Nil	Nil	Nil	Early redemption clause: After 5.1 years upon the expiration of the issuance of the bonds, if the ratio of capital to risk-based assets after calculation meets the minimum requirements set by the Competent Authority, the Bank may apply for redemption	Early redemption clause: After 5.1 years upon the expiration of the issuance of the bonds, if the ratio of capital to risk-based assets after calculation meets the minimum requirements set by the Competent Authority, the Bank may apply for redemption

Fund Raising Status

Type of Financial Debentures	1st Subordinated Financial Debentures issued in 2011	1st Subordinated Financial Debentures issued in 2012	1st Subordinated Financial Debentures issued in 2013	1st Subordinated Financial Debentures issued in 2015	1 st Perpetual Non-Cumulated Subordinated Financial Debentures issued in 2016	1 st Perpetual Non-Cumulated Subordinated Financial Debentures issued in 2017
					upon the consent of the Competent Authority The Bank shall make an announcement on the 30th day before the scheduled redemption date and redeem all the bonds at face value plus interest accrued.	upon the consent of the Competent Authority The Bank shall make an announcement on the 30th day before the scheduled redemption date and redeem all the bonds at face value plus interest accrued.
Conversion & Exchange Conditions	Nil	Nil	Nil	Nil	Nil	Nil
Restrictions terms	Nil	Nil	Nil	Nil	Nil	Nil
Fund Utilization Plan	Improve financial structure to raise capital adequacy ratio	Improve financial structure to raise capital adequacy ratio	Improve financial structure to raise capital adequacy ratio	Improve financial structure to raise capital adequacy ratio	Improve financial structure to raise capital adequacy ratio	Improve financial structure to raise capital adequacy ratio
Balance of issued debentures before adding the declared issue amount as a percentage of after-tax net worth for the previous fiscal year (%)	9.95%	15.93%	27.00%	26.87%	32.10%	32.54%
Whether it is accounted for as qualified core capital and type	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 1 capital	Tier 1 capital
Name of rating agency, date and result of rating	Taiwan Ratings Corp. twA- Dec. 27, 2012	Taiwan Ratings Corp. twA- Dec. 27, 2012	Taiwan Ratings Corp. twBBB+ Dec. 11, 2013	Taiwan Ratings Corp. twBBB+ Apr. 8, 2015	Taiwan Ratings Corp. twA Jan. 7, 2016	Taiwan Ratings Corp. twA Jan. 16, 2017

3. Issuance of Preferred Stock:

Item	Issue Date	October 24, 2017 (Series A Preferred Stock of Union Bank of Taiwan)
Face Value		NT\$ 10
Issue Price		NT\$ 50 per share
Share Number		200,000,000 shares
Total Amount		Total capital stock is NT\$ 2,000,000,000; Total amount issued is NT\$ 10,000,000,000
Duties & Rights	Distribution of Dividends and Surplus	1. Dividend: The dividend rate of Series A Preferred Stock (annually) is 4.8% (=5-yr IRS rate 0.89125% + 3.90875%), and are calculated based on the issue price per share. The 5-yr IRS rate will be reset on the second business day after 5.5 years since the issue date and be reset every 5.5 years afterwards. The pricing record date of the rate reset is two Taipei financial business days before the reset day. The interest rate indicator, the 5-yr IRS, is the average rate of the 5-yr interest rate swap price of PYTWDFIX and COSMOS3 published by the Reuter at 11:00 AM on the Taipei financial business day of the rate reset day. If the above-mentioned price cannot be obtained before the

Fund Raising Status

		<p>rate reset day, the rate will be decided by the Bank at the market price and based on the principle of good faith.</p> <p>2. Dividend distribution: If there are earnings left in the Bank's annual resolution, in addition to the required payment of income tax, the Bank shall first offset the losses in the previous years, recognize legal reserve and recognize or reverse special reserve, and then may distribute the regulated dividends to the preferred stocks based on the earnings balance with priority. The Bank reserves the discretion right on the dividend distribution of preferred stocks. However, if there are no earnings or not enough earnings for distribution in the Bank's annual resolution, or if the dividend distribution of the preferred stock will cause the Bank's capital adequacy ratio to be lower than the requirement of laws or the minimum limit regulated by the competent authority, or if there is other necessary consideration, the Bank may decide not to distribute the dividends of preferred stocks. The shareholders of the preferred stock shall not have other opinions. The dividends decided not to be distributed or are distributed inadequately will also not accumulated as the future payment in years with earnings. The dividends of Series A Preferred Stock are distributed by cash one time annually. The distributable dividends for the previous year and the record date of payment are decided by the Board of Directors after the ratification of financial reports by the Annual Shareholders General Meeting. The distributed amount in the issue year and call year is calculated based on the actual issue days in the year. The dividends distributed will be recorded in the dividend certificate.</p> <p>3. Excess dividend distribution: The shareholders of Series A Preferred Stock shall not participate in the cash and capital distribution of earnings and capital surplus in common stock, except for the regulated dividend rate mentioned above.</p>
	Distribution of Residual Property	The order the shareholders of Series A Preferred Stock in distributing the Bank's residual property is former than that of the shareholders of common stocks and is the same with the shareholders of the Bank's other preferred stocks; except when the Bank is taken over by the competent authority, required to stop business for clearing and liquidation in accordance with "Regulations Governing the Capital Adequacy and Capital Category of Banks", the distribution order of the shareholders of Series A Preferred Stock is the same with that of the common stock shareholders. However, their order is inferior to the holders of Tier 2 capital tools, depositors and the general debtholders, and the dividend amount shall not exceed the issue amount.
	Execution of Voting Right	The shareholders of Series A Preferred Stock have no voting rights and election rights, but have voting rights on the preferred stock shareholders meetings or when there are circumstances in which their duties and rights are involved.
	Others	There is no maturity date for the Banks' Series A Preferred Stock. When the Bank issued new stocks by cash, the shareholders of Series A Preferred Stock have the same stock option right with common stock shareholders.
Outstanding Preferred Stock	Amount called or converted	NT\$ 0
	Balance not called or converted	NT\$ 2,000,000,000
	Terms of call and convert	<p>1. The shareholders of Series A Preferred Stock shall not convert the preferred stocks into common stocks, and have no rights in asking the Banks to call back the Series A Preferred Stock they hold.</p> <p>2. The Bank may call all or part of the preferred stocks at the original issue price anytime under approval of the competent authority on the</p>

Fund Raising Status

			second day after 5.5 years of the issuance. The preferred stocks not called still satisfy the duties and rights mentioned above. If the Bank's shareholders meeting decides to distribute dividends in the year that Series A Preferred Stock is called, then the dividends that should be distributed until the call day are calculated based on the actual issue days in that year.
Market Price per Share	2017	Highest	50.80
		Lowest	49.95
		Average	50.22
	As of March 31, 2018	Highest	51.00
		Lowest	49.85
		Average	50.21
Other rights attached	Amount converted or bought as of the date Annual Report is printed	The shareholders of Series A Preferred Stock shall not convert the preferred stocks into common stocks.	
	Guidelines for issuance and convert or buying	None	
Effect of issue terms on the right of shareholders; circumstances that equity may be diluted and the effect on existing shareholders' right		None	
Impact of callable preferred stocks on capital to risk-weighted asset ratio		Not applicable	

4. **The status of Overseas Depository Receipts and Employee Stock Option:**

None

5. **Acquisitions or Disposition of Other Financial Institutions**

- (1) Where the bank has acquired another financial institution through merger or acquisition in the most recent fiscal year, the annual report shall disclose the CPA's opinion on the reasonableness of the share swap ratio: None.
- (2) Mergers or acquisitions of other financial institutions in the past five years: None.
- (3) Where the Board of Directors has, during the most recent fiscal year or the current fiscal year up to the date of printing of annual report, adopted a resolution approving issuance of new shares due to merger or acquisition of shares of another financial institution, the annual report shall disclose the state of implementation and the basic information of the institution merged or acquired: None.

6. **Fund Utilization Plan and Execution Status**

1. Fund Utilization Plan
 - A. Description of the plan: Please see the pages for details of previous public issues or private placement of securities and bank debentures.

Fund Raising Status

- B. Uncompleted previous public issues or private placement of securities, or those completed in the most recent three years but have not yet fully yielded the planned benefits: None.
- 2. Execution Status
Status of implementation: There are no circumstances that the execution progress or benefits do not meet the expected goal.

Operational Highlights

1. Business Description

(1) Main Businesses

- A. Primary Business Activities of the Respective Business Units
- To accept all types of deposits.
 - To extend corporate loans, discount bills and notes, issue domestic letters of credit and conduct accounts receivable factoring.
 - To handle exports, imports, foreign remittances, foreign currency loans and guarantees.
 - To extend mortgage, auto loans, personal loans and other consumer credits, and provide credit card services.
 - Wealth management, trust, custodian business, safe-deposit box rental and certification services for marketable securities.
 - To extend the insurance agency business and property insurance business.
 - To trade marketable securities and futures on behalf of customers.
 - To provide peripheral financial services by acting as collecting and paying agent for public facilities fees, taxes and remittances.
 - To conduct other relevant businesses authorized by the competent authorities.
- B. Operational Highlight
- Deposits: NTD and foreign currencies (including OBU), deposits from peers, and deposits from Chunghwa Post)

Amount: NT\$ Million

Type	December 31, 2017		December 31, 2016		Comparison	
	Amount	Ratio	Amount	Ratio	Increase (Decrease)	Growth Rate%
Current Deposit	205,330	45.56%	192,749	44.48%	12,581	6.53%
Time Deposit	245,310	54.44%	240,632	55.52%	4,678	1.94%
Total	450,640	100%	433,381	100%	17,259	3.98%

b. Loans

Amount: NT\$ Million

Type	December 31, 2017		December 31, 2016		Comparison	
	Amount	Ratio	Amount	Ratio	Increase (Decrease)	Growth Rate%
Consumer Banking	168,810	52.47%	155,028	54.01%	13,782	8.89%
Corporate Banking	152,930	47.53%	132,008	45.99%	20,922	15.85%
Total	321,740	100%	287,036	100%	34,704	12.09%

c. Foreign Exchange

Amount: US\$ Million

Type	December 31, 2017		December 31, 2016		Comparison	
	Amount	Ratio	Amount	Ratio	Increase (decrease)	Growth Rate%
Exports	93	1.15%	106	1.3%	(13)	(12.26%)
Imports	373	4.63%	258	3.3%	115	44.57%
Foreign Remittances	7,591	94.22%	7,528	95.4%	63	0.84%
Total	8,057	100%	7,892	100%	165	2.09%

Operational Highlights

d. Trust & Wealth Management

Amount: NT\$ Million

Type		December 31, 2017	December 31, 2016	Comparison	
		Amount	Amount	Increase (decrease)	Growth Rate%
Trust	Non-discretionary Money Trust Invested in Securities	39,353	38,184	1,169	3.06%
	Fund Custody Business	10,430	7,189	3,241	45.08%
	General Trusts	18,502	14,602	3,900	26.71%
Ancillary Service	Other Custody Business	5,113	4,194	919	21.91%
Total		73,398	64,169	9,229	14.38

e. Credit Card Business

Unit: NT\$ Million ; Card

Item	December 31, 2017	December 31, 2016	Comparison	
	Amount / Card	Amount / Card	Increase (Decrease)	Growth Rate%
Card in New Issue	300,075	471,514	(171,439)	(36.36%)
Cards in Circulation	2,036,860	2,015,520	21,340	1.06%
Valid cards	1,152,629	1,083,892	68,737	6.34%
Credit Amount	85,760	76,984	8,776	11.40%
Cash Advance Amount	805	1,299	(494)	(38.03%)
Accounts Receivables	14,783	14,164	619	4.37%
Revolving Credit Balance	5,439	4,908	531	10.82%
Sales Amount	56,873	53,022	3,851	7.26%

f. Revenue and Percentage by Business

Item	% of Total Revenue 2017	% of Total Revenue 2016	Changes (%)
Corporate Banking	13.75%	18.25%	(4.50%)
Consumer Banking	34.28%	31.69%	2.59%
Trust & Wealth Management	9.21%	11.08%	(1.87%)
Investment Banking	21.50%	20.49%	1.01%
Other	21.26%	18.49%	2.77%
Total	100.00%	100.00%	-

(2) Business Plan for 2018

A. Deposit Business

(1) In response of the trend of digital payment, the Bank plans to strengthen the functions of VISA debit card and account (e.g., EasyCard A/C LINK, and Apple Pay Debit Card) to provide depositors with multi-dimensional payment tools.

Operational Highlights

- (2) Strengthen the functions of ATM (interbank deposit and iPASS certificate saving function, etc.) to provide customers with a variety of service; continue holding marketing campaigns for VISA debit card to increase customers' loyalty and demand deposits.
- (3) Arrange for deposit campaigns for target customers to attract demand deposits and new customers.

B. Loan Business

a. Corporate Banking

- Anticipate trends of the local real estate market and adjust in line with the authority's policies, underwrite real estate loan with caution and make every endeavor to develop SME loans to disperse risk.
- Under the circumstance and risk and income are attended to simultaneously, give priority to make loans of self-liquidating nature and loans to manufacturing plants based in Taiwan, and take advantage of applying for credit guarantee fund and seeking for good quality collateral to enhance the loan security
- Enhance post-lending; report abnormal customer behaviors and take collection actions early for better control of overdue loans.

b. Consumer Banking

Steady expansion of the mortgage business for qualified owners of self-use real property with repayment capacity, with focuses on better subprime objects as collateral.

c. Bills Finance

Actively expand the sources of bills and strictly control credit risk of underwriting customer; improve trading turnover rate and the underwriting market share to create maximum profit.

Flexibly adjust value at risk according to market trends and at the same time develop new RP clients that constitute a more stable source and less costly funds.

d. Consumer Credit

- Adopt segment marketing and design loan packages for different customer segments.
- Apply intensive training on sales talents and managers with the goal of improving professional knowledge and sales skills.
- Enhance management over credit quality and overdue loans.

C. Foreign Exchange Business

- a. Continue to expand the sources of foreign exchange businesses. Expand imports, exports and foreign exchange businesses to increase the Bank's market share in the foreign exchange market.
- b. Continue to expand international financial investment business to make the most effective use of funds and improve revenue.

D. Trust and Wealth Management Business

- a. Automate service operations; provide strong back-end support to wealth management and satisfy customers' demands for simplicity, security, legitimacy, and efficiency.

Operational Highlights

- b. Develop new trust business and strengthen the control functions of trust operation system.
 - c. Collaborate across departments and industries to promote trust services in terms of fee revenues and market share.
 - d. Facing the upcoming era of high age and low birth rate, the Bank will follow the government's policy in continuously promoting insurance products of secured, pension and medical types to satisfy customers' needs of insurance and wealth management in each stage of life.
 - e. Actively expand the custodian business and strengthen the control functions of individual trust and custodian operating system.
 - f. Aggressively seek to take up the old and new fund custody business, and strengthen the control functions of personal trust and custody operation system.
 - g. Introduce the program of variable-amount subscription to a fund through a regular saving plan to promote stable growth in customers' asset portfolios.
 - h. Enhance the launching of marketing and promotional campaigns. Provide differentiated services to different target groups. Introduce diverse products (such as: foreign bonds, ETF, structured notes, guaranteed issue life insurance and in-kind benefits/services policies, and etc.) to increase the diversity of the asset portfolio of wealth management clients and increase the size of assets managed by the Bank.
 - i. Continue to recruit new wealth management staff and provide training to bank employees to serve in the capacity as wealth management advisors. The long-term goal is to expand the size of the wealth management team to enhance the development of effective clients and hence the Bank's share of the wealth management market.
- E. Credit Card
- a. Channels: Encourage branch employees to promote credit cards to increase the opportunities for cross selling; issue co-brand cards with known brands and participating in their marketing campaigns, the Bank will also take initiative in developing partnership with brands whose existing co-brand relationships are about to expire, and therefore gain quick access to new customer groups. In the meantime, the Bank will simplify its application procedures and make services accessible over the Internet and cell-phones, and provide customers with greater incentives to apply for credit cards.
 - b. Products: Launch credit cards that feature functionalities of other electronic cards, and thereby attract usage through convenience. Extend exclusive privileges for top-tier cardholders as a means to attract high-quality customers; follow the market of mobile payment in arranging various payment promoting campaigns to attract the new mobile generation.

Operational Highlights

- c. Campaign: Continue the “2% cash reward on even-number days” to cultivate the habit of using Union Bank credit cards for purchase and upgrade the market shares of debit amount and wallet; as mobile payment is becoming more and more applicable, the Bank will also cooperate with real stores in holding credit card promoting campaigns to increase the loading rate of mobile payment and keep track of customers’ consumption behavior via online network; small-amount payment can actively help the credit card market in expanding to more consumption channels, such as MacDonald’s, KFC, Hi-Life and FamilyMart, which can increase the overall credit card payment.
 - d. Credit loan: Arrange for various small loan projects to provide customers with multiple choices; provide service of online loan application and simplify the process; increase the percentage of high-quality customers in the name list management to increase the operating volume of small loans.
 - e. Credit card acquiring business
 - Extend collection services in medium and large stores and chain stores, and increase the percentage of cooperative restaurants; reinforce promotional activities (discount and bonus redemption) for own-bank cardholders, and promote installment plans to increase the amount of payments by own-bank cards and income from service fees.
 - Promote co-development of acquiring and bank-related services with branches to increase the benefits of acquiring-related services and thereby raise the income of the entire bank.
- F. Ensure effective management of funds available to the Bank. Effectively utilize funds in line with the various business development initiatives to increase the Bank’s returns. We also maintain an appropriate level of liquid funds to ensure that the Bank has a sound liquidity level. For TMU business, besides continuing to service existing clients and offering them with real-time financial market information and products, we also aims at developing new clientele to increase the Bank’s business turnovers in deposits, loans and foreign exchange business.

(3) Market Analysis

A. Areas of Business Operation

As of the end of March 2018, the Bank has 90 domestic branches of which 47 branches in Greater Taipei area, 18 branches in Taoyuan and Hsin-Chu area, 10 branches in Taichung and Changhua area, 7 branches in Chiayi and Tainan area and 8 branches in Kaohsiung and Pingtung area. Additionally, there is an Offshore Banking Branch, and each one Representative Office in Vietnam and Hong Kong respectively.

B. Analysis of Supply/Demand and Growth in Future Market

Operational Highlights

The domestic banking industry is in the thriving state in 2018. The main reason is that the global economy is booming and the FSC is continuously amending regulations to enhance the competitiveness of domestic banking industry in expanding business overseas. These all help the lending and wealth management business domestically and abroad grow. Thus, even though the devotion to information safety, risk control and financial technology increases costs, the banking industry is still expected to benefit from the growth of each business.

The lending structure of domestic banking industry is mainly based on business loans, and focus much on large syndicate loans and the control over the financing business opportunities brought by the infrastructure strengthened by the government. Meanwhile, in addition to the existing lending customers, the Bank will gradually pay attention to the financing needs of other emerging industries, such as the cultural, green-energy, sport-economics, and smart healthcare industry. These not only bring new motivation to our lending business but also provide a chance for us to cooperate with different industries via financing to seize the business opportunities in those industries.

- C. Competitive Niches and Advantages/Disadvantages Relating to Development Prospects and Responsive Measures
- a. Advantages
- i. The prediction of the improving global economic growth of 2018 is beneficial to business's demand and the market's investment, which motivates the lending and wealth management business of domestic banking industry and increase profitability.
 - ii. With the assistance by the government, domestic banking industry is less restricted by the domestic regulations when expanding oversea to the New Southbound market, which will help them focus on the operating challenges in different countries.
 - iii. With policies promoted, regulations being loosened, and information safety improving, people's acceptance increasing, and the collaboration between financial firms and the technology industry deepening, the product innovation ability and the market development of financial technology of domestic banking industry can improve. New business opportunities and new customers will also be brought to the banking firms.
 - iv. The stability of global economy, raised interest rate and shrunk balance sheet of the US FED will help the globe in terminating the low interest rate environment and gently moving upward. Besides, domestic interest rate is expected to remain stable, which will help the interest rate spread of domestic banking industry to go up.

Operational Highlights

b、Disadvantages

- i. In 2018 the banking industry will continue to enhance the ability of professionals in anti-money laundering and preventing financing terrorism, expand responsive departments, improve equipment and systems. These will all increase the Bank's expenditure significantly.
- ii. When domestic banking industry is actively expanding oversea market and financial technology market, the business mode is gradually changing. In the development of the New Southbound Policy, the discrepancy between each country's tradition and culture is getting larger and larger, and the needs for financial technology innovation and development is becoming higher. Furthermore, the importance of information safety and risk control is continuously increasing, which deepens the needs of relevant talents in domestic banking industry. However, as the speed of new human resource injected is slower than that of the outflows of domestic talents to Mainland China and other oversea markets, the problem of human resource training and scarcity still exists.
- iii. Mainland China is continuously adjusting its economic and industry structure. The risk of high-level corporate debts and house price growth is still going upward. The local business credit structure in China may be weakened and thus the quality of the assets held by domestic banking industry in China may be worsened.

c、Responsive Measures

- i. As the FSC mandated regulations related to the banking industry's legal compliance, anti-money laundering and battling financing terrorism, the banking industry will be able to fasten its step in the legal compliance to meet the demand of international financial market. Although in the short run, employee training and organization change increase the costs significantly, in the long run, domestic banking industry will be more competitive in internationalization, which will help domestic banking industry in the long-term development of oversea expanding.
- ii. In 2018 domestic banking industry will focus more on the combination of financial service, broadband network, information platform and marketing channel. With the gradually-improved risk control and information safety environment, the faster collaboration with different industries, and providing individual and business customers with more convenient financial service via mobile payment, the Bank can further dig into people's daily life and the operation of business. In addition, the accumulation of financial big data is helpful in enhancing analysis results, which is expected to benefit business growth and profitability.
- iii. The encouraging policy on the financing of emerging industries made by the government, the assistance in business's collateral financing by the expanding Credit Guarantee Fund, and the construction of a sound operation environment for business are all motivations for the loan growth of the banking industry.

Operational Highlights

- (4) Research of Financial Products and Status of Business Development:
- A. New financial instruments and the size of new business department(s) introduced during the past two years and the profit/loss status
- a. Corporate Banking business continues to promote financial products such as good-quality stock financing loans, account receivable purchase and subsequent advance payment loans, convenient loans to SMEs, easy discounted notes, corporate banking foreclosure real estate loans to offer corporate customers multiple loan choices.
 - b. Proactively promote issuance of bills with 1-year plus maturity to offer customers more diverse choices for short and medium-term capital planning and increase handling charges as well.
 - c. Actively promote loan services and provide customers with more short/medium/long-term funding options. A total of NT\$10,362,318,000 were disbursed in 2017; outstanding loan balance totaled NT\$ 14,247,318,000 in the end of 2017.
 - d. Wealth Management Business
During 2017, the Bank has launched several stock funds and bond funds with stable returns in line with the global investment market sentiment and the bank actively assisted customers to adjust their asset allocation. As at December 31, 2017, the Bank had a total of 122,057 wealth management clients and total assets under management aggregated NT\$262.4 billion, representing an increase of 10% from that of 2016.
 - e. Fortune Passbook business:
The Bank launched the “Fortune Passbook” for children under fifteen years of age. It integrates our major financial management services including NT dollar deposit, foreign-currency deposit, securities and funds. The Bank worked with fine-quality child art & cultural merchants horizontally, including Sesame Street English, Cloud Gate Dance Theatre Foundation, Ju Percussion Music School, Hsin Yi Parent-Child Game Bookstore, Education, Parenting and Family Style, Language Canada Taipei, Paper Windmill Theatre, If Kids Theatre, Just Apple Theatre, and Song Song Song Children’s & Puppet Theatre. As of December 31, 2017, NT dollar deposits of the Fortune Passbook holders amounted to NT\$7,237,960,000 representing a 6.24% growth rate comparing to NT\$6,812,670,000 as at December 31, 2016.
 - f. VISA Debit Card

Card use promotion was still the main strategy for 2017, including the “Double Rewards for New Card Use”, “Cash Reward (NT\$200) for iPass Debit Card”, “1% Reward for UBOT Cards on Weekends”, “Free City Parking”, “Rebate for Gas Refill”, “PX Mart Bonus Points for iPass”, “Bonus Points for EasyCard”, and other card use promotion campaigns.
The amounts spent using the Bank’s Visa debit cards (Easy Debit Card and iPass Debit Card totaled NT\$1,369,400,000, which represented a 1.47% growth over 2016.
 - g. Promotion of Automated Service and Internet Banking

Operational Highlights

- I. The Bank set up 26 ATMs and 2 self-service banks at the stations near the Taoyuan Airport MRT in June 2017; in 2017 the Bank set up 144 ATMs with audio function in convenient stores to provide customers with more convenient service.
 - II. The Bank introduced a mobile bank “Union Lohas APP” service through the e-Bank service featuring eight major services including “Special Offers News, Special Offers Venue, Account Services, Credit card service, Online applications, Financial information, Lifestyle information, and customer service.” In 2016, we launched the “Lucky Roulette” activity, offered “mobile coupons” (discounts for shopping at over 5,000 stores of Family Mart, Hi-Life, and OK convenience store chains and Taiwan Pelican Express), and provided e-card and sticker downloads to make life more convenient by combining e-banking and everyday life.
 - III. The Bank launches the “Internet Banking Canteen” service for personal banking customers. This service allows customers to download discount food coupons and discount coupons for selected products at Yesgogogo Shopping website. With respect to Lohas APP, the Bank also launched preferential foreign exchange rate applicable to 8 special currency e-banking channels including “USD, Euro, AUD, NZD, RMB, JPY, HKD and ZAR”, in hope of upgrading downloading volume and exchange frequency of customers with substantial rebate Overall, the cumulative applicant number for the Bank’s e-banking services is 288,676 in 2017, which grew by 13% in 2017 comparing to 2016. The accumulated downloading number for Lohas APP is 415,669 in 2017, which grew by 41% comparing to 2016.
- h. The business department set by the Bank in the recent two years: Following the law amendments by the competent authority, the Bank established the Insurance Agency Dept. on Aug. 01, 2016 and introduced a variety of insurance products to satisfy the insurance needs of customers in each of their stage of life.

Business scale in recent two years		Unit: NTD Billion
	2016	2017
Insurance Fee Income	4.4	13.9

B. R&D Expenditure and achievement for the Last Two Years and a brief description of its Future Plan

a. R&D Expenditure and Results

Unit: NT\$ Thousand

Operational Highlights

Item \ Year	2017	2016
R&D Expenditure	31,785	9,737

- I. Since the opening of Apple Pay in March 2017, the Bank further introduced mobile payment projects like Samsung Pay, Android Pay and Hami wallet NFC, and arranged for a variety of promoting campaigns for mobile payment. These motivated customers in loading mobile credit cards and payment amounts, which helped us attract new young customers to apply for the Bank's credit cards.
 - II. In 2017 we continued to strengthen the Bank's service of digital banking. In addition to the using experience of each platform, we also focused on the convenience of mobile service in adding various online services, including applying for personal loan, housing loan, vehicle loan, and the trust account opening. We also provided cardless withdrawal service for the Bank's mobile banking. We provided customers with the experience of more convenient financial service through a variety of channels, which enhanced the Bank's overall service benefits of digital finance.
 - III. In 2017 we continued integrating and improving the Bank's digital banking service and started to establish the Bank's digital virtual bank. We combined the applications of ATM cards, mobile devices, and social media to strengthen identification mechanism and prepared for the cross-device and cross-platform digital financial service, constructing the Bank's blueprint of digital cash flow service step by step.
- b. Future R&D plan
- I. Build online Loan Management System to streamline the credit granting process and enhance operation efficiency.
 - II. In view of the popularization of smartphones and mobile devices and the thriving of various mobile economic activities, the Bank will further develop QR codes that combine digital certificates, wearing gadgets and EMVCo, which makes customers accept and use the products more easily and helps the Bank keep ahead on the mobile payment market.
 - III. In view of the maturity of mobile devices and the network environment, the Bank will continue to focus on mobile applications in our e-banking service R&D. We will strengthen the existing platform of digital banking service, which will be designed based on customers' need and put more focus on the platform that the user experiences with. In applying the technology of mobile device connecting we can provide services of trading verification and message notification. Under the prerequisite of considering both trading efficiency and information safety, we will be able to provide customers with more instant, safer and more convenient digital banking service.
 - IV. The Bank will continue to investigate and pay attention to new technologies related to financial markets and the relevant applications; follow the evolvement of technologies and cultivate

Operational Highlights

promising talents in the fields of AI, blockchain, and bio-identification, etc. Facing the trend of changing service type, the Bank will continue doing research on digital service and its application, and be closer to the needs of the young customers in the next generation. We aim to strengthen the basis for future development of each business by attracting the Bank's young customers with new digital financial service.

- V. We will enhance the Bank's wealth management system and improve the efficiency of consultants and the control over trading. We will also utilize multi-dimensional analysis and asset allocation to effectively identify wealth management customers, and increase the functions of internal management and control, analysis and identification. Besides, we will also follow the government's policy in introducing information and mechanism of anti-money laundering and financing terrorism, in order to maintain financial order and trading safety.

(5) Long-term and Short-term Business Development Plan

- A. Short-term Business Development Plan: Please refer to "Chapter (2) 2016 Business Plan".
- B. Long-term Business Development Plan: Please refer to page 2 "4. External Factors and Future Development Strategies of I. Letter to Shareholders"

2. Employee Analysis

- (1) Employee Data for the Last Two Years and Current Year Up to the Printing Date of the Annual Report:

Year		End of 2016	End of 2017	Mar31, 2018
Number of Employees	Permanent	3,621	3,691	3,716
	Temporary	0	0	0
	Other	0	0	0
	Total	3,621	3,691	3,716
Average age		37.21	37.41	37.68
Average year of service		8.92	9.09	9.23
Education	Doctorate	0.03	0.03	0.03
	Master	6.96	7.13	7.24
	University (College)	85.67	85.99	85.68
	Senior High School	7.29	6.85	7.05
	Junior High School & Under	0.06	0	0
Type of professional certification held by employees		End of 2016	End of 2017	Mar31, 2018
Basic Proficiency Test for International Banking Personnel		330	335	332
Proficiency Test on Foreign Exchange Trading		9	10	10
Proficiency Test for Trust Operations Personnel		2,219	2,281	2,260
Subject Test - Laws and Regulations on Trust Businesses		31	33	35
Qualification exam for "General knowledge of Financial Markets and professional code of Ethics"		2,596	2,722	2,720
Financial Risk Manager (FRM)		3	3	3
Class B Accounts Clerk		9	10	10
Class C Accounts Clerk		104	105	106
Basic Proficiency Test for Bank Lending Personnel		392	396	398
Advanced Proficiency Test for Bank Lending Personnel		31	32	32
Proficiency Test for Bank Collateral Appraisal Personnel		10	10	10
Proficiency Test for Financial Planning Personnel		364	363	361
Structured Product Sales Personnel Qualification Test		245	451	249

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V

Year	End of 2016	End of 2017	Mar31, 2018
Qualification exam for securities investment trust and consulting regulations (including professional ethics rules)	11	20	19
For taking "Investment trust & consulting regulations(including self-disciplinary rules)" only	695	699	693
Life insurance salesperson	2,611	2,728	2,722
Investment-oriented insurance salesperson	1,261	1,245	1,232
Fundamental Test of Investment-oriented insurance salesperson and financial market	228	232	232
Property Insurance Salesperson Registration Certificate	1,060	1,130	1,124
Qualification Test for Life Insurance Salesperson Selling Non-Investment Type of Insurance Product in Foreign Currency	981	1,018	1,015
Futures specialist	333	336	334
Bill finance specialist	78	80	79
Fin Tech Knowledge Test	14	27	27
Labor safety and health specialists (Class B certificate for labor safety and hygiene)	4	5	5
Class A Manager of Labor Safety & Health Affairs	49	51	52
Class B Manager of Labor Safety & Health Affairs	84	88	89
Class C Manager of Labor Safety & Health Affairs	39	39	40
Fire Fighting Administrator	136	139	140
First Aid Specialist	179	174	173
Bond Specialist	23	24	24
Basic Proficiency Test on Internal Controls	1,780	1,851	1,857
Securities specialist	334	364	353
Senior securities specialist	256	257	254
Securities investment trust and consulting professionals	190	195	195
Securities investment Analyst	5	5	5
Specialist of "Margin and Stock Loans by Securities Firms"	45	47	48
Assistant real estate Brokers	6	8	8

Note: Not include the 2 employees of offshore units.

(2) Advanced Education and Training of Employees

In response to the fast changing financial environment and for the purpose of enhancing the professional competency of our employees, the Bank organizes the various business seminars and symposiums each year as well as sends employees to attend the various external training programs. The bank also requests, where possible, the relevant staff at all levels to acquire the required certification. The bank aims to upgrade the capabilities in product innovation and improve the operational procedures.

Item	Internal program	External program	Total
Number of employees trained	20,394	2,958	23,352
Total training expense (in NT\$ thousand)	11,125	7,500	18,625

(3) Rules of Employee Behavior and Ethics

The Bank has put in place the "Employment Standards" and "Employee Service Rules" to govern employees' behaviors and dedication for works. The Bank motivates its employees to take the corporate mission above all personal pursuits and perform their duties in accordance with corporate rules to facilitate the development of the various businesses.

(4) Protection for Work Environment and Employee Safety

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- A. Access Security: The Bank has installed a premise access surveillance system to monitor people entering or leaving the office premise. The system is linked to the police stations at all times and is subject to regular trial checks. Security guards stationed on site to ensure personnel and premise security.
- B. Office Premises and Equipment: The Bank performs regular or random maintenance check on the various equipment in accordance with the relevant regulations on public safety and fire tests of office premises.
- C. Security Maintenance: The security maintenance regulations enforced by the competent authority and Bankers' Association prescribe that each retail office shall conduct anti-robbery rehearsals each year.
- D. Safety and health: We have established the "Safety and Health Work Rules" and "Occupational Safety and Health Management Plan". In addition, we implement various environmental examinations and organize occupational safety and health education/training activities and first aid training courses in accordance with the Occupational Safety and Health Act and relevant regulations to ensure workplace safety for employees.

3. Corporate Responsibility and Ethical Conduct

(1) Cultural Intelligence Education:

We have long devoted ourselves to the promotion of cultural intelligence education, as witnessed by the "Let Me Draw My Mommy" children's art contests over the past 17 years. Apart from cultivating art literacy in children and the filial piety culture, we donate NT\$5 for each entry in 2017 to finance nutritional lunches for students in remote villages, hoping to inspire the philanthropic value in children. The annual "Little Banker—Financial Management Camp" entered its 9th session. Aiming to combine with social contributions, apart from equipping children with the concept for financial and financial management knowledge, we introduced courses on basketball and animal conservation in collaboration with the Male Basketball Team of Dong-Shan High School in Taichung and Transportation Bureau of Kaohsiung City Government. In order to promote the beauty of Taiwan's cultural relics, we launched the "Stories in Taiwan: A UBOT Tour to Historical Relics in Taiwan" in collaboration with SET Taiwan Channel to visit cultural relics across Taiwan and explore the history and culture of Taiwan past and present. To promote the concept of ecology protection, the Bank not only participated in adopting Taiwan's protected animal, "Chinese leopard cat" and "ring-necked pheasant", but also sponsored the Transportation Bureau of Kaohsiung City Government in holding "2017 Global Festival of Ecology and Transportation in Kaohsiung". We also invited the Bank's wealth management VIP customers to participate in the visit experience of "Delta Green Building Exhibition" and enjoy the life of energy saving and low carbon together.

(2) Sponsoring Arts and Cultural Activities:

To promote and implement the development of local arts activities, we have been funding the "Kaohsiung Philharmonic Cultural and Arts Foundation" for 7 consecutive years since 2011 to organize theme concerts and the Kaohsiung Spring Arts Festival. In addition, we have established the "UBOT Arts and Cultural Gallery" in the KMRT Formosa Boulevard Station for citizens to

Operational Highlights

appreciate artworks. The Bank also participated in “Taiwan Lantern Festival in Yunlin”, “Kaohsiung Lantern Festival” and the sponsor of “Taipei New Year's Eve Countdown Party”. We wish to support local art and cultural activities through sponsoring and preparing for exhibition of installation art.

(3) Social Engagement

1. Care for community development: We continued adopting “Minyao Park #2” in Songshan District, Taipei City and the flower beds in front Luzhou Elementary School, and participated in the Community Development Experiment Program of Pingtung County Government” to maintain public natural environment and facilitate positive symbiosis between business and community.
2. Care for local citizens: In May we purchased 35,930 carnations from flower farms in Tianwei, Changhua County, on the eve of Mother’s Day and presented them to customers and local citizens. To care for young students without adequate economic and education resources, the Bank engaged in the sponsor of “Male Basketball Team of Dong-Shan High School of Taichung City” and “Puzangalan Children's Choir” respectively to assist the children in digging out their talent.
3. Care for local industries: Every year when we order a large quantity of Lunar New Year gifts, such as ceramic Chinese zodiac piggy banks, calendars, red envelopes, and Spring Festival couplets, local manufacturers (made in Taiwan, MIT) are our priority contractors.

(4) Charity

1. Donation for charities: In addition to the campaigns for UBOT cardholders to make donations for the Eden Social Welfare Foundation, Chinese Children's Home & Shelter Association, on the Mother's Day Charitable Fair in May, we invited 13 charities including the Eden Social Welfare Foundation, Workshop with Happiness, Garden of Hope Foundation, Children Are Us Foundation and Taiwan blind person welfare National Christian Council to join the charity sale and donated all income from the sale to respective charities.
2. Sponsorship: Continue sponsoring the tickets and meal boxes of the Children Are Us Theatre and Music Group and the “Children Are Us Work Training Program”. We also sponsored the “Kaohsiung Metro Romance Micro-Movie Competition”, “Kaohsiung MRT 3-to-3 Basketball Tournament”, “Kaohsiung MRT Summer Love Cosplay Event” and “Kaohsiung MRT Charity Marathon” (the registration fee and the monetary balance were all donated to the Genesis Social Welfare Foundation) held by the Kaohsiung MRT company, and sponsored the charity campaign of “Tao-chi X’mas Afternoon Tea” held by the Taoyuan MRT Company.

4. Number of non-managerial staff, amount of employee welfare expenses, and differences from the previous year

Unit: NT\$ thousands; %

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Category	2016	2017	Difference	
Head count	3,163	3,204	41	1.30%
Average welfare expense	706	703	-3	-0.40%

5. Facilities of Information Technology

- (1) Maintenance and Allocation of Hardware & Software for major IT systems:
 - A. Production Computer Room: One IBM z/BC12 operation server and one IBMz/890 backup- server, two IBM 8870 diskettes driver, IBM 3590 Tape driver, Fujitsu 3490 Tape driver, IBM TS7760 virtual Tape driver, fourteen IBM RS/6000, one IBM i520 and 100 PC servers.
 - B. Backup Computer Room: One IBM z/800 remote backup server, two IBM Shark-800 diskeet drive, IBM 2074 back-end controller, one set of 3590 tape drive, IBM TS7760 virtual Tape driver, two IBM RS/6000, one IBM AS/400-720 and twelve PC servers.
 - C. Network: The operating system control room uses two CISCO 7206 routers, two CISCO 7507 routers, two CISCO 4507 routers. The backup control rooms uses three ASR1001 routers, three CISCO ASR1001 routers, and two CISCO 3750 routers via the DWDM connecting with the operating system and backup control rooms. Branches use CISCO 2811/2911 routers and connected to the operation system's computer room via the CHT exclusive line (transaction), with connection to the backup control room routers via Asia Pacific Telecom FTTB 2M (non-transaction) as alternate, if necessary.
 - D. The Bank has signed maintenance contracts with the vendors for above hardwares and softwares.
- (2) Future development or procurement plans:
 - A. Development of software for system operation trail audits.
 - B. Development of the control system for country risks.
 - C. Development of the registration system for loaning of book-entry government bonds.
 - D. Upgrading of the report inquiry system.
 - E. Upgrading of recording equipment system of call center.
 - F. Hardware and software upgrading of database storage.
 - G. Constructing Defend APT(Advanced Persistent Threat) system over the internet.
 - H. Web Application Firewall Device
 - I. Computer system information security evaluation and testing
 - J. Construction of the mail audit and archival system
 - K. ATM white list construction
 - L. SIEM Inter-network Information Safety Prediction & Analysis System
- (3) Emergency Backup and Security Protection Measures
 - A. Construct on-site backup device at Neihu computer room with Minsheng computer room serving as the remote backup support.
 - B. Off-site media backup and storage of sensitive documents, separately at Neihu and Minsheng computer rooms.

Operational Highlights

- C. Installation of access control system, surveillance cameras, line control, fire safety equipment and environmental security systems to protect the IT equipment.
- D. Using intrusion detector, setting internal/external firewalls and anti-spam system, scanning virus, Trojan horse or spy programs, updating virus-code and system patch to ensure internet and data transmission security.
- E. Enact the “Plan for Union Bank of Taiwan IT Security Contingency” and conduct annual rehearsals of on-site and remote backup and fire safety in accordance with the “Plan for Union Bank of Taiwan IT Disaster Contingency”.

6. Labor Relations

- (1) Execution status of employee welfare and retirement policy, labor agreements and protection of employee welfare:
 - A. Establish the Employee Welfare Committee. Deduct 0.5% of employees’ monthly salaries and appropriate 0.1% of operating revenue and use the fund to administer employee welfare affairs such as Mother’s Day Fair and special allowances for marriage, funeral, birth (including spouse) and major accident.
 - B. In accordance with the Social Insurance Policy, the Bank administers Labor Insurance, National Health Insurance and Group Insurance (including term life insurance, group accident insurance, worker’s accident insurance, occupational injury insurance, cancer insurance and hospital and medical insurance for employees and their dependents).
 - C. Offer deposits, loans and unsecured consumer loan for staff at special rates.
 - D. The Employee Welfare Committee disburses bonus to employees on major festivals of the Lunar year.
 - E. Employee Retirement Policy has been set that any employee reaching retirement age or eligible for retirement pursuant to the Bank’s retirement policy is entitled to receive the retirement payout under the old pension system (Labor Standards Act). On the other hand, the Bank makes monthly contributions to individual retirement accounts for employees who apply for new pension system.
 - F. The Bank has set up rules for governing labor-management committee to maintain sound and harmonious labor-management relationship.
- (2) Loss incurred as a result of labor disputes in the past year and current year up to the printing date of annual report, the amount of estimated potential loss and the bank’s responses. Where it is impossible to make a reasonable estimate, provide the reason: An employee in the North Taoyuan Branch applied for disputes mediation due to the reason of misunderstanding with the supervisor regarding the layoff, and finally reached the reconciliation with NT\$ 150,000.

7. Major Contracts

Mar 31, 2018

Nature of Contract	Concerned Parties	Contract Period	Content	Restriction on Contract
Insurance Contract	Central Deposit Insurance	Signed on Apr. 27, 1994	Performance bond agreement for the	None

Operational Highlights

Nature of Contract	Concerned Parties	Contract Period	Content	Restriction on Contract
	Corporation		solvency of financial institution in paying depositors	
Insurance Contract	MSIG Mingtai Insurance Co., Ltd.	Jan. 21, 2018 to Jan. 21, 2019	Bankers Blanket Insurance	None
Outsource Contract	Yesing Technologies	Dec 4, 2014	Install Cami customer service via email for the Bank	None
Outsource Contract	Union Information Technology Corp.	Jun. 16, 2008	Design & maintenance of Web and Mainframe	None
Outsource Contract	Union Information Technology Corp.	Jul. 01, 2001	Credit card information system	None
Outsource Contract	IBM	Jul 01, 2011	Credit card information system	None
Outsource Contract	Financial eSolution Co., Ltd.	Apr. 14, 2008	Chip card transactions processing	None
Outsource Contract	Union Information Technology Corp.	Apr. 01, 2009	Collections system of Convenient Store and tuition	None
Outsource Contract	Smart Star Software Inc.	Nov 05, 2012	Maintenance of debt collection System	None
Outsource Contract	Mohist Web Technology Co., Ltd.	Jul. 27, 2010	e-Gift Voucher Management System	None
Outsource Contract	Foongtone Technology Co., Ltd.	Jun. 09, 2008	Manufacturing of chip credit cards	None
Outsource Contract	Foongtone Technology Co., Ltd.	Jun. 02, 2008	Manufacturing of chip ATM cards	None
Outsource Contract	Taiwan Name Plate Co., Ltd.	Dec. 10, 2007	Manufacturing of chip credit cards	None
Outsource Contract	Taiwan Name Plate Co., Ltd.	Jan. 23, 2008	Manufacturing of chip ATM cards	None
Outsource Contract	Gemalto Co., Ltd.	Jul. 15, 2007	Manufacturing of chip credit cards	None
Outsource Contract	TECO Smart Technologies Co., Ltd.	Oct. 31, 2014	Manufacturing of chip credit cards	None
Outsource Contract	Taiwan Mobile Payment Corporation	Dec. 17, 2014	Manufacturing of credit cards for the mobile payment tools	None
Outsource Contract	Yuen Foong Paper Co., Ltd.	Nov. 01, 2008	Printing and mailing Statement	None
Outsource Contract	Yuen Foong Paper Co., Ltd.	Oct. 01, 2009	Printing and mailing	None

Operational Highlights

Nature of Contract	Concerned Parties	Contract Period	Content	Restriction on Contract
			integrated Statement	
Outsource Contract	Yuen Foong Paper Co., Ltd.	Jan. 01, 2008	Printing of withholding tax statements	None
Outsource Contract	Ma Chiu Consulting Management Co. Ltd.	Mar. 1, 2010	Household registration transport apply	None
Outsource Contract	Ma Chiu Consulting Management Co. Ltd.	Apr. 24, 2010	Household registration and financial/tax information search	None
Outsource Contract	SinLinYang Business Consulting Co., Ltd.	Apr. 24, 2010	Household registration and financial/tax information search	None
Outsource Contract	EVERY8D Co., LTD.	Aug. 1, 2012	Messaging system and message delivery service	None
Outsource Contract	SYSTEX Corporation	June 01, 2016	Mail Printing and Posting of Credit Card	
Outsource Contract	Mitake Inc.	July 01, 2017	Messaging system and message delivery service	None
Outsource Contract	IBM	Jul. 01, 2011	Credit card statement printing	None
Outsource Contract	Chunghwa Post Co., Ltd. Taipei Post	Aug. 01, 2012	Printing, the credit card notification letter and aerogram	None
Outsource Contract	Chunghwa Post Co., Ltd. Taipei Post	Aug. 01, 2012	Enveloping the credit card notification letter and aerogram	None
Outsource Contract	Chunghwa Post Co., Ltd. Taipei Post	Aug. 01, 2012	Delivery Service	None
Outsource Contract	Hou Jeh Co., Ltd.	Dec. 31, 2008	Enveloping of printed mail and delivery	None
Outsource Contract	Philip Morris International Taiwan	Nov. 20, 2012	Packaging the redemptions	None
Outsource Contract	Philip Morris International Taiwan	Nov. 20, 2012	Delivery the redemptions	None
Outsource Contract	SYSTEX Corporation	Sep. 01, 2012	Delivery of credit card statements	None
Outsource Contract	SYSTEX Corporation	Jan. 01, 2016	Delivery of credit card e-statements	None
Outsource Contract	Leebao Security Co., Ltd	Aug. 01, 2008	Cash transportation	None
Outsource Contract	Taiwan Security Co., Ltd.	Jan. 01, 2010	Cash transportation	None
Outsource	Jihsun Security	Dec. 01, 2012	Cash	None

Operational Highlights

Nature of Contract	Concerned Parties	Contract Period	Content	Restriction on Contract
Contract	Co., Ltd.		transportation	
Outsource Contract	An Fong Enterprise Co., Ltd.	Oct. 01, 2008	ATM banknote replenishment and troubleshooting operation	None
Outsource Contract	Lian-An Service Co., Ltd.	Jan. 01, 2010	ATM banknote replenishment and troubleshooting operation	None
Outsource Contract	Transnational Group	Jan. 01, 2013	Check clearing house delivery operation	None
Outsource Contract	Lee & Lin Real Estate Consultant	Dec 1, 2014	Conveyancing services	None
Outsource Contract	Yeah Ju-Cui Conveyancing Office	Nov. 25, 2014	Conveyancing services	None
Outsource Contract	Hsin Yaun Conveyancing Office	Nov. 14, 2014	Conveyancing services	None
Outsource Contract	Ja Chou Conveyancing Office	Nov. 17, 2014	Conveyancing services	None
Outsource Contract	Lin Hsiu-Fan Conveyancing Office	Dec 1, 2014	Conveyancing services	None
Outsource Contract	Chou Jin-Kuo Conveyancing Office	Dec 1, 2014	Conveyancing services	None
Outsource Contract	Shih Chang-Chih Conveyancing Office	Nov. 25, 2014	Conveyancing services	None
Outsource Contract	Lin Yin-Hui Conveyancing Office	Dec 1, 2014	Conveyancing services	None
Outsource Contract	Huang Jin-Yuan Conveyancing Office	Dec 1, 2014	Conveyancing services	None
Outsource Contract	Pu-Hsin Conveyancing Office	Dec 1, 2014	Conveyancing services	None
Outsource Contract	Fong Tai Management Consulting Co., Ltd.	Aug. 28, 2007	Lost car search service	None
Outsource Contract	Tai Ding Industrial Co., Ltd.	Aug. 28, 2007	Lost car search service	None
Outsource Contract	Hong Jeh Management Consulting Co., Ltd.	Dec.01, 2009	Lost car search service	None
Outsource Contract	SinJang Enterprise Co., Ltd.	Jul. 01, 2006	Lost car resell	None

Operational Highlights

Nature of Contract	Concerned Parties	Contract Period	Content	Restriction on Contract
Outsource Contract	Yu San Automobile Co., Ltd.	May. 01, 2008	Lost car resell	None
Outsource Contract	Ho Rong Co., Ltd.	Oct. 01, 2006	Lost car resell	None
Outsource Contract	Justor Collection Management Co. Ltd.	Jul. 01, 2007	Collection of receivables	None
Outsource Contract	Pick International Asset Management Co., Ltd.	Jul. 01, 2007	Collection of receivables	None
Outsource Contract	YuBan Credit Management Consulting Co., Ltd.	Jul. 06, 2007	Collection of receivables	None
Outsource Contract	Sparkle Collection Management Co., Ltd	Jul. 01, 2007	Collection of receivables	None
Outsource Contract	Chung Yu Credit Finance & Credit Management Co., Ltd.	Jul. 01, 2007	Collection of receivables	None
Outsource Contract	E-HAO MANAGEMENT CONSULTANT LTD	Jul. 01, 2007	Collection of receivables	None
Outsource Contract	Standard Finance & Credit Management Co., Ltd.	Jul. 01, 2007	Collection of receivables	None
Outsource Contract	Asia Credit Management Co., Ltd.	Oct. 27, 2009	Collection of receivables	None
Outsource Contract	APEX Credit Solutions Inc.	Oct. 27, 2009	Collection of receivables	None
Outsource Contract	United Credit Services Ltd.	Oct. 27, 2009	Collection of receivables	None
Outsource Contract	Hung Lih Asset Management Consulting Co., Ltd.	Oct. 01, 2011	Collection of receivables	None
Outsource Contract	Win Trust International Asset Management Co., Ltd.	Jul. 01, 2007	Collection of receivables	None
Outsource Contract	Uni-President Enterprises Corporation	Nov. 01, 2005	Collection of consumer loan payment	None
Outsource Contract	Taiwan FamilyMart Co., Ltd.	Jun. 01, 2011	Collection of consumer loan payment	None
Outsource Contract	Ok Mart Taiwan	Jun. 25, 2016	Collection of credit card payment	None

Operational Highlights

Nature of Contract	Concerned Parties	Contract Period	Content	Restriction on Contract
Outsource Contract	Hi-Life International Co., Ltd	Sep. 25, 2012	Collection of credit card payment	None
Outsource Contract	Taiwan FamilyMart Co., Ltd.	Jun. 01, 2011	Collection of credit card payment	None
Full Authorization Contract in Security Investment	Yuanta Securities Investment Trust Co., Ltd.	February 08, 2018	Conducting security investment with full authorization in accordance with Article 74-1 of the Banking Act	None
Full Authorization Contract in Security Investment	Union Securities Investment Trust Co., Ltd.	February 08, 2018	Conducting security investment with full authorization in accordance with Article 74-1 of the Banking Act	None

- 8. Securitization Commodities approved by the competent authority and relevant information launched in accordance with Financial Asset Securitization Act or Real Estate Securitization Act in recent years:** None

Financial Highlights

1. Condensed Balance Sheets, Income Statement and Auditors' Opinions for the most recent five years.

(1) Condensed Consolidated Balance Sheets - IFRS

In NT\$ thousand

Year Item	Financial Data for the Past Five Years (Note 1)				
	2013	2014	2015	2016	2017
Cash and equivalent, due from the Central Bank and other banks	79,101,215	76,850,501	71,659,720	65,385,579	31,317,157
Financial assets at fair value through profit or loss	10,115,316	18,614,020	9,058,815	9,538,090	12,136,325
Available-for-sale financial assets	8,711,283	13,974,008	23,319,718	39,978,425	35,489,633
Hedging derivative financial instruments	-	-	-	-	-
Securities purchased under resell agreements	20,237,019	26,371,487	22,072,191	27,855,242	28,234,334
Receivable-Net	13,917,483	14,781,594	15,217,776	17,888,230	17,751,420
Current Tax asset	160,672	332,275	332,660	186,231	52,134
Available-for-sale asset-Net	-	-	-	-	-
Discounts & Loans-Net	227,974,804	255,787,180	278,801,052	282,416,950	316,728,989
Held-to-maturity financial asset	440,233	534,200	4,207,436	7,192,115	51,285,957
Equity Investment(Equity Method)- Net	54,294	54,183	53,794	53,447	53,121
Restricted assets	-	-	-	-	-
Other financial asset – Net	57,559,287	56,835,380	61,133,831	57,403,743	48,267,839
Property and equipment- Net	7,644,442	7,732,876	7,723,438	8,156,305	8,081,729
Investment property-Net	2,777,603	3,691,781	3,703,410	5,415,376	5,284,434
Intangible asset –Net	2,049,795	2,050,999	2,144,240	2,167,730	2,169,444
Deferred tax asset-Net	2,992,503	2,407,704	1,886,538	1,447,039	1,172,974
Other asset	6,419,023	6,463,385	7,184,578	7,622,068	7,590,797
Total asset	440,154,972	486,481,573	508,489,197	532,706,570	565,616,287
Due to the central bank and other banks	5,315,113	6,748,799	3,781,976	8,389,312	9,249,185
Call loans to the central banks and other banks	-	-	-	-	-
Financial liability at fair value through profit or loss	16,006	211,084	54,271	39,253	183,384
Hedging derivative financial instruments	-	-	-	-	-
Securities sold under repurchase agreements	24,582,657	31,791,276	26,986,936	28,874,137	30,273,976
Payable	4,267,543	5,567,108	4,061,998	6,981,464	7,108,824
Current Income Tax liability	18,954	9,849	49,618	97,549	77,173

Financial Highlights

Year		Financial Data for the Past Five Years (Note 1)				
		2013	2014	2015	2016	2017
Item						
Liabilities directly associated with assets held for sale		-	-	-	-	-
Deposit and remittance		364,084,582	395,852,404	421,018,106	431,618,915	449,049,470
Bank debentures		7,400,000	7,400,000	10,204,397	12,335,884	13,109,598
Liability component of preferred stocks		-	-	-	-	-
Other financial liability		2,180,986	2,517,176	2,679,438	4,235,138	4,291,441
Provision		769,416	959,941	1,044,534	189,572	182,262
Deferred tax liability		574,580	707,731	881,731	834,410	937,196
Other liability		2,264,761	2,409,132	2,575,775	2,892,210	2,967,213
Total liability	Before dilution	411,474,598	454,174,500	478,338,780	496,488,114	517,429,722
	After dilution	411,483,560	454,811,742	474,380,841	497,660,433	Note 2
BIS total Equity		28,423,332	32,038,122	34,890,164	35,949,316	47,918,675
Capital stock	Before dilution	22,165,251	24,509,306	26,051,524	26,051,524	28,051,524
	After dilution	24,448,272	25,979,865	26,051,524	26,051,524	Note 2
Capital surplus		34,288	33,006	32,413	32,413	8,032,413
Retained earnings	Before dilution	5,391,915	6,126,910	7,087,950	8,673,248	10,254,481
	After dilution	3,099,932	4,019,109	6,045,889	7,500,929	Note 2
Others equity		831,878	1,368,900	1,718,277	1,192,131	1,580,257
Treasury Stock		-	-	-	-	-
Non control Interest		257,042	268,951	260,253	269,140	267,890
Total equity	Before dilution	28,680,374	32,307,073	35,150,417	36,218,456	48,186,565
	After dilution	28,671,412	31,669,831	34,108,356	35,046,137	Note 2

Note 1: All financial data has been audited by independent auditors, with the exception of the first quarterly financial data for 2017.

Note 2: The 2018 annual general shareholders' meeting has yet to be held. As such, the amount after appropriation for 2017 was not provided.

Financial Highlights

(2) Condensed Individual Balance Sheet-IFRS

In NT\$ thousand

Year Item	Financial Data for the Past Five Year (Note 1)				
	2013	2014	2015(Reedit)	2016	2017
Cash and equivalent, due from the Central Bank and other banks	78,568,012	76,737,109	71,152,509	64,389,151	29,937,036
Financial assets at fair value through profit or loss	9,863,257	18,373,136	8,815,810	9,291,613	11,852,723
Available-for-sale financial assets	8,500,192	13,699,485	22,911,977	39,548,602	35,183,406
Hedging derivative financial instruments	-	-	-	-	-
Securities purchased under resell agreements	20,230,519	26,350,581	22,052,189	27,845,242	28,215,334
Receivable-Net	13,742,618	14,678,252	15,141,449	17,768,361	17,627,438
Current Tax asset	160,660	326,786	316,861	183,591	46,909
Available-for-sale asset-Net	-	-	-	-	-
Discounts & Loans-Net	230,142,592	257,632,121	280,781,558	284,040,723	318,624,348
Held-to-maturity financial asset	428,017	521,266	4,191,245	7,192,115	51,285,957
Equity Investment(Equity Method)-Net	2,567,706	2,616,318	2,758,367	2,910,889	2,981,366
Restricted assets	-	-	-	-	-
Other financial asset – Net	57,830,216	56,639,357	60,969,196	56,620,906	48,100,741
Property and equipment- Net	7,630,976	7,722,206	7,713,726	8,136,374	8,061,615
Investment property-Net	-	-	-	-	-
Intangible asset -Net	2,044,866	2,046,198	2,140,281	2,164,516	2,162,835
Deferred tax asset-Net	2,826,055	2,245,936	1,750,150	1,307,570	1,019,583
Other asset	1,925,098	1,962,732	2,193,401	2,230,774	2,102,313
Total asset	436,460,784	481,551,483	502,888,719	523,630,427	557,201,604
Due to the central bank and other banks	4,924,611	6,164,744	3,163,991	7,017,629	8,961,290
Call loan to the central bank and other banks	-	-	-	-	-
Financial liability at fair value through profit or loss	16,006	211,084	54,271	38,430	183,611
Hedging derivative financial instrument	-	-	-	-	-

Financial Highlights

Year		Financial Data for the Past Five Year (Note 1)				
		2013	2014	2015(Reedit)	2016	2017
Securities sold under repurchase agreements		24,582,657	31,791,276	26,986,936	28,874,137	30,273,976
Payable		4,168,148	5,456,071	4,037,153	6,889,250	7,005,686
Current Income Tax liability		-	-	32,955	64,784	70,008
Liabilities directly associated with assets held for sale		-	-	-	-	-
Deposit and remittance		365,120,161	396,410,432	421,746,026	432,062,824	449,412,119
Bank debentures		7,400,000	7,400,000	9,600,000	11,200,000	11,700,000
Liability component of preferred stocks		-	-	-	-	-
Other financial liability		201,858	18,928	20,408	19,566	21,720
Provision		752,628	942,785	1,026,155	176,554	171,759
Deferred tax liability		556,558	699,730	869,197	815,251	911,524
Other liability		314,825	418,311	461,463	522,686	571,236
Total liability	Before dilution	408,037,452	449,513,361	467,998,555	487,681,111	509,282,929
	After dilution	408,046,414	450,150,603	469,040,616	488,853,430	Note 2
Capital stock	Before dilution	22,165,251	24,509,306	26,051,524	26,051,524	26,051,524
	After dilution	24,448,272	25,979,865	26,051,524	26,051,524	Note 2
Capital surplus		34,288	33,006	32,413	32,413	8,032,413
Retained earning	Before dilution	5,391,915	6,126,910	7,087,950	8,673,248	10,254,481
	After dilution	3,099,932	4,019,109	6,045,889	7,500,929	Note 2
Other equity		831,878	1,368,900	1,718,277	1,192,131	1,580,257
Treasury stock		-	-	-	-	-
Total equity	Before dilution	28,423,332	32,038,122	34,890,164	35,949,316	47,918,675
	After dilution	28,414,370	31,400,880	33,848,103	34,776,997	Note 2

Note 1: All financial data has been audited by independent auditors, with the exception of the first quarterly financial data for 2017. Besides, the Bank merged its subsidiary, Union Insurance Broker Co., Ltd. in August 2016. The nature of this merger belongs to organizational restructuring within the group, with the consolidated accounts recorded at the carrying value of assets and liabilities, and it should be considered as a merger from the beginning. Therefore, the financial information compared to the previous period (2015) should be reedited.

Note 2: The 2018 annual general shareholders' meeting has yet to be held. As such, the amount after appropriation for 2017 was not provided.

Financial Highlights

(3) Condensed Consolidated Comprehensive Income Statement - IFRS

In NT\$ thousand

Item \ YEAR	Financial Data for the past five years (Note)				
	2013	2014	2015	2016	2017
Interest Revenue	9,239,639	9,516,680	10,098,167	10,014,337	10,268,804
Less: interest expense	3,399,120	3,730,345	4,013,743	3,709,965	3,677,756
Net interest	5,840,519	5,786,335	6,084,424	6,304,372	6,591,048
Net revenue others than interest	4,650,027	5,148,606	5,656,298	5,707,288	5,880,317
Total net revenue	10,490,546	10,934,941	11,740,722	12,011,660	12,471,365
Provision reversal of allowance for doubtful accounts	(95,868)	(494,806)	(113,942)	171,542	356,861
Operating expense	7,178,056	7,691,951	8,014,400	8,529,331	8,727,933
Income before income tax	3,408,358	3,737,796	3,840,264	3,310,787	3,386,571
Income tax (expense) revenue	(520,554)	(614,311)	(701,340)	(649,166)	(620,536)
Income after income tax	2,887,804	3,123,485	3,138,924	2,661,621	2,766,035
Discontinue segment profit/loss	-	-	-	-	-
Net income	2,887,804	3,123,485	3,138,924	2,661,621	2,766,035
Other comprehensive income after tax	686,856	470,169	298,867	(535,336)	396,819
Total comprehensive income	3,574,660	3,593,654	3,437,791	2,126,285	3,162,854
Net income attributable to owners of bank	2,867,891	3,093,795	3,120,902	2,635,375	2,744,987
Net income attributable to Non-controlling interests	19,913	29,690	18,022	25,246	21,048
Net profit attributable to owners of bank	3,554,518	3,564,000	3,419,774	2,101,213	3,141,678
Net profit attributable to Non-controlling interests	20,142	29,654	18,017	25,072	21,176
Earnings per share	\$1.18	\$1.19	\$1.20	\$1.01	\$1.05

Note: :All financial data has been audited by independent auditors.

Financial Highlights

(4) Condensed Individual Comprehensive Income Statement - IFRS

In NT\$ thousand

Item \ Year	Financial Data for The Past Five years (Note)				
	2013	2014	2015(Reedit)	2016	2017
Interest Revenue	9,271,343	9,548,551	10,129,151	10,051,894	10,298,904
less: Interest Expense	3,350,022	3,681,523	3,958,924	3,653,016	3,613,710
Net Interest	5,921,321	5,867,028	6,170,227	6,398,878	6,685,194
Net revenues others than interest	2,557,835	2,982,487	3,635,663	3,508,315	3,602,533
Total net revenue	8,479,156	8,849,515	9,805,890	9,907,193	10,287,727
Provision reversal of allowance for doubtful accounts	(95,890)	(494,806)	(113,942)	171,542	356,861
Operating expenses	5,236,264	5,668,767	6,156,689	6,509,173	6,617,616
Income before income tax	3,338,782	3,675,554	3,763,143	3,226,478	3,313,250
Income tax revenue(expense)	(470,891)	(581,759)	(642,241)	(590,103)	(568,263)
Income after income tax	2,867,891	3,093,795	3,120,902	2,636,375	2,744,987
Discontinue segment profit	-	-	-	-	-
Net income	2,867,891	3,093,795	3,120,902	2,636,375	2,744,987
Other comprehensive income after tax	686,627	470,205	298,872	(535,162)	396,691
Total comprehensive income	3,554,518	3,564,000	3,419,774	2,101,213	3,141,678
Earnings per share	\$1.18	\$1.19	\$1.20	\$1.01	\$1.05

Note: Financial information for each reporting period has all been audited by the certified public accountant. Besides, the Bank merged its subsidiary, Union Insurance Broker Co., Ltd. in August 2016. The nature of this merger belongs to organizational restructuring within the group, with the consolidated accounts recorded at the carrying value of assets and liabilities, and it should be considered as a merger from the beginning. Therefore, the financial information compared to the previous period (2015) should be reedited.

Financial Highlights

(5) Name of CPAs and the Auditors' Opinion

Year	CPA Firm	Independent Auditors	Audit Opinion
2012	Deloitte & Touche	Terence Huang /Vincent Cheng	Unqualified opinion
2013	Deloitte & Touche	Terence Huang /Vincent Cheng	Unqualified opinion
2014	Deloitte & Touche	Terence Huang /Vincent Cheng	Unqualified opinion
2015	Deloitte & Touche	Terence Huang /Vincent Cheng	Unqualified opinion
2016	Deloitte & Touche	Charels Yang /Vincent Cheng	Unqualified opinion
2017	Deloitte & Touche	Charels Yang /Vincent Cheng	Unqualified opinion

Financial Highlights

2. Financial Analysis and Capital Adequacy Ratio

(1) Financial Analysis & Key Performance Index (KPI)

A. Consolidated Financial Report.

In NT\$ thousand

Year		Financial Data for the Past Five Years (Note1)				
		2013	2014	2015	2016	2017
Item(Note2)						
Operating capability	Loans to deposits ratio (%)	63.32	65.27	66.89	66.18	71.31
	Non-performing loan ratio (%)	0.29	0.09	0.05	0.10	0.12
	Interest expense to average total deposits (%)	0.85	0.85	0.86	0.73	0.66
	Interest revenue to average total loans (%)	2.57	2.40	2.36	2.17	2.08
	Total asset turnover (times)	0.0246	0.0236	0.0236	0.0231	0.0227
	Average net income per employee	2,974	3,014	3,061	3,085	3,141
	Average earnings per employee	819	861	818	684	697
Profitability	Return on tier 1 capital (%)	14.54	15.04	14.00	10.91	8.88
	Return on assets (%)	0.68	0.67	0.63	0.51	0.50
	Return on equity (%)	10.71	10.24	9.31	7.46	6.55
	Net income ratio (%)	27.53	28.56	26.74	22.16	22.18
	EPS (NT\$)	1.18	1.19	1.20	1.01	1.05
Financial Structure	Total liabilities to total assets ratio (%)	93.46	93.32	93.05	93.18	91.46
	Fixed assets to shareholders' equity ratio (%)	26.65	23.94	21.97	22.52	16.77
Growth rate	Asset growth ratio (%)	6.56	10.53	4.52	4.76	6.18
	Profitability growth ratio (%)	9.69	9.67	2.74	(13.79)	2.29
Cash Flow	Cash flow ratio (%)	-	11.50	-	3.45	-
	Cash flow adequacy ratio (%)	315.88	214.41	115.75	78.95	99.12
	Cash flow reinvestment ratio (%)	-	192.64	-	34.71	-
Liquid Reserve Ratio (%)		23.86	23.38	20.69	20.79	20.65
Balance of Secured Loans to Related Parties		1,840,562	1,781,537	2,357,291	2,235,592	1,259,684
Total Secured Loans to Related Parties as a % of Total Loans		0.76	0.65	0.80	0.75	0.37
Operation Scale	Market share of asset (%)	0.97	0.99	1.00	1.02	1.04
	Market share of net worth (%)	1.01	1.03	1.03	1.00	1.28
	Market share of deposits (%)	1.06	1.08	1.09	1.08	1.08
	Market share of loans (%)	1.03	1.10	1.16	1.14	1.22

Reason of ration change: The increase in Cash Flow Adequacy Ratio is mainly due to the decrease in accumulated capital expenditure for the past five years. The decrease in the Cash Flow Fulfil Rate is mainly due to the decrease in net cash flow from

Financial Highlights

operating activities for 2017.

Note 1: All financial data has been audited or reviewed by independent auditors.

Note 2: Financial ratios are computed as follows:

- I. Operating Capability
 - i. Loans to deposits ratio= Total loans/ total deposits (excluding redeposits of Chunghwa Post Co.)
 - ii. Non-performing loan ratio= Total NPL/ total loans
 - iii. Interest expense to average total deposits= Deposits related interest expense/ average total deposits
 - iv. Interest revenue to average total loans= Loans related interest revenue/ average total loans
 - v. Total asset turnover= Net operating revenue/ average total assets
 - vi. Average net income per employee (Note 6) = Net operating revenue/ total number of employees.
 - vii. Average earnings per employee= Net income after tax/ total number of employees.
- II. Profitability
 - i. Return on tier 1 capital= Net income before tax/ average total tier 1 capital.
 - ii. Return on assets= Net income after tax/ average total assets.
 - iii. Return on equity= Net income after tax/ average shareholders' equity.
 - iv. Net Income ratio= Net income after tax/ net income.
 - v. Earnings per share= (Net Income after tax - preferred stock dividend)/weighted average outstanding shares (Note 4)
- III. Financial structure
 - i. Total liabilities to total assets ratio=Total liabilities (Note 3) / total assets.
 - ii. Fixed assets and equipment to net worth ratio=Fixed assets and equipment, net/shareholders' equity, net.
- IV. Growth rate
 - i. Asset growth ratio= (Total assets as at the end of this year - total assets as at the end of last year)/total assets as at the end of last year.
 - ii. Profitability growth ratio=(Net income before tax for the current year- net income before tax for the past year)/net income before tax for the past year.
- V. Cash flow (Note 7)
 - i. Cash flow ratio=Net cash from operating activities/(call loans to banks+ CD payable + change in fair value of financial liabilities through the income statement + repurchase securities payable + Liabilities-current portion due within one year).
 - ii. Cash flow adequacy ratio=Net cash from operating activities for the past five years/(capital expenditure + cash dividends) incurred for the past 5 years.
 - iii. Cash flow reinvestment ratio=Net cash from operating activities/net cash from investing activities.
- VI. Liquid reserve ratio=Liquid assets statutorily required/reserve for liabilities.
- VII. Operation scale
 - i. Market share of assets=Total assets/total assets of all authorized deposit-taking and loan-underwriting financial institutions*. (Note 5)
 - ii. Market share of net worth=Net worth/total net worth of all authorized deposit-taking and loan-underwriting financial institutions*.
 - iii. Market share of deposits=Total deposits/total deposits of all authorized deposit-taking and loan-underwriting financial institutions*.
 - iv. Market share of loans=Total loans/total loans of all authorized deposit-taking and loan-underwriting financial institutions*.

Note 3: Total liabilities refer to the amount of liabilities after deducting performance guarantee reserve and contingency reserve.

Note 4: I. Measurement should be based on the weighted average number of common shares, not the number of issued shares at year end.

II. In any case where there is a cash capital increase or treasury stock transaction, the period of time in circulation shall be considered in calculating the weighted average number of shares.

III. In the case of capital increase out of earnings or capital surplus, the calculation of earnings per share for the past fiscal year and the fiscal half-year shall be retrospectively adjusted based on the capital increase ratio, without the need to consider the issuance period for the capital increase.

IV. If the preferred shares are non-convertible cumulative preferred shares, the dividend of the current year (whether issued or not) shall be subtracted from the net profit after tax, or added to the net loss after tax.

V. In the case of non-cumulative preferred shares, if there is net profit after tax, dividend on preferred shares shall be subtracted from the net profit after tax; no adjustment is required to be made if the result of operation is a net loss.

Financial Highlights

Note 5: All authorized deposit-taking and loan-underwriting financial institutions include all domestic bank, the local branches of foreign banks, credit cooperative associations, farmers' & fishermen's associations and trust & investment corps.

Note 6: Revenue refers to the sum of interest income and non-interest income.

Note 7: The following notes apply when conducting cash flow analysis:

- I. Net cash flow from operating activities means net cash in-flows from operating activities listed in the statement of cash flows.
- II. Capital expenditures means the amounts of cash out-flows for annual capital investment.
- III. Cash dividend includes cash dividends from both common shares and preferred shares.

Financial Highlights

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(B) Financial Analysis – Financial Report

In NT\$ thousand

Year Item(Note2)		Financial Data for the Past Five Years (Note1)				
		2013	2014	2015	2016	2017
Operating capability	Loans to deposits ratio (%)	63.73	65.65	67.24	66.49	71.68
	Non-performing loan ratio (%)	0.29	0.09	0.05	0.10	0.12
	Interest expense to average total deposits (%)	0.85	0.85	0.86	0.73	0.66
	Interest revenue to average total loans (%)	2.56	2.40	2.36	2.17	2.08
	Total asset turnover (times)	0.0201	0.0193	0.0199	0.0193	0.0190
	Average net income per employee	2,610	2,693	2,745	2,729	2,780
	Average earnings per employee	883	942	874	726	742
Profitability	Return on tier 1 capital (%)	14.17	14.72	13.70	10.64	8.71
	Return on assets (%)	0.68	0.67	0.63	0.51	0.51
	Return on equity (%)	10.74	10.23	9.33	7.44	6.55
	Net income ratio (%)	33.82	34.96	31.83	26.61	26.68
	EPS (NT\$)	1.18	1.19	1.20	1.01	1.05
Financial Structure	Total liabilities to total assets ratio (%)	93.47	93.31	93.02	93.11	91.38
	Fixed assets to shareholders' equity ratio (%)	26.85	24.10	22.11	22.63	16.82
Growth rate	Asset growth ratio (%)	6.63	10.33	4.43	4.12	6.41
	Profitability growth ratio (%)	9.45	10.09	2.38	(14.26)	2.69
Cash Flow	Cash flow ratio (%)	-	8.27	-	-	-
	Cash flow adequacy ratio (%)	1493.53	892.03	364.19	92.41	81.05
	Cash flow reinvestment ratio (%)	-	1,159.37	-	-	-
Liquid Reserve Ratio (%)		23.86	23.38	20.69	20.79	20.65
Balance of Secured Loans to Related Parties		4,008,350	3,626,478	4,337,797	3,859,365	3,155,043
Total Secured Loans to Related Parties as a % of Total Loans		1.65	1.32	1.47	1.59	0.94
Operation Scale	Market share of asset (%)	0.97	0.98	0.99	1.00	1.02
	Market share of net worth (%)	1.00	1.02	1.02	1.00	1.27
	Market share of deposits (%)	1.06	1.08	1.09	1.08	1.08
	Market share of loans (%)	1.04	1.11	1.17	1.14	1.22

Note 1: All financial data for the most recent two years was audited by CPA.

Note 2: Financial ratios are computed as follows:

Financial Highlights

I. Operating Capability

Loans to deposits ratio= Total loans/ total deposits (excluding redeposits of Chunghwa Post Co.)
Non-performing loan ratio= Total NPL/ total loans.
Interest expense to average total deposits= Total interest expense/ average total deposits.
Interest revenue to average total loans= Total interest revenue/ average total loans.
Total asset turnover= Net operating revenue/ total assets.
Average net income per employee (Note 6) = Net operating revenue/ total number of employees.
Average earnings per employee= Net income after tax/ total number of employees.

II. Profitability

Return on tier 1 capital= Net income before tax/ average total tier 1 capital.
Return on assets= Net income after tax/ average total assets.
Return on equity= Net income after tax/ average shareholders' equity.
Net Income ratio= Net income after tax/ net income.
Earnings per share= (Net Income after tax - preferred stock dividend)/weighted average outstanding shares (Note 4)

III. Financial structure

Total liabilities to total assets ratio=Total liabilities/total assets.
Fixed assets to net worth ratio=Fixed assets, net/shareholders' equity, net.

IV. Growth rate

Asset growth ratio= (Total assets as at the end of this year - total assets as at the end of last year)/total assets as at the end of last year.
Profitability growth ratio=(Net income before tax for the current year- net income before tax for the past year)/net income before tax for the past year.

V. Cash flow (Note 7)

Cash flow ratio=Net cash from operating activities/(call loans to banks+ CD payable + change in fair value of financial liabilities through the income statement + repurchase securities payable + Liabilities-current portion due within one year).
Cash flow adequacy ratio=Net cash from operating activities for the past five years/(capital expenditure + cash dividends) incurred for the past 5 years.
Cash flow reinvestment ratio=Net cash from operating activities/net cash from investing activities.

VI. Liquid reserve ratio=Liquid assets statutorily required/reserve for liabilities.

VII. Operation scale

Market share of assets=Total assets/total assets of all authorized deposit-taking and loan-underwriting financial institutions*.(Note 5)
Market share of net worth=Net worth/total net worth of all authorized deposit-taking and loan-underwriting financial institutions*.
Market share of deposits=Total deposits/total deposits of all authorized deposit-taking and loan-underwriting financial institutions*.
Market share of loans=Total loans/total loans of all authorized deposit- taking and loan-underwriting financial institutions*.

Note 3: Total liabilities refer to the amount of liabilities after deducting performance guarantee reserve and contingency reserve.

Note 4: I. Measurement should be based on the weighted average number of common shares, not the number of issued shares at year end.

II. In any case where there is a cash capital increase or treasury stock transaction, the period of time in circulation shall be considered in calculating the weighted average number of shares.

III. In the case of capital increase out of earnings or capital surplus, the calculation of earnings per share for the past fiscal year and the fiscal half-year shall be retrospectively adjusted based on the capital increase ratio, without the need to consider the issuance period for the capital increase.

IV. If the preferred shares are non-convertible cumulative preferred shares, the dividend of the current year (whether issued or not) shall be subtracted from the net profit after tax, or added to the net loss after

Financial Highlights

tax.

V. In the case of non-cumulative preferred shares, if there is net profit after tax, dividend on preferred shares shall be subtracted from the net profit after tax; no adjustment is required to be made if the result of operation is a net loss.

Note 5: All authorized deposit-taking and loan-underwriting financial institutions include all domestic bank, the local branches of foreign banks, credit cooperative associations, farmers' & fishermen's associations and trust & investment corps.

Note 6: Revenue refers to the sum of interest income and non-interest income.

Note 7: The following notes apply when conducting cash flow analysis:

I. Net cash flow from operating activities means net cash in-flows from operating activities listed in the statement of cash flows.

II. Capital expenditures means the amounts of cash out-flows for annual capital investment.

III. Cash dividend includes cash dividends from both common shares and preferred shares.

Financial Highlights

(2) Capital Adequacy

(Unconsolidated)

In NT\$ thousand

Item	Year(Note1)	Capital Adequacy Ratio for the Past Five Years (Note2)					Capital Adequacy Ratio as of the current year	
		2013	2014	2015	2016	2017		
Regulatory Capital	Common Stock Equity	23,562,741	26,380,471	28,573,380	30,419,225	31,867,478	As of the date of publication of the annual report, the recent information(2017) certified or audited by the CPA has been presented in the left column and does not need to be disclosed again.	
	Other Tier1 Capital of Non- Common Stock Equity	0	0	0	1,664,565	12,146,864		
	Tier2 Capital	6,624,701	6,462,888	7,817,292	6,851,336	5,726,391		
	Regulatory Capital	30,187,442	32,843,359	36,390,672	38,935,126	49,740,733		
Risk Weighted Assets	Credit risk	Standardized Approach	190,929,908	214,767,222	232,370,458	248,197,971		262,292,427
		Internal Ratings-Based Approach	-	-	-	-		-
		Credit Valuation Adjustment (CVA)	18,320	8,416	14,776	8,583		25,735
		Asset Securitization	1,219,545	1,262,627	1,227,133	919,153		11,794,762
	Operation risk	Basic Indicator Approach	15,405,625	15,555,738	16,711,475	17,384,500		17,986,588
		Standardized Approach/ Alternative Standardized Approach	-	-	-	-		-
		Advanced Measurement Approach	-	-	-	-		-
	Market Risk	Standardized Approach	9,234,588	17,206,850	25,658,013	22,483,575		24,757,659
		Internal Model Approach	-	-	-	-	-	
	Total Risk-weighted Assets		216,807,986	248,800,853	275,981,855	288,993,781	316,857,171	
Capital Adequacy Ratio		13.92%	13.20%	13.19%	13.47%	15.70%		
Ratio of tier 1 capital to risk-weighted assets		10.87%	10.60%	10.35%	11.10%	13.89%		
Ratio of common stock equity to risk-weighted assets		10.87%	10.60%	10.35%	10.53%	10.06%		
Leverage Ratio		-	-	5.28%	5.68%	7.30%		

Note1: The financial data in all periods was audited by CPA..

Note2: Core capital, weighted risk-based assets and total exposures in this Table were calculated in accordance with the “Regulations Governing the Capital Adequacy and Capital Category of Banks” and “Explanation and Table of Computation of Banks’ Core Capital and Risk-Weighted Assets”.

Note3: The ratios are computed as follows:

- i. Regulatory Capital = Common Stock Equity + Other Tier1 Capital of Non- Common Stock Equity + Tier2 Capital
- ii. Total risk-weighted assets = Credit risk weighted assets + (operational risk + market risk) capital appropriation* 12.5.
- iii. Capital adequacy ratio = Regulatory capital / Total risk-weighted assets.
- iv. Ratio of tier 1 capital to risk-weighted assets = (Common Stock Equity + Other Tier1 Capital of Non- Common Stock Equity) / Total risk-weighted assets.
- v. Ratio of Common Stock Equity I to risk-weighted assets = Common Stock Equity / Total risk-weighted assets.
- vi. Gearing ratio = Tier 1 Capital- Net / Total Risk Exposure.

Note 4: As of the date of publication of the annual report, if the information is certified or audited by the accountant, it should be disclosed.

Note 5: The disclosure of leverage ratio since 2015.

Financial Highlights

(Consolidated)

In NT\$ thousand

Item		Year(Note 1)	Capital Adequacy Ratio for the Past Five Years (Note 2)				
			2013	2014	2015	2016	2017
Regulatory Capital	Common Stock Equity		23,436,734	26,284,281	28,573,960	29,751,735	31,226,900
	Other Tier1 Capital of Non- Common Stock Equity		0	0	0	2,378,925	12,878,925
	Tier2 Capital		9,229,142	9,094,428	10,537,483	9,629,432	8,534,948
	Regulatory Capital		32,665,876	35,378,709	39,111,443	41,760,092	52,640,773
Risk Weighted Assets	Credit risk	Standardized Approach	199,593,002	222,034,638	240,005,077	258,435,318	271,952,498
		Internal Ratings-Based Approach	-	-	-	-	-
		Credit Valuation Adjustment (CVA)	18,320	8,416	14,776	8,583	25,735
		Asset Securitization	1,252,907	1,262,627	1,227,133	919,153	11,794,762
	Operation risk	Basic Indicator Approach	17,706,850	17,986,163	19,034,288	19,969,925	20,976,363
		Standardized Approach/ Alternative Standardized Approach	-	-	-	-	-
		Advanced Measurement Approach	-	-	-	-	-
	Market Risk	Standardized Approach	10,280,113	18,233,988	26,975,300	23,893,763	25,883,018
		Internal Model Approach	-	-	-	-	-
	Total Risk-weighted Assets			228,851,192	259,525,832	287,256,574	303,226,742
Capital Adequacy Ratio			14.27%	13.63%	13.62%	13.77%	15.92%
Ratio of tier 1 capital to risk-weighted assets			10.24%	10.13%	9.95%	10.60%	13.34%
Ratio of common stock equity to risk-weighted assets			10.24%	10.13%	9.95%	9.81%	9.44%
Leverage Ratio			-	-	5.21%	5.57%	7.21%

Note1: The financial data in all periods was audited by the CPA.

Note2: Core capital, weighted risk-based assets and total exposures in this Table were calculated in accordance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and "Explanation and Table of Computation of Banks' Core Capital and Risk-Weighted Assets".

Note3: The ratios are computed as follows:

- i. Regulatory Capital = Common Stock Equity + Other Tier1 Capital of Non- Common Stock Equity + Tier2 Capital
- ii. Total risk-weighted assets = Credit risk weighted assets + (operational risk + market risk) capital appropriation * 12.5.
- iii. Capital adequacy ratio = Regulatory capital / Total risk-weighted assets.
- iv. Ratio of tier 1 capital to risk-weighted assets = (Common Stock Equity + Other Tier1 Capital of Non- Common Stock Equity) / Total risk-weighted assets.
- v. Ratio of Common Stock Equity I to risk-weighted assets = Common Stock Equity / Total risk-weighted assets.
- vi. Gearing ratio = Tier 1 Capital- Net / Total Risk Exposure

Note 4: As of the date of publication of the annual report, if the information is certified or audited by the accountant, it should be disclosed.

Note 5: The disclosure of leverage ratio since 2015.

3. Supervisors' Report for the 2017 Financial Statements

Union Bank of Taiwan Co., Ltd.

Audit Committee's Report

The Board of Directors of the Bank has prepared and submitted the 2017 Business Report, Financial Statements (Including Balance Sheet, Income Statement, Statement of Shareholders' Equity, Statement of Cash Flows), and proposal for allocating profits, of which, the Financial statements (including consolidated statements of subsidiaries) have been audited by CPA Mr. Vincent Cheng and Mr. Charles Yang of Deloitte & Touche. The above Business Report, Financial Statements and proposal have been further determined to be correct and accurate by the supervisors. Hence, according to Article 14-4 and Article 219 of the Company Act, we hereby submit this report.

Union Bank of Taiwan Co., Ltd.

Convener of Audit Committee : Guo-Zhang Li



March 14, 2018

4. Financial Statements for 2017: Please refer to Appendix.

5. 2017 Individual Financial Statements for certified and audited by the CPA:
Please refer to Appendix.

6. Any Financial Difficulties Experienced by the Bank and its Affiliated Enterprises in the Past Year and Current Year up to the Printing Date of

Financial Highlights

the Annual Report, if yes, please narrate the impact upon the Bank's financial conditions: None.

Analysis of the Financial Status and Operating Results & Risk Management

1. Financial Status

In NT\$ thousand

Item	Year		Difference	
	Dec. 31, 2017	Dec. 31, 2016	Amount	%
Cash & cash equivalent, Due from Central Bank and other banks (note 1)	31,317,157	65,385,579	(34,068,422)	(52.10)
Financial assets at fair value through profit or loss	12,136,325	9,538,090	2,598,235	27.24
Securities purchased under re-sale agreements	28,234,334	27,855,242	379,092	1.36
Account receivable – net	17,751,420	17,888,230	(136,810)	(0.76)
Current income tax asset (note 2)	52,134	186,231	(134,097)	(72.01)
Discount & loans – net	316,728,989	282,416,950	34,312,039	12.15
Financial assets available for sale – net	35,489,633	39,978,425	(4,488,792)	(11.23)
Held-to-maturity investment financial asset (note 3)	51,285,957	7,192,115	44,093,842	613.09
Stock investments accounted for under the Equity Method	53,121	53,447	(326)	(0.61)
Other Financial Assets - net	48,267,839	57,403,743	(9,135,904)	(15.92)
Property & equipment – net	8,081,729	8,156,305	(74,576)	(0.91)
Investment property-net	5,284,434	5,415,376	(130,942)	(2.42)
Intangibles	2,169,444	2,167,730	1,714	0.08
Due to Central Bank & other banks	1,172,974	1,447,039	(274,065)	(18.94)
Other assets	7,590,797	7,622,068	(31,271)	(0.41)
Total assets	565,616,287	532,706,570	32,909,717	6.18
Due to Central Bank & other banks	9,249,185	8,389,312	859,873	10.25
Financial liability at fair value through profit or loss (note 4)	183,384	39,523	143,861	363.99
Securities sold under re-purchase agreement	30,273,976	28,874,137	1,399,839	4.85
Accounts Payable	7,108,824	6,981,464	127,360	1.82
Current income tax liabilities	77,173	97,549	(20,376)	(20.89)
Deposit & remittance	449,049,470	431,618,915	17,430,555	4.04
Bank debentures	13,109,598	12,335,884	773,714	6.27
Other financial liability	4,291,441	4,235,138	56,303	1.33
Provision	182,262	189,572	(7,310)	(3.86)
Deferred income tax liabilities	937,196	834,410	102,786	12.32
Other liabilities	2,967,213	2,892,210	75,003	2.59
Total liabilities	517,429,722	496,488,114	20,941,608	4.22
Capital stock	28,051,524	26,051,524	2,000,000	7.68
Capital surplus (note 5)	8,032,413	32,413	8,000,000	24,681.45

Analysis of the Financial Status and Operating Results & Risk Management

Item	Year	Dec. 31, 2017	Dec. 31, 2016	Difference	
				Amount	%
Retained earnings		10,254,481	8,673,248	1,581,233	18.23
Others equity		1,580,257	1,192,131	388,126	32.56
Total equity attributable to owners of the Bank		47,918,675	35,949,316	11,969,359	33.30
Non control interest		267,890	269,140	(1,250)	(0.46)
Total Equity		48,186,565	36,218,456	11,968,109	33.04

Notes:

1. Cash & cash equivalent, due from Central Bank and other banks: the cash deposited in Central Bank is adjusted to held-to-maturity.
2. The decrease of current income tax asset: Mainly due to the decrease of income tax refund receivable.
3. The increase of held-to-maturity investment financial asset: Mainly due to the transfer of cash deposited in Central Bank and the increase of investment to the government bond.
4. The increase of financial liability at fair value through profit or loss: Mainly due to the increase of investment in foreign exchange swap contracts.
5. The increase of capital surplus: Mainly due to the increase of the Bank's share premium - Preferred stock.

2. Results of Operation

In NT\$ thousand

Item	2017	2016	Change in Amount	Change in %
	Amount	Amount		
Interest Income	6,591,048	6,304,372	286,676	4.55
Income other than Interest Income	5,880,317	5,707,288	173,029	3.03
Reversal of Bad debt expense (note 1)	356,861	171,542	185,319	108.03
Operating expense	8,727,933	8,529,331	198,602	2.33
Income (loss) before tax	3,386,571	3,310,787	75,784	2.29
Income tax benefits (expense)	620,536	649,166	(28,630)	(4.41)
Consolidated income	2,766,035	2,661,621	104,414	3.92
Other comprehensive income, net of income tax (note 2)	396,819	(535,336)	932,155	(174.13)
Total comprehensive income	3,162,854	2,126,285	1,036,569	48.75

Notes of change:

1. Reversal of Bad debt expense: Mainly due to recognizing the allowance for doubtful account in the fake consumer loan, and the increase of allowance for doubtful account in response of the increasing credit lending balance.
2. Other comprehensive income, net of income tax: Mainly due to the increase in unrealized gains and losses on other equity such as available-for-sale financial assets

Analysis of the Financial Status and Operating Results & Risk Management

3. Cash Flow

(1) Cash Flow Analysis for the Past Two Years

In NT\$ thousand

Item	Year	2017	2016	Change in %
Cash flow ratio (%)		-	3.45%	(3.45%)
Cash flow adequacy ratio (%)		99.12%	78.95%	20.16%
Cash flow satisfaction ratio (%)		-	34.71%	(34.71%)

Analysis of changes in proportion:

The decrease in cash flow adequacy ratio was mainly due to the decrease in net cash flows from operating activities accumulated for the past five years

The increase of cash flow satisfaction ratio was mainly due to the decrease in net cash flows from operating activities accumulated for 2017.

(2) Liquidity Analysis for the Next Year

In NT\$ thousand

Opening balance of cash ①	Expected cash inflows (outflows) from operating activities ②	Total expected cash inflows (outflows) ③	Expected cash surplus (deficit) ①+②+③	Corrective measures for cash Deficiency	
				Investment Plan	Financing Plan
40,695,617	1,890,126	(3,112,622)	39,473,121	-	-

1. Cash flow analysis:

- (1) Operating activities: The increase was due to the growth of operating activities.
- (2) Investing and financing activities: The increase in the issue of Bank debentures and commercial paper.
- (3) Measures to finance cash deficiency and liquidity analysis: None.

4. The Impact of Major Capital Expenditure on the Bank's Financial Operations for the recent years: None

5. Reinvestment Policy, the Main Reasons for Profit or Loss, Corrective Action Plan in last year, and Investment Plan for the Next Year:

(1) Reinvestment Policy

The Bank's basic principles of reinvestment are to be in line with the government policy, to carry out business diversification and to optimize capital utilization. In addition, the bank will coalesce its related financial business channels to provide customers with multiple services and to create an operating synergy for the group.

(2) The Main Reasons for Profit or Loss, and Corrective Action Plan in 2017

The Bank's Investment profit recognized in 2017 totaling NT\$ 0.193 billion and the main items recognized are the operating profit and cash dividend income of the reinvestment business.

(3) Improvement Plan

The Bank evaluates the performance and risks of our investee companies on a regular basis during the year. We adopt a proactive management approach in that we examine the financial and business status of investee companies from time to time and make adjustments accordingly to ensure performance.

(4) Investment Plan for the Next Year

Will depend on the overall economic environment and the Bank's operating strategy.

Analysis of the Financial Status and Operating Results & Risk Management

6. Risk Management

(1) Qualitative and Quantitative Information About the Various Risks:

A. Credit Risk Management System and Capital Requirement:

a. Credit Risk Management System-2017

Item	Contents
1. Credit risk management strategies and procedures	<ol style="list-style-type: none"> 1. Credit risk management strategy: The Bank has enacted UBOT credit risk management principle as the basis to plan, promote, manage and execute the credit risk. 2. Credit risk management objective: The Bank has established credit risk management mechanism to lower credit risk, and to achieve the objective of operating and management, and to attain a balance between risk control and business development. 3. Credit risk management policy: The Bank has aimed at maintaining an adequate capital base within an acceptable level of credit risk to complete the objective of credit risk strategy and maximize revenue in after-risk-adjusted. 4. Credit risk management procedure: The Bank has employed procedures such as risk recognition, risk measuring, risk offsetting, risk control and risk reporting etc. to establish risk management system.
2. Credit risk management organization and framework	<ol style="list-style-type: none"> 1. Board of Directors: The highest decision-making unit of the Bank's credit risk management policy. Responsible for reviewing the Bank's credit risk management policy. 2. Assets and Liabilities Management Committee: Responsible for reviewing the implementation of the Bank's credit risk management. 3. Risk Management Dept.: Responsible for examining the risk management mechanisms established by the respective business administration departments, performing the risk control and submitting the risk control report to the Board of Directors regularly. 4. Business Planning and Administration Dept.: Responsible for formulating the business management rules and control mechanisms and properly supervising the performance of risk control of respective business unit. 5. Respective business units: Shall comply with the rules and regulations set forth by the Business Planning and Administration Departments while conducting their day-to-day operations.
3. Scope and characteristics of credit risk reporting and measurement system	<p>Scope of Risk Reporting</p> <ol style="list-style-type: none"> 1. All business administration departments report to the Assets and Liabilities Management Committee on a periodic basis regarding the status of business promotion and execution as well as information on the allocation of risk-based assets. 2. The Risk Management Dept. monitors the control of the Bank's credit limits on a periodic basis and reports to the Assets and Liabilities Committee with respect to concentration of credit risks and achievement of the BIS targets set for various business sectors. The Risk Management Dept. also reports to the Board of Directors on the various business volumes achieved, status of

Analysis of the Financial Status and Operating Results & Risk Management

Item	Contents
	<p>nonperforming loans, concentration of credit risks and the execution of credit risk control measures.</p> <p>Measurement System: The Bank adopts the Standardized Approach to compute the capital requirement and regularly generates official risk management reports. The Risk Management Dept. and the respective business administration departments generate various risk exposure reports by business, industry, country, group, credit concentration and types of collateral, to effectively measure and manage the combination of asset.</p>
4. Credit risk hedging or risk reduction policies, and strategies and procedures for monitoring the effectiveness of hedges and risk reduction tools	<p>The Bank employs suitable strategies such as eschewing, transfer, control and undertaking to tackle possible credit risk losses of all business units according to their respective business characteristics and cost-effective considerations.</p> <p>The Bank's IT system provides the relevant risk information to assist the Bank's management to perform risk monitoring procedures. The Risk Management Dept. reports the status of risk control measures to the Board of Directors on a six-monthly basis.</p>
5.Method used to provide the legal capital	Standard Method.

b. Exposure after risk reduction & capital requirement for standard method of credit risk calculation

As of Mar 31, 2018

In NT\$ thousand

Type of exposure	Exposure after risk reduction	Capital requirement(Note)
Sovereign states	85,472,547	184,284
Public departments other than the central government	35,728,057	705,629
Banks (including multiple development banks)	22,725,314	885,661
Enterprises (including securities and insurance companies)	70,079,270	6,564,667
Retailing credits	176,820,440	14,162,808
Residential real estate	66,993,370	3,320,959
Investments in equity securities	71,182	7,029
Other assets	15,494,783	949,053
Total	473,384,962	26,780,090

Note: The capital requirement is exposure after risk reduction multiplying by the statutory minimum capital adequacy ratio (2018: 9.875%).

Analysis of the Financial Status and Operating Results & Risk Management

B. Risk Management System, Risk Exposure and Capital Requirement of Asset Securitization: a. Risk Management System of Asset Securitization in 2017

Item	Contents
1. Management strategy and procedure of securitization	<p>(1) Securitization Strategy: The current asset securitization investment positions held by the Bank belong to the banking books. In principle the bank does not act in the capacity of the originating bank of securitization products, but rather plays as the investor to earn stable income. The investment target products are mainly of the investment grade with higher security.</p> <p>(2) Securitization procedure: Before making investment, the bank evaluates the characteristics, credit rating, returns and risks of the products to understand the security, liquidity and profitability. Investment proposals should be submitted to the Board of Managing Directors for approval, and regularly review the exposure status on the investment targets.</p>
2. Securitization management organization and framework	The Bank does not act as the originating bank of any securitized products. The risks of positions invested are evaluated and reviewed by the investing unit and the Bank's risk management department periodically.
3. Scope and characteristics of securitization risk report and measuring system	In addition to observing the global economy and market interest rate change in connection with the investment on securitization products, regular evaluation and monitoring on risk and income are performed periodically and the results are submitted to Asset and Liability Management committee and the Board of Director.
4. Securitization hedging or risk reduction policies, and effective strategies and procedures for controlling risk hedging and risk reduction tools	The relevant units shall review and control the securitized products periodically.
5. Approach to require the authorized capital	Standard Method
6. Disclosure of Marco qualitative: a. Objectives of securitization activities and the risk of re-securitization. b. Other risk of asset securitization. c. The role and the degree of involvement in	

Analysis of the Financial Status and Operating Results & Risk Management

Item	Contents
securitization process. d. The description of monitoring tool in credit and market fluctuation related to securitization exposure. e. Management policy of offsetting credit risk in securitization and re securitization.	Not applicable since the Bank does not act as the originating bank of securitized product.
7. The description of accounting policy of bank's securitization..	
8. Explain the exposure of securitization and ECAI in the banking book	
9. Explain major change in the quantities information after reporting period	

b. Status of Asset Securitization as of December 31, 2017

Type	Total issue amount	Outstanding balance	Amount repurchased
None			

Analysis of the Financial Status and Operating Results & Risk Management

c. Exposure & Capital Requirement of Asset Securitization as of December 31, 2017

In NT\$ thousand

Type of exposure	Type of exposure	Conventional		Portfolio		Total		Capital requirement prior to securitization
		Exposures		Capital requirement (2)	Exposure	Capital requirement (4)	Capital requirement (6)=(2)+(4)	
		Held or Purchased	Liquidity facilities provided					
				Capital requirement (2)	Held or Purchased (3)			
Book Type	The role of bank	Non-originating bank	CMO	45,894,610	883,014	0	45,894,610	883,014
			Reits	883,014	0	0	883,014	0
		Trade Book	0	0	0	0	0	0
		Subtotal	46,777,624	0	0	0	46,777,624	943,581
Originating bank	Bank Book	0	0	0	0	0	0	0
	Trade Book	0	0	0	0	0	0	0
	Subtotal	0	0	0	0	0	0	0
Total		46,777,624	0	46,777,624	943,581	0	46,777,624	943,581

Analysis of the Financial Status and Operating Results & Risk Management

- d. Information of Securitized commodities investment as of December 31, 2017
 I. Summary of Investment in Securitized commodities

USD : NTD = 1 : 29.848

In NT\$ thousand

Item	Account	Initial Cost	Cumulative Valuation Gain or Loss	Cumulative Impairment	Carrying Amount
CMO	Held-to-maturity financial assets	25,668	4,356	1	25,668
CMO	Non-active market debt instruments	45,992,999	848,727	2,495	45,734,754

Note1: The above numbers do not include the amount of Interest Receivable.

Note2: Accumulated valuation gains or losses and accumulated impairment losses were calculated and provided by an internationally renowned professional risk management agency (MARKIT model).

II.

- i. Information on Securitized commodities investment where the initial cost of a single investment is in excess of NT\$300 million (excluding those held by the Originator for the purpose of credit enhancement):

USD : NTD = 1 : 29.848

In NT\$ thousand

Name of Securities	Account (Note)	Currency	Issuer & Place	Purchase Date	Coupon Rate	Credit Rating	Method of Interest Payment & Principal Repayment	Initial Cost	Cumulative Valuation Gain or Loss	Cumulative Impairment	Carrying Amount	Attachment Point	Details of Asset Pool
				Maturity Date									
Ginnie Mae CMO	Non-active market debt instruments	USD	Ginnie Mae	20091130-20171130	2.5%~5.5%	Moody's Aaa	Monthly	34,619,358	0	194,348	34,425,010		
				20180502-20281025									
Freddie Mac CMO	Non-active market debt instruments	USD	Freddie Mac	20121030	3.0%-	Fitch AAA	Monthly	300,139	0	1,681	298,458	N/A	N/A
				20230320									
Fannie Mae CMO	Non-active market debt instruments	USD	Fannie Mae	20121030	3.0%	S&P AA+	Monthly	931,284	0	5,217	926,067		
				20220914									

- ii. Securitized commodities held by the bank as the originator for the purpose of credit enhancement In NT\$ thousand

Name of Securities	Currency	Purchase Date	Maturity Date	Coupon Rate	Credit Rating	Method of Interest Payment & Principal Repayment	Initial Cost	Cumulative Valuation Gain or Loss	Cumulative Impairment	Carrying Amount	Attachment Point	Details of Asset Pool
None												

Analysis of the Financial Status and Operating Results & Risk Management

- iii. Bank acting as the buyer or liquidating buyer of the impaired assets of Securitized commodities

In NT\$ thousand

Name of Securities	Currency	Issuer & Place	Maturity Date	Contract Details	Status of Contract Execution
None					

- III. Bank acting as the guarantor of, or the provider of liquidity facility for the Securitized commodities

In NT\$ thousand

Name of Securities	Currency	Purchase Date	Maturity Date	Coupon Rate	Credit Rating	Acting As	Amount	Attachment Point	Details of Asset Pool
None									

C. Operation Risk Management System and Capital Requirement

a. Operation Risk Management System

2017

Item	Risks
1. Operation risk management strategies and procedures	<p>Strategies: The Bank has enacted the "Operation Risk Management Guidelines of Union Bank of Taiwan" which serves as the basis for relevant business units to plan, promote, manage and execute operations risk management.</p> <p>Procedure: The Bank has built up an operation risk management mechanism through procedures for risk identification, assessment, measuring, monitoring and reporting.</p>
2. Operational risk management organization and framework	<ol style="list-style-type: none"> 1. Board of Directors: The top decision-making body of the Bank's operational risk management policy. Responsible for reviewing the Bank's operational risk management policy. 2. Assets and Liabilities Management Committee: Responsible for reviewing the implementation of the Bank's operational risk management. 3. Risk Management Dept.: Responsible for examining the risk management mechanisms established by the respective business administration departments, performing risk control and the submitting the risk control report to the board of Directors regularly. 4. Business Planning and Administration Dept.: Responsible for formulating the business management rules and control mechanisms and supervising the performance of risk control of respective business unit. 5. All business units: Shall comply with the rules and regulations set forth by the Business Administration departments in daily operations.

Analysis of the Financial Status and Operating Results & Risk Management

Item	Risks
3. Scope and characteristics of the operational risk reporting and measurement system	<ol style="list-style-type: none"> 1 The Bank adapts the “Guidelines for Collection of Operational Risk Information” and establishes the “Operational Risk Reporting System” for all departments to report any operational risk incident to the Risk Management Dept. 2 The Bank has put in place the “Operational Risk Indicators”. Upon setting the control frequency and risk warning standards, the relevant departments are responsible for providing the risk indicator values based on the risk control frequency to the Risk Management Dept. Improvement measures are taken to address any risks that exceeded the set standards. 3 The Bank has adopted the “Guidelines for Operational Risk Control Self-Assessment” and established the “Operational Risk Control Self-Assessment” database to carry out the operational risk control self-assessment throughout the Bank periodically. 4 The Risk Management Dept. reports the status control of “Operational risk events”, “Operational risk indicators” and “Operational risk control self-assessment” to the Assets and Liabilities Management Committee and Board of Directors on a regular basis.
4. Operational risk hedging or risk reduction policies, and strategies and procedures for monitoring the effectiveness of hedges and risk reduction tools	<ol style="list-style-type: none"> 1. The Bank evaluates the frequency and level of influence with respect to operation risk confronted and adopts a series of risk reduction measures such as insurance, outsourcing operation, procedure improvement, personnel training enhancement, urgent response actions set up and risk hedging. 2. The Bank takes every possible operation risk into consideration and build up acceptable action measures while enacting operation manual for core products. In addition, External and internal auditing are the enhancements of operation risk prevention. 3. Risk Management Dept. informs Assets and Liabilities Management Committee about operation risk incidents collected quarterly and reports the Board of Director the operation risk control status of all business biannually.
5. Method used to provide the legal capital	Basic Indicator Approach.

b. Operation Risk Capital Requirement as of Dec.31, 2017

In NT\$ thousand

Year	Gross profit	Capital requirement
2015	9,542,818	
2016	9,547,482	
2017	9,688,238	
Total	28,778,538	1,438,927

Analysis of the Financial Status and Operating Results & Risk Management

D. Market Risk Management System and Capital Requirement

a. Market Risk Management System – 2017

Item	Contents
1. Market risk management strategies and procedures	<ol style="list-style-type: none"> 1. The Bank has enacted “UNION BANK market risk management principle” approved by the Board of Directors, as the basis for market risk management. 2. The management procedure of market risk management contains the following five processes: <ol style="list-style-type: none"> (1) Risk Identification: For items on/off the Balance Sheet, the bank identify the market risk factors of various products and investment business to evaluate the risk and define management procedure and control mechanism. (2) Risk Measurement: To cope with market risk quantification, there is at least one assessment tool for each investment or transaction. The assessment tools include mark-to-market, nominal principal, sensitivity analysis, value at risk and pressure test. (3) Risk Monitoring: Clearly define risk limits on relevant operation regulations for all business and monitor by frequency. Risk Management Dept. is in charge of the summarization and presentation of market risks for the Bank. (4) Risk Reporting: Risk Reporting is divided into routine reporting, overrun reporting and exceptional reporting. Routine reports are distributed to proper authorized level in accordance with the List of Separation of Duties; overrun reports should explain overrun status and suggest responsive measures; Exception reports are submitted by business unit before an event due to temporary business needs. (5) Risk reduction: Risk reduction procedures such as risk hedging, investment portfolio adjustment, position allocation, stop-loss and close new transactions.
2. Market risk management organization and framework	<ol style="list-style-type: none"> 1. Board of Directors: The top decision-making body of the Bank’s market risk management policy responsible for examining and approving the Bank’s market risk policy and the total risk limit targets for all businesses, and setting and modifying the Bank’s market risk management organization structure. 2. Asset and Liability Management Committee: Examine the management reports and information submitted by risk management department and the business units. 3. Risk Management Dept.: It is a dedicated independent risk management unit executing three pillars related operation of BASEL II market risk, planning and building market risk measuring tools, and monitoring according to the risk limits for different products. 4. Business Units: responsible for the execution of daily market risk management for the business they handle, and reporting the market risk and investment status related information to proper authorization level.
3. Scope and characteristics of the market risk reporting and measurement system	<ol style="list-style-type: none"> 1. Market Risk evaluated trading book position for various financial products and use fair market value or evaluation model as basis to regularly evaluate the profit/loss condition of the position held. 2. All business units and Risk Management Department should make relevant management reports regularly and submit to proper authorization level. 3. Market risk management system combine with front-desk trading position and middle desk evaluation to generate sufficient information for assisting all management levels to execute each individual risk monitoring task, and can support the capital calculation method selected by a bank to generate relevant internal and

Analysis of the Financial Status and Operating Results & Risk Management

Item	Contents
	external reports as the basis for management decision-making.
4. Market risk hedging or risk reduction policies, and strategies and procedures for monitoring the effectiveness of hedges and risk reduction tools	When market risk is excessive or the position limit or stop-loss limit has been exceeded, the bank will take following market risk reduction method: hedging, portfolio adjustment, position adjustment, square stop-loss and stop new transaction.
5. Method used to provide the legal capital	Standardized Approach.

b. Market Risk Capital Requirement

March 31, 2018

In NT\$ thousand

Type of risk	Capital requirement
Interest rate risk	1,316,950
Equity securities risk	2,069,693
Foreign exchange risk	209,090
Product risk	
Total	3,595,733

E. Liquidity Risk Including the Analysis of Maturities of Assets and Liabilities, and Also Specify the Approach to Manage the Liquidity of Assets and Maturity Gap:

a. Maturity Analysis of NTD Assets and Liabilities

December 31, 2017

In NT\$ thousand

Item	Total	The amount of remaining period to maturity					
		0~10 days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Main capital inflow on maturity	480,358,390	57,841,447	58,054,228	33,432,390	46,879,896	86,634,132	197,516,297
Main capital outflow on maturity	560,344,544	28,963,144	35,926,711	69,540,305	73,713,185	149,777,827	202,423,372
Gap	(79,986,154)	28,878,303	22,127,517	(36,107,915)	(26,833,289)	(63,143,695)	(4,907,075)

Note: The figures in above Table represent the New Taiwan Dollars (excluding foreign currency) assets and liabilities for Head Office, domestic branches and offshore offices.

b. Maturity Analysis of USD Assets and Liabilities

Analysis of the Financial Status and Operating Results & Risk Management

December 31, 2017

In US\$ thousand

Item	Total	The amount of 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

Note: The figures in above Table represent the foreign currency (in USD equivalent) assets and liabilities for the Head Office, domestic branches and offshore offices.

- c. Approach to Manage Assets and Liabilities
 - i. The Bank's assets and liabilities management mechanism applies the asset and liability interest rate sensitivity and gap analysis for control purpose. Presently, the Bank has set up the Assets and Liabilities Management Committee to provide guidance and policy instruction and, to manage interest rate fluctuations and gaps. In addition to fully monitoring on interest rate, senior executive meetings are called from time to time as needed to exercise overall adjustment and review the Bank's asset and liabilities structure, and present result to the Committee for approval.
 - ii. For the interest rate risk of NTD and foreign currencies, the Bank employ well-established trading and funding MIS to manage daily changes of deposit and loan amounts, as well as the cost and balance of deposits in various types and terms. In addition, it will produce the analysis of floating and fixed interest rate deposits and loans, the analysis of interest rate sensitivity and the analysis of interest rate spread. The Bank will utilize above mentioned information and analyses to set up strategies for interest rate adjustment.
 - iii. For foreign exchange risk, the Bank has designed independent and related procedures for transaction settlement, and has also applied the position control, individual trader position control and stop-loss control etc.
 - iv. For liquidity risk, the Bank strictly monitor cash on hands and the movement of deposits and loans every day. Meanwhile, the Bank has also launched the mechanism to forecast, measure, calculate and early warning for future needs and changes of funding so as to realize current assets to meet the needs.

(2) Domestic and Global Changes in Government Policies and Legal Environment, and the Effect on the Financial and Operational Status of the Bank, and Response Actions thereof:

- A. The FSC has relaxed its restrictions and given banks more room to invest. The Bank's investment limit is now determined based on "net worth," which should allow greater freedom.
- B. New amendments to the Personal Information Protection Act "Special Personal Data" require that "special personal data" be collected, processed or

Analysis of the Financial Status and Operating Results & Risk Management

used with the written consent of the data subject, the “written consent” for the existing “general personal data” to be collected, processed or used is amended to only “consent” and no longer limited in writing, and a supplementary notification is given after indirect collection. The Bank has revised the Notices for Personal Information Protection and the personal information files security maintenance plan accordingly. The evaluation shows that there should be no need to increase the cost of manpower and material resources and expenses.

- C. For the Principle of Fair Treatment of Customers for the Financial Service Industry newly promulgated by the Financial Supervisory Commission, the contents of which include nine principles: the principle of fair and honest in contract engagement, the principle of duty of care and loyalty, the principle of truthfulness in marketing and advertising, the principle of product or service suitability, the principle of notification and disclosure, the principle of selling complex high risk products, the principle of balanced remuneration structures, the principle of customer complaint handling, and the principle of professionalism of sales people. The Bank has formulated the policy for fair treatment of customers and the implementation strategy for fair treatment of customers to enhance employee awareness of the Bank on financial consumer protection and compliance with the relevant laws and regulations regarding financial consumer protection. The evaluation shows that the future compensation for risks and expenses of financial consumers should be able to be reduced.
- D. Regarding the “Money Laundering Control Act” amended and published by the president of R.O.C., the Financial Supervisory Commission has additionally mandated the “Regulations Governing Anti-Money Laundering of Financial Institutions”, and revised relevant sub-laws such as “Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Business, Electronic Payment Institutions and Electronic Stored Value Card Issuers”. The Bankers Association, Trust Association, Bills Finance Association and Taiwan Securities Association will continually revise their compliance modules. The Bank has formulated “Notices for Anti- Money Laundering and Terrorist Financing”, supervised each department in executing the internal control system of anti- money laundering and terrorist financing, and evaluated the additional human resource needed, educational training, and the cost and expense of the IT system.
- E. In order to enhance financial holding companies’ focus on legal compliance of the banking industry and anti- money laundering and terrorist financing, the FSC has put more restrictions on the qualification, professional training and role function of legal compliance personnel and supervisors. At the same time, the reporting mechanism of financial holding companies and banks has been strengthened, and the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” have also been amended. The Bank has revised its legal compliance implementation rules and the guidelines for self-evaluation of legal compliance system. Although the stricter qualification and on-the-job training of legal compliance supervisors and personnel will increase costs and expenses, it shall be able to effectively lower the Bank’s legal compliance risk.

Analysis of the Financial Status and Operating Results & Risk Management

- (3) The Effect of Technological and Industrial Changes on the Bank's Financial Position and its Response Actions thereof: Third party payment, Internet banking, cloud service, mobile payment, blockchain application, biological identification and big data are bringing rapid and irreversible changes to customers' behaviors and spending patterns, and are revolutionizing the ways banking services are delivered. Arrival of the digital banking era means that many conventional banking services will be automated and replaced by machines, and banks will no longer rely on branches to carry out services as much as they used to. In response to digital banking, the Bank will be introducing new services, training programs, and solutions to help employees through the transition.
- (4) The effect of change in the Bank's corporate image on the Bank and its response actions:
To continue to rejuvenate our brand and expand new customers, the Bank plans on brand image advertising, while making cross-use of television, printing, out-of-home media, and emerging media such as network community and mobile devices for promotion to enhance brand visibility. It also creates a new look for the brand through the spokesperson, the mascot Mykonos, sponsoring cross-industry alliances and participating in public welfare activities, and so on to create a new look brand and improve the brand image and visibility of the Bank.
- In addition to adopting a spokesperson system, the Bank also has a set of "Union Bank of Taiwan Crisis Management Guidelines" and "Inside Material Information Procedures" in place to ensure proper communication with the media, and avoid public relation crises that would hurt the corporate image. Should a corporate image crisis arise, the issue will be escalated to the accountable department according to SOP. Meanwhile, the public will be addressed through the spokesperson in an appropriate manner to prevent damage from spreading, and thereby protect the Bank's reputation and brand image.
- (5) Expected Result and Possible Risks of Mergers and Acquisitions and Response Actions thereof: None
- (6) Expected Result for Establishing More Business Locations, Possible Risk and Response Actions Thereof:
The establishment of business unit will not only increase transaction volume of deposits/loans/wealth management but also improve profits as well as provide comprehensive services to our customers. Effectively nevertheless, there is possibility that the economy of scale may not be achieved due to poor branch location or the business activities may be below our expectation. The Bank will then access the needs for relocation.
- (7) Risk in the Over Concentration of Business and Response Action thereof:
When business is concentrated, it could easily make business income source over-concentrated in one single industry or single customer group. It is vulnerable to industry cycle and could heighten the risks borne by the Bank. The Bank's current credit and investment related business are all based on and executed within the internal quota policy. The Bank has set regulations such as

Analysis of the Financial Status and Operating Results & Risk Management

“Credit/Market Risk Management Guideline”, “Regulations governing the Management of Enterprise Group Credit Risk”, “Foreign Currency Security Investment Processing Guideline”, “Foreign Currency Credit and Country Risk Management Approach”, and “Investment Policy” to strengthen the management of risk quota for all business.

The Bank’s Risk Management Department also monitors credit quota, controls status and reports the credit concentration regularly to Asset and Liability Management Committee and the Board of Directors.

- (8) The Effect of Change in the Management of the Bank, Possible Risk and Response Action Thereof: The Bank was founded with the mission for sustainable operation. We maintain the management concepts of “Enthusiasm”, “Stability”, “Efficiency” and “Innovation” to provide financial products and services that meet the needs of customers and to service the general public. The Bank employs professional managerial officers to manage the businesses and as such, the Bank’s business management will not change or be impacted significantly as a result of changes in management power. The Bank shall provide the relevant internal management information and enhance the transparency of information disclosure in the event of a change in management power in order to secure investor and consumer confidence.
- (9) The effect that large transfer in shares of director or supervisor, or shareholders holding more than ten percent of shares of the company, Possible Risk and Response Action:
There has been no significant change in share ownership of the Bank’s shareholders, directors and supervisors. The Bank employs professional managerial officers to manage the Bank’s business. Therefore, the Bank’s operational management will not be impacted as a result of a significant change in share ownership. The Bank shall ensure information transparency in the event of a significant transfer or change in share ownership and files a declaration and makes public announcement with respect to the changes in accordance with the relevant banking regulations to secure investor and consumer confidence.
- (10) Legal Actions and Non-contentious Matters: None.
- (11) Other Major Risks and Response Actions thereof: None.

7. Contingency Plan

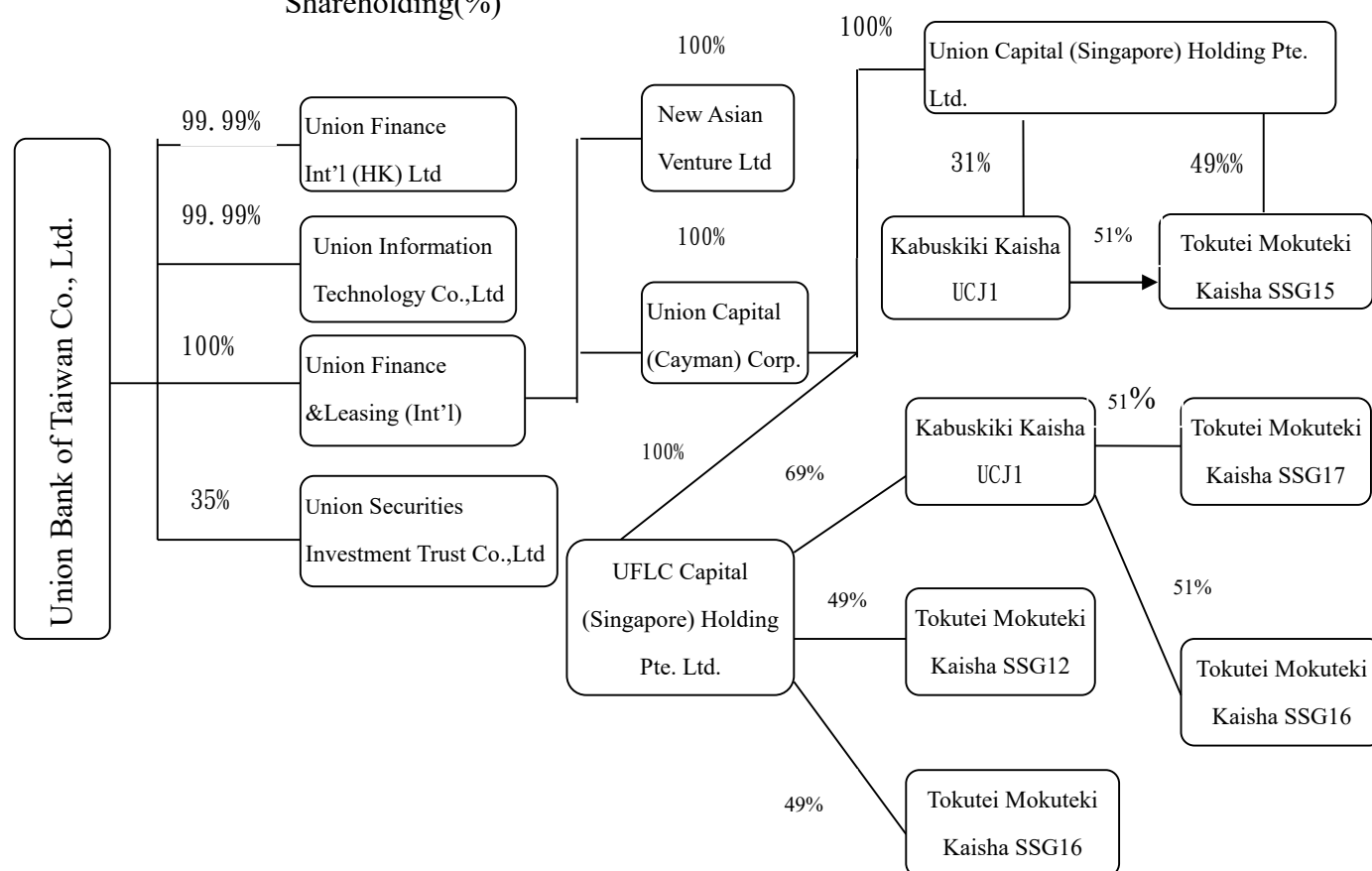
The Bank has enacted the “Essential Points for Urgent Response Action to Disasters” and has set up a crisis management taskforce, urgent contact and report mechanism to execute the disaster rescue measures effectively. The various business units shall perform the disaster education training and drill in accordance with the Bank’s “Instructions to Safety Protection” and “Safety Protection Drill Implementation Plan”, and shall also check and maintain the safety facilities more than twice a year.

8. Other Important Matters: None

Affiliated and Special Notes

1. Information on Affiliated Enterprises

(1) Organization Chart Shareholding(%)



Amount in NT\$ thousand

Name of Enterprise	Date of Establishment	Address	Paid-in Capital	Main Business or Production Activities
Union Finance International (HK) Ltd	1996.04.23	Unit 18, 35/F, West Tower, Shun Tak Centre, 200 Connaught Road, Central, Hong Kong	TWD 106,589	Import and export financing
Union Information Technology Co., Ltd.	1998.08.10	10F, No. 109, Sec. 3, Minsheng E. Road, Taipei, Taiwan	TWD 10,000	IT and software services
Union Finance & Leasing (Int'l) Co., Ltd.	1996.11.11	9F, 137, Sec. 2, Nanking E. Road, Taipei, Taiwan	TWD 1,170,000	Installment purchases, leasing, auto loan and car rental business
Union Securities Investment Trust Co., Ltd.	1998.12.22	6F, 137, Sec. 2, Nanking E. Road, Taipei, Taiwan	TWD 300,000	Securities investment trust
Union Capital (Cayman) Corp.	1997.07.23	P.O.Box 1034, George Town, Grand Cayman, Cayman Islands, British West Indies.	USD50	Installment purchase and lease investment businesses
New Asian Ventures Ltd.	1997.10.27	P.O.Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.	-	Installment purchase and lease investment businesses
Union Capital (Singapore) Holding Pte. Ltd.	2014.9.12	50 RAFFLES PLACE #25-03 SINGAPORE LAND TOWER SINGAPORE (048623)	-	Lease investment businesses

Affiliated and Special Notes

UFLC Capital (Singapore) Holding Pte. Ltd.	2016.3.11	50 RAFFLES PLACE #25-03 SINGAPORE LAND TOWER SINGAPORE (048623)	-	Lease investment businesses °
Kabuskiki Kaisha UCJ1	2014.9.12	1 Chome 11, Kanda Jinbocho, Chiyoda ,Tokyo, Japan	JPY1,043,800	Lease investment businesses °
Tokutei Mokuteki Kaisha SSG15	2014.9.19	1 Chome 11, Kanda Jinbocho, Chiyoda ,Tokyo , Japan	JPY1,430,200	Lease investment businesses °
Tokutei Mokuteki Kaisha SSG12	2016.2.25	1 Chome 11, Kanda Jinbocho, Chiyoda ,Tokyo , Japan	JPY1,930,200	Lease investment businesses °
Tokutei Mokuteki Kaisha SSG16	2016.3.31	1 Chome 11, Kanda Jinbocho, Chiyoda ,Tokyo , Japan	JPY2,530,200	Lease investment businesses °

(2) Information on Directors, Supervisors and President of Affiliated Enterprises

December 31, 2017

Name of Enterprise	Title	Name of Representative	Shareholding	
			Shares	%
Union Finance International (HK) Ltd	Director	Union Bank of Taiwan (Representative: Jeff Lin)	30,000,000	99.999993%
	Director	Shiang-Chang Lee	2	0.000007%
	Director	Union Bank of Taiwan (Representative: Cheng-Yu Liu)	-	0.00%
	Director	Union Bank of Taiwan (Representative: Connie Tseng)	-	0.00%
	Director & President	Union Bank of Taiwan (Representative: Amanda Lin)	-	0.00%
Union Information Technology Co., Ltd.	Chairman	Union Bank of Taiwan (Representative: Angela Shen)	999,923	99.99%
	Director	Union Bank of Taiwan (Representative: Cheng-Yu Liu)		
	Director	Union Bank of Taiwan (Representative: Luke Yang)		
	Supervisor	Ling-Rong, Xiong	0	0%
	President	Angela Shen	0	0.00%
Union Finance & Leasing (International) Co., Ltd.	Chairman	Union Bank of Taiwan (Representative: Wei-Shin Shen)	117,000,000	100.00%
	Director	Union Bank of Taiwan (Representative: Herman Tu)		
	Director	Union Bank of Taiwan (Representative: Cheng-Juh Hsieh)		
	Supervisor	Union Bank of Taiwan (Representative: Yin-Bor Chan)		
	President	Wei-Shin Shen	0	0.00%
Union Securities Investment Trust Co., Ltd.	Chairman	Union Bank of Taiwan (Representative: Ming-Hsing Ho)	10,500,000	35%
	Director	Union Bank of Taiwan (Representative: Herman Tu)		
	Director	Union Bank of Taiwan (Representative: Ting-Wan Hsu)		
	Supervisor	Kun-Che Investment Co., Ltd. (Representative: Wen-Ming Lee))	5,399,667	17.99%
	President	Lin-Yu Fan	0	0.00%
Union Capital (Cayman) Corp	Director	Union Finance & Leasing (International) Co., Ltd. (Representative: Wei-Shin Shen)	50,000	100%
	Director	Union Finance & Leasing (International) Co., Ltd. (Representative: Cheng-Juh Hsieh)		
New Asian Ventures Ltd.	Director	Union Finance & Leasing (International) Co., Ltd. (Representative: Wei-Shin Shen)	1	100%
	Director	Union Finance & Leasing (International) Co., Ltd. (Representative: Cheng-Juh Hsieh)		
Union Capital (Singapore) Holding Pte. Ltd.	Director	Union Capital (Cayman) Corp (Representative: Wei-Shin Shen)	1	100.00%
	Director	Union Capital (Cayman) Corp (Representative: Ru-Jwu Tsai)	0	0

Affiliated and Special Notes

Name of Enterprise	Title	Name of Representative	Shareholding	
			Shares	%
UFLC Capital (Singapore) Holding Pte. Ltd.	Director	Union Capital (Cayman) Corp (Representative: Wei-Shin Shen)	1	100.00%
	Director	Union Capital (Cayman) Corp (Representative: Ru-Jwu Tsai)	0	0
Kabuskiki, Kaisha UCJ1	Director	Union Capital (Singapore) Holding Pte. Ltd. (Representative: Wei-Shin Shen)	9,259	31%
	Director	UFLC Capital (Singapore) Holding Pte. Ltd. (Representative: Wei-Shin Shen)	21,050	69%
Tokutei Mokuteki Kaisha SSG15	Director	Union Capital (Singapore) Holding Pte. Ltd. (Representative: Wei-Shin Shen)	14,015	49%
	Director	Kabuskiki Kaisha UCJ1 (Representative: Wei-Shin Shen)	14,586	51%
Tokutei Mokuteki Kaisha SSG12	Director	UFLC Capital (Singapore) Holding Pte. Ltd. (Representative: Wei-Shin Shen)	18,915	49%
	Director	Kabuskiki Kaisha UCJ1 (Representative: Wei-Shin Shen)	19,686	51%
Tokutei Mokuteki Kaisha SSG16	Director	UFLC Capital (Singapore) Holding Pte. Ltd. (Representative: Wei-Shin Shen)	24,795	49%
	Director	Kabuskiki Kaisha UCJ1 (Representative: Wei-Shin Shen)	25,806	51%

(3) General Information of Affiliated Enterprises

December 31, 2017 In NT\$ thousand except Earnings Per Share (NT\$)

Name of Enterprise	Paid-in Capital	Total Assets	Total Liabilities	Net Worth	Operating Income	Operating Profit	Net Income (Loss) After Tax	Earnings Per Share After-tax (\$)
Union Finance International (H.K.) Ltd. Note1	114,568	331,030	231,516	99,514	44,252	33,476	33,476	1.12
Union Information Technology Co., Ltd.	10,000	78,380	58,134	20,246	122,140	1,035	864	0.86
Union Finance & Leasing (International) Co., Ltd.	1,170,000	11,191,656	8,527,417	2,664,239	2,170,537	94,670	148,356	1.27
Union Securities Investment Trust Co., Ltd.	300,000	442,902	30,766	412,136	128,190	7,637	32,381	1.08
Union Capital (Cayman) Corp. Note2	1,644	2,247,108	1,729,537	517,571	65,637	37,572	28,427	568.54
New Asian Ventures Ltd.	1	85,672	20	85,652	2,140	485	485	485.00
Union Capital (Singapore) Holding PTE . Ltd. Note2	1	726,749	711,135	15,614	28,157	324	15,219	15,219.00
Uflc Capital (Singapore) Holding PTE . Ltd. Note2	1	1,495,993	1,478,248	17,745	43,727	1,476	17,111	17,111.00
Kabuskiki Kaisha UCJ1 Note2	75,814	1,400,939	993,137	407,802	40,611	2,638	6,169	203.54
Tokutei Mokuteki Kaisha SSG15 Note2	378,949	1,018,976	640,028	378,948	72,156	40,437	31,337	1,095.66
Tokutei Mokuteki Kaisha SSG12 Note2	511,430	1,059,363	532,940	526,423	32,021	16,703	15,318	396.83
Tokutei Mokuteki Kaisha SSG16 Note2	670,407	1,082,386	411,979	670,407	32,491	15,999	16,231	320.76

Affiliated and Special Notes

Note1: HKD/TWD: 3.818931 for Asset and Liability items; HKD/TWD: 3.890378 for P/L items

Note 2: JPY/TWD: 0.264962 for Asset and Liability items JPY/TWD: 0.270703 for P/L Items

- (4) Consolidated Financial Reports of affiliated enterprises: please refer to Appendix.
 - (5) Report on relationships between the business activities conducted by affiliated enterprises: please refer to Appendix.
- 2. Private placement of marketable securities and financial debentures in the past year and current year up to the printing date of the annual report: None.**
 - 3. Shares of the Bank held or disposed of by subsidiaries in the past year and current year up to the printing date of the annual report: None.**
 - 4. Other necessary supplements: None.**
 - 5. In the past year and current year up to the printing date of the annual report, any event which has a material impact on shareholders' equity or securities prices pursuant to Article 36.2.2 of the Security and Exchange Law: None.**

Bank Directory

Bank Directory

Branch Name	Address	Telephone
Head Office	3F, No.109, Sec. 3, Minsheng E. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	(02)2718-0001
International Banking Dept	2F, No.109, Sec. 3, Minsheng E. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	(02)2718-0001
Trust Department	3F, No.137, Sec. 2, Nanjing E. Rd., Chungshan District, Taipei City 104, Taiwan (R.O.C.)	(02)2507-4066
Credit & Payment Dept.	5F, No.399, Rueiguang Rd., Neihu District, Taipei City 114, Taipei City 105, Taiwan (R.O.C.)	(02)2719-2233
Offshore Banking Branch	2F, No.109, Sec. 3, Minsheng E. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	(02)2718-0001
Taipei Branch	No.105, Sec. 1, Chengde Rd., Datong District, Taipei City 103, Taiwan (R.O.C.)	(02)2556-8500
Business Department	1F, No.109, Sec. 3, Minsheng E. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	(02)2718-0001
Changchun Branch	No.328, Changchun Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	(02)2545-5588
Nanking East Road Branch	No.137, Sec. 2, Nanjing E. Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	(02)2515-1333
East Taipei Branch	No.217, Sec. 5, Nanjing E. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	(02)2753-0900
Chunghsiao Branch	2F., No.5, Lane 223, Sec. 4, Jhongsiao E. Rd., Da-an District, Taipei City 106, Taiwan (R.O.C.)	(02)2773-3456
Jenai Branch	No.179, Yanji St., Da'an District, Taipei City 106, Taiwan (R.O.C.)	(02)2781-3366
Tungmen Branch	No.101, Sec. 2, Sinyi Rd., Jhongheng District, Taipei City 100, Taiwan (R.O.C.)	(02)2358-2345
Hoping Branch	No.68-2, Sec. 3, Heping E. Rd., Da-an District, Taipei City 106, Taiwan (R.O.C.)	(02)2735-2828
Chungshan Mini Branch	No.83, Sec. 2, Jhongshan N. Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	(02)2571-7890
Kungkuan Branch	No.272, Sec. 3, Roosevelt Rd., Jhongheng District, Taipei City 100, Taiwan (R.O.C.)	(02)2369-2678
Sungchiang Branch	No.228, Songjiang Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	(02)2561-6601
Breeze Center Mini Branch	2F., No.39, Sec. 1, Fusing S. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	(02)8772-2858
Tunhwa Branch	No.209-1, Sec. 1, Dunhua S. Rd., Da-an District, Taipei City 106, Taiwan (R.O.C.)	(02)8773-3588
Taan Branch	No.165, Sec. 4, Hsin-I. Rd., Da-an District, Taipei City 106, Taiwan (R.O.C.)	(02)2704-9588
Tonghwa Mini Branch	No.74, Tonghua St., Da-an District, Taipei City 106, Taiwan (R.O.C.)	(02)2739-5888
Yongchun Branch	No.453, Sec. 5, Jhongsiao E. Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.)	(02)2748-0188
Yungchi Branch	No.306, Yongji Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.)	(02)2748-0329
Neihu branch	No.399, Rueiguang Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)	(02)2658-6121

Bank Directory

Branch Name	Address	Telephone
Donghu Branch	No.150-3, Sec. 6, Mincuan E. Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)	(02)-2796-7779
Hsihu Branch	No.88, Sec. 1, Neihu Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)	(02)8797-1537
Tachih Branch	No.649, Mingshuei Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	(02)2532-3836
Shihlung Branch	No.9, Lane 91, Shihdong Rd., Shihlin District, Taipei City 111, Taiwan (R.O.C.)	(02)2875-6161
Wenlin Branch	No.758, Wunlin Rd., Shihlin District, Taipei City 111, Taiwan (R.O.C.)	(02)2835-1818
Beitou Mini Branch	No.68, Sec. 1, Jhongyang N. Rd., Beitou District, Taipei City 112, Taiwan (R.O.C.)	(02)2896-6333
Panchiao Branch	No.226, Mincyuan Rd., Banciao District, New Taipei City 220, Taiwan (R.O.C.)	(02)2965-6600
Houpu Branch	No.77, Chongcing Rd., Banciao District, New Taipei City 220, Taiwan (R.O.C.)	(02)2964-2777
Sanchung Branch	No.10, Sec. 3, Chongsin Rd., Sanchong District, New Taipei City 241, Taiwan (R.O.C.)	(02)2977-7666
North Sanchung Branch	No.245, Jhengyi N. Rd., Sanchong District, New Taipei City 241, Taiwan (R.O.C.)	(02)2982-6226
Tenshin Branch	No.16, Sec. 3, Jhongsiao Rd., Sanchong District, New Taipei City 241, Taiwan (R.O.C.)	(02)8982-1155
JiSian Branch	No.329, Wuhua St., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)	(02)2855-9996
Sanxia Branch	No.261, Xuecheng Rd., Sanxia Dist., New Taipei City 237, Taiwan (R.O.C.)	(02)2673-0808
Luchou Branch	No.80, Jhongjheng Rd., Lujhou District, New Taipei City 247, Taiwan (R.O.C.)	(02)2848-5577
Chungho Branch	No.150, Jian 1st Rd., Jhonghe District, New Taipei City 235, Taiwan (R.O.C.)	(02)8226-5168
North Chungho Mini Branch	No.146, Sec. 3, Jhongshan Rd., Jhonghe District, New Taipei City 235, Taiwan (R.O.C.)	(02)2221-9698
Shuanho Branch	No.222, Jhongjheng Rd., Yonghe District, New Taipei City 234, Taiwan (R.O.C.)	(02)2945-9898
Yungho Branch	No.137, Sec. 2, Yonghe Rd., Yonghe District, New Taipei City 234, Taiwan (R.O.C.)	(02)8660-0808
Hsintien Branch	No.102, Mincyuan Rd., Sindian District, New Taipei City 231, Taiwan (R.O.C.)	(02)2219-9989
Ankang Branch	No.161, Sec. 2, Ankang Rd., Sindian District, New Taipei City 231, Taiwan (R.O.C.)	(02)2211-9088
Hsinchung Branch	No.601, Sihyuan Rd., Sinjhuang District, New Taipei City 242, Taiwan (R.O.C.)	(02)8522-7799
Fuguo Branch	No.108, Fuguo Rd., Sinjhuang District, New Taipei City 242, Taiwan (R.O.C.)	(02)2205-2299
Chungkung Mini Branch	No.308, Jhonggang Rd., Sinjhuang District, New Taipei City 242, Taiwan (R.O.C.)	(02)2276-9678
Wugu Branch	No.6-1, Sec.3, Chengtai Rd., Wugu District, New Taipei City 248, Taiwan (R.O.C.)	(02)2291-5888
Linkou Branch	No.468, Jhongsiao Rd., Linkou District, New Taipei City 244, Taiwan (R.O.C.)	(02)2600-6969

Bank Directory

Branch Name	Address	Telephone
Shulin Branch	No.275, Jhonghua Rd., Shulin District, New Taipei City 238, Taiwan (R.O.C.)	(02)8685-8939
Hsichih Branch	No.159, Sec. 1, Sintai 5th Rd., Sijhih District, New Taipei City 221, Taiwan (R.O.C.)	(02)8642-5289
Tucheng Branch	No.3, Chengtian Rd., Tucheng District, New Taipei City 236, Taiwan (R.O.C.)	(02)2268-1799
Taoyuan Branch	No.332, Sianfu Rd., Taoyuan District City, Taoyuan City 330, Taiwan (R.O.C.)	(03)339-5300
North Taoyuan Branch	No.191, Yong-an Rd., Taoyuan District City, Taoyuan City 330, Taiwan (R.O.C.)	(03)339-6262
South Taoyuan Branch	No.1308, Zhongshan Rd., Taoyuan District, Taoyuan City 330, Taiwan (R.O.C.)	(03)369-7388
Taoying Branch	No.343, Taoying Rd., Taoyuan District, Taoyuan City 330, Taiwan (R.O.C.)	(03)377-9797
Daye Branch	No.388, Sec. 1, Daye Rd., Taoyuan District, Taoyuan City 330, Taiwan (R.O.C.)	(03)357-7388
Chungli Branch	No.62, Sec. 1, Jhongyang W. Rd., Jhongli District, Taoyuan City 320, Taiwan (R.O.C.)	(03)426-5111
North Chungli Branch	No.222, Yuanhua Rd., Jhongli District, Taoyuan City 320, Taiwan (R.O.C.)	(03)426-1133
Neili Branch	No. 258, Sec. 1, Jhonghua Rd., Jhongli District, Taoyuan City 320, Taiwan (R.O.C.)	(03)435-1288
Chenshin Branch	No.189, Jianxing Rd., Jhongli District, Taoyuan City 320, Taiwan (R.O.C.)	(03)428-0808
Gaorong Branch	No.226, Sec. 5, Minzu Rd., Zhongli District, Taoyuan City 320, Taiwan (R.O.C.)	(03)490-9777
Nankan Branch	No.137, Jhongjheng Rd., Lujhu District, Taoyuan City 338, Taiwan (R.O.C.)	(03)322-9699
Dajhu Branch	No.43, Dasin Rd., Lujhu District, Taoyuan City 338, Taiwan (R.O.C.)	(03)313-4688
Luzhu Branch	No.3, Sec. 1, Ren'ai Rd., Luzhu District, Taoyuan City 338, Taiwan (R.O.C.)	(03)222-1389
Hueilong Branch	No.253, Sec. 1, Wanshou Rd., Gueishan District, Taoyuan City 333, Taiwan (R.O.C.)	(02)8209-0808
Gueishan Branch	No.688, Sec. 2, Wanshou Rd., Gueishan District, Taoyuan City 333, Taiwan (R.O.C.)	(03)319-2323
Lungtan Branch	No.245, Jhongjheng Rd., Longtan District, Taoyuan City 325, Taiwan (R.O.C.)	(03)470-9188
Tayuan Branch	No.56, Jhongjheng E. Rd., Dayuan District, Taoyuan City 337, Taiwan (R.O.C.)	(03)385-0505
Hsinchu Branch	No.107, Jhongjheng Rd., Hsinchu City 300, Taiwan (R.O.C.)	(03)524-9966
Taichung Branch	No.711, Sec.2, Taiwan Blvd., Situn District, Taichung City 407, Taiwan (R.O.C.)	(04)2328-5666
North Taichung Branch	No.13, Sec. 3, Wunsin Rd., Situn District, Taichung City 407, Taiwan (R.O.C.)	(04)2311-8555
Wenhsin Branch	No.208-1, Sec. 4, Wunsin Rd., North District, Taichung City 404, Taiwan (R.O.C.)	(04)2298-0808
Beitun Branch	No.701, Sec. 4, Wunsin Rd., Beitun District, Taichung City 406, Taiwan (R.O.C.)	(04)2245-2636

Bank Directory

Branch Name	Address	Telephone
Minchuan Branch	No.135, Mincyuan Rd., West District, Taichung City 403, Taiwan (R.O.C.)	(04)2220-6789
Hsitun Branch	No.277, Sec. 2, Situn Rd., Situn District, Taichung City 407, Taiwan (R.O.C.)	(04)2702-2152
Singchung Branch	No.406, Sec. 1, Fusing Rd., South District, Taichung City 402, Taiwan (R.O.C.)	(04)2261-4040
Fongyuan Branch	No.102, Fucian St., Fongyuan District, Taichung County 420, Taiwan (R.O.C.)	(04)2522-8800
Yuanlin Branch	No.785, Sec. 1, Jhongshan Rd., Yuanlin Township, Changhua County 510, Taiwan (R.O.C.)	(04)834-7666
South Yuanlin Branch	No.37, Sanmin St., Yuanlin Township, Changhua County 510, Taiwan (R.O.C.)	(04)832-6388
Chiayi Branch	No.285, Jhongshan Rd., Chiayi City 600, Taiwan (R.O.C.)	(05)228-5908
East Chiayi Branch	No.372-1, Gongming Rd., Chiayi City 600, Taiwan (R.O.C.)	(05)229-3922
Tainan Branch	No.271, Sec. 4, Simen Rd., North District, Tainan City 704, Taiwan (R.O.C.)	(06)251-3377
Fucheng Branch	No.92, Jhongjheng Rd., West Central District, Tainan City 700, Taiwan (R.O.C.)	(06)229-0866
Fuchiang Branch	No.15, Sec. 3, Dongmen Rd., East District, Tainan City 701, Taiwan (R.O.C.)	(06)260-1268
Kaiyuan Branch	No.229, Kaiyuan Rd., North District, Tainan City 704, Taiwan (R.O.C.)	(06)235-4445
South Tainan Branch	No.379, Sec. 1, Jinhua Rd., South District, Tainan City 702, Taiwan (R.O.C.)	(06)265-5663
Kaohsiung Branch	No.204, Guanghua 1st Rd., Lingya District, Kaohsiung City 802, Taiwan (R.O.C.)	(07)226-5353
Lingya Branch	No.30, Sihwei 4th Rd., Lingya District, Kaohsiung City 802, Taiwan (R.O.C.)	(07)338-6033
Sanmin Branch	No.73, Jiouru 1st Rd., Sanmin District, Kaohsiung City 807, Taiwan (R.O.C.)	(07)389-0258
Chiuju Branch	No.495, Jiouru 2nd Rd., Sanmin District, Kaohsiung City 807, Taiwan (R.O.C.)	(07)311-8871
North Kaohsiung Branch	No.468, Bo'ai 1st Rd., Gushan District, Kaohsiung City 804, Taiwan (R.O.C.)	(07)558-6158
Fengshan Branch	No.224, Kaisyuan Rd., Fongshan District, Kaohsiung City 830, Taiwan (R.O.C.)	(07)763-8185
Wuchia Branch	No.173, Nanhua Rd., Fongshan District, Kaohsiung City 830, Taiwan (R.O.C.)	(07)721-5866
Pingtung Branch	No.172, Minzu Rd., Pingtung City, Pingtung County 900, Taiwan (R.O.C.)	(08)732-6777
Ho Chi Minh Representative Office	Royal Tower Building, 8th Floor, Room 805, 235 Nguyen Van Cu Street, Dist.1, Ho Chi Minh City, Vietnam	(8428)3925-9208
Hong Kong Representative Office	Unit 18, 35/F, West Tower, Shun Tak Centre, 200 Connaught Road, Central, Hong Kong	(852)2521-1678

APPENDIX

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.

Possible Impairment of Discounts and Loans

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.

UNION BANK OF TAIWAN

BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	\$ 10,756,051	2	\$ 9,974,690	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 7)	19,180,985	4	54,414,461	10
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	11,852,723	2	9,291,613	2
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 9)	28,215,334	5	27,845,242	5
RECEIVABLES, NET (Notes 4, 5, 10 and 12)	17,627,438	3	17,768,361	3
CURRENT TAX ASSETS (Note 4)	46,909	-	183,591	-
DISCOUNTS AND LOANS, NET (Notes 4, 5, 11, 12 and 40)	318,624,348	57	284,040,723	54
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 13 and 40)	35,183,406	6	39,548,602	8
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 4 and 14)	51,285,957	9	7,192,115	1
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 15)	2,981,366	1	2,910,889	1
OTHER FINANCIAL ASSETS, NET (Notes 4, 16 and 41)	48,100,741	9	56,620,906	11
PROPERTY AND EQUIPMENT, NET (Notes 4 and 17)	8,061,615	2	8,136,374	2
INTANGIBLE ASSETS (Note 4)				
Goodwill (Note 18)	1,985,307	-	1,985,307	-
Computer software	<u>177,528</u>	-	<u>179,209</u>	-
Total intangible assets	2,162,835	-	2,164,516	-
DEFERRED TAX ASSETS (Notes 4 and 38)	1,019,583	-	1,307,570	-
OTHER ASSETS, NET (Notes 4, 19, 40 and 42)	<u>2,102,313</u>	-	<u>2,230,774</u>	1
TOTAL	<u>\$ 557,201,604</u>	<u>100</u>	<u>\$ 523,630,427</u>	<u>100</u>
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 20)	\$ 8,961,290	2	\$ 7,017,629	1
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	183,611	-	38,430	-
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 4 and 21)	30,273,976	5	28,874,137	6
ACCOUNTS PAYABLE (Notes 22 and 40)	7,005,686	1	6,889,250	1
CURRENT TAX LIABILITIES (Note 4)	70,008	-	64,784	-
DEPOSITS (Notes 23 and 40)	449,412,119	81	432,062,824	83
BANK DEBENTURES (Notes 4 and 24)	11,700,000	2	11,200,000	2
OTHER FINANCIAL LIABILITIES (Note 25)	21,720	-	19,566	-
PROVISIONS (Notes 4, 12, 26 and 27)	171,759	-	176,554	-
DEFERRED TAX LIABILITIES (Notes 4 and 38)	911,524	-	815,251	-
OTHER LIABILITIES (Notes 28, 40 and 42)	<u>571,236</u>	-	<u>522,686</u>	-
Total liabilities	<u>509,282,929</u>	<u>91</u>	<u>487,681,111</u>	<u>93</u>
EQUITY				
Share capital				
Ordinary shares	26,051,524	5	26,051,524	5
Preference shares	<u>2,000,000</u>	-	-	-
Total share capital	<u>28,051,524</u>	<u>5</u>	<u>26,051,524</u>	<u>5</u>
Capital surplus	<u>8,032,413</u>	<u>2</u>	<u>32,413</u>	-
Retained earnings				
Legal reserve	5,165,280	1	4,374,367	1
Special reserve	585,206	-	558,842	-
Unappropriated earnings	<u>4,503,995</u>	<u>1</u>	<u>3,740,039</u>	<u>1</u>
Total retained earnings	<u>10,254,481</u>	<u>2</u>	<u>8,673,248</u>	<u>2</u>
Other equity	<u>1,580,257</u>	-	<u>1,192,131</u>	-
Total equity	<u>47,918,675</u>	<u>9</u>	<u>35,949,316</u>	<u>7</u>
TOTAL	<u>\$ 557,201,604</u>	<u>100</u>	<u>\$ 523,630,427</u>	<u>100</u>

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

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

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	<u>3,613,710</u>	<u>35</u>	<u>3,653,016</u>	<u>37</u>	(1)
Net interest	<u>6,685,194</u>	<u>65</u>	<u>6,398,878</u>	<u>65</u>	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	<u>20,972</u>	<u>-</u>	<u>18,806</u>	<u>-</u>	12
TOTAL NET REVENUES	<u>10,287,727</u>	<u>100</u>	<u>9,907,193</u>	<u>100</u>	4
PROVISIONS (Notes 4, 5 and 12)					
Provision of allowance for doubtful accounts	<u>356,861</u>	<u>4</u>	<u>171,542</u>	<u>2</u>	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)	<u>3,160,198</u>	<u>31</u>	<u>3,066,039</u>	<u>31</u>	3
Total operating expenses	<u>6,617,616</u>	<u>64</u>	<u>6,509,173</u>	<u>65</u>	2

(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	%	%
INCOME BEFORE INCOME TAX	\$ 3,313,250	32	\$ 3,226,478	33	3
INCOME TAX EXPENSE (Notes 4 and 38)	<u>568,263</u>	<u>5</u>	<u>590,103</u>	<u>6</u>	(4)
NET INCOME	<u>2,744,987</u>	<u>27</u>	<u>2,636,375</u>	<u>27</u>	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)	<u>(1,666)</u>	<u>-</u>	<u>2,758</u>	<u>-</u>	(160)
	<u>8,565</u>	<u>-</u>	<u>(9,016)</u>	<u>-</u>	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)	<u>51,180</u>	<u>1</u>	<u>68,614</u>	<u>1</u>	(25)
	<u>388,126</u>	<u>4</u>	<u>(526,146)</u>	<u>(6)</u>	174
Other comprehensive income (loss) for the year, net of income tax	<u>396,691</u>	<u>4</u>	<u>(535,162)</u>	<u>(6)</u>	174
TOTAL COMPREHENSIVE INCOME	<u>\$ 3,141,678</u>	<u>31</u>	<u>\$ 2,101,213</u>	<u>21</u>	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	<u>\$1.05</u>		<u>\$1.01</u>		
Diluted	<u>\$1.05</u>		<u>\$1.01</u>		

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

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

(Concluded)

UNION BANK OF TAIWAN

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)**

	Share Capital (Note 29)		Capital Surplus (Note 29)	Retained Earnings (Notes 4 and 29)				Other Equity (Notes 4 and 29)		Total	Total Equity
	Ordinary Shares	Preference Shares		Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations		
BALANCE AT JANUARY 1, 2016	\$ 26,051,524	\$ -	\$ 32,413	\$ 3,450,907	\$ 558,842	\$ 3,078,201	\$ 7,087,950	\$ 1,302,228	\$ 416,049	\$ 1,718,277	\$ 34,890,164
Appropriation of the 2015 earnings											
Legal reserve	-	-	-	923,460	-	(923,460)	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	-	(1,042,061)	(1,042,061)	-	-	-	(1,042,061)
Net income for the year ended December 31, 2016	-	-	-	-	-	2,636,375	2,636,375	-	-	-	2,636,375
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	-	(9,016)	(9,016)	(29,920)	(496,226)	(526,146)	(535,162)
BALANCE AT DECEMBER 31, 2016	26,051,524	-	32,413	4,374,367	558,842	3,740,039	8,673,248	1,272,308	(80,177)	1,192,131	35,949,316
Appropriation of the 2016 earnings											
Legal reserve	-	-	-	790,913	-	(790,913)	-	-	-	-	-
Special reserve	-	-	-	-	26,364	(26,364)	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	-	(1,172,319)	(1,172,319)	-	-	-	(1,172,319)
Net income for the year ended December 31, 2017	-	-	-	-	-	2,744,987	2,744,987	-	-	-	2,744,987
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	8,565	8,565	1,073,393	(685,267)	388,126	396,691
Issuance of preference shares	-	2,000,000	8,000,000	-	-	-	-	-	-	-	10,000,000
BALANCE AT DECEMBER 31, 2017	\$ 26,051,524	\$ 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

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

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

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	<u>(46,159,750)</u>	<u>(253,411)</u>
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)

(Continued)

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	<u>63,412</u>	<u>-</u>
Net cash used in investing activities	<u>(126,104)</u>	<u>(793,488)</u>
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	<u>10,000,000</u>	<u>-</u>
Net cash generated from financing activities	<u>9,367,941</u>	<u>612,142</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(805,523)</u>	<u>(537,044)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,723,436)	(971,801)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>77,019,932</u>	<u>77,991,733</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 39,296,496</u>	<u>\$ 77,019,932</u> (Continued)

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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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	<u>28,215,334</u>	<u>27,845,242</u>
Cash and cash equivalents in statements of cash flows	<u>\$ 39,296,496</u>	<u>\$ 77,019,932</u>

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

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

(Concluded)

UNION BANK OF TAIWAN

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
<u>Impact on assets, liabilities and equity</u>			
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	<u>(507,614)</u>	-
Total effect on assets		<u>\$ 449,405</u>	
Provisions	171,759	\$ 27,308	199,067
Deferred tax liability	911,524	<u>1,262</u>	912,786
Total effect on liabilities		<u>\$ 28,570</u>	
Retained earnings	10,254,481	\$ (68,668)	10,185,813
Other equity	1,580,257	<u>489,503</u>	2,069,760
Total effect on equity		<u>\$ 420,835</u>	

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's 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 rereasurement) 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. Rereasurement, 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. Rereasurement 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 rereasurement 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

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

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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	<u>-</u>	<u>39,200,000</u>
	<u>\$ 19,180,985</u>	<u>\$ 54,414,461</u>

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

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

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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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

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

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

10. RECEIVABLES, NET

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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	<u>349,268</u>	<u>154,934</u>
	17,815,737	18,136,607
Less: Allowance for doubtful accounts	<u>188,299</u>	<u>368,246</u>
	<u>\$ 17,627,438</u>	<u>\$ 17,768,361</u>

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	<u>247,336</u>	<u>179,120</u>
	322,026,166	287,238,017
Less: Allowance for doubtful accounts	<u>3,401,818</u>	<u>3,197,294</u>
	<u>\$ 318,624,348</u>	<u>\$ 284,040,723</u>

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	<u>(22,430)</u>	<u>(5,712)</u>	<u>(146)</u>	<u>(28,288)</u>
Balance at December 31, 2017	<u>\$ 188,299</u>	<u>\$ 3,401,818</u>	<u>\$ 138,975</u>	<u>\$ 3,729,092</u>

	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	<u>\$ 368,246</u>	<u>\$ 3,197,294</u>	<u>\$ 134,621</u>	<u>\$ 3,700,161</u>

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	<u>951,695</u>	<u>948,277</u>
	<u>\$ 35,183,406</u>	<u>\$ 39,548,602</u>

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	<u>25,668</u>	<u>27,759</u>
	<u>\$ 51,285,957</u>	<u>\$ 7,192,115</u>

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

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

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

a. Investments in subsidiaries

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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)	<u>20,244</u>	<u>34,753</u>
	<u>\$ 2,928,245</u>	<u>\$ 2,857,442</u>

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>None individually material</u>		
Union Real-Estate Management Corporation	<u>\$ 53,121</u>	<u>\$ 53,447</u>

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

	<u>For the Year Ended December 31</u>	
	2017	2016
Net loss	\$ <u>(326)</u>	\$ <u>(347)</u>

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

	<u>December 31</u>	
	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	<u>2,798</u>	<u>3,695</u>
	<u>\$ 48,100,741</u>	<u>\$ 56,620,906</u>

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

	<u>December 31</u>	
	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	<u>69,262</u>	<u>69,262</u>
	<u>\$ 507,614</u>	<u>\$ 507,614</u>

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
<u>Cost</u>							
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	<u>3,845,623</u>	<u>5,139,058</u>	<u>1,359,169</u>	<u>286,085</u>	<u>247,769</u>	<u>43,793</u>	<u>10,921,497</u>
<u>Accumulated depreciation</u>							
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	-	<u>1,408,792</u>	<u>1,024,559</u>	<u>248,880</u>	<u>102,892</u>	-	<u>2,785,123</u>
Balance at December 31, 2016, net	<u>\$ 3,845,623</u>	<u>\$ 3,730,266</u>	<u>\$ 334,610</u>	<u>\$ 37,205</u>	<u>\$ 144,877</u>	<u>\$ 43,793</u>	<u>\$ 8,136,374</u>
<u>Cost</u>							
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	<u>3,845,623</u>	<u>5,154,708</u>	<u>1,316,499</u>	<u>297,163</u>	<u>314,070</u>	<u>53,650</u>	<u>10,981,713</u>
<u>Accumulated depreciation</u>							
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	-	<u>1,532,528</u>	<u>992,298</u>	<u>254,011</u>	<u>141,261</u>	-	<u>2,920,098</u>
Balance at December 31, 2017, net	<u>\$ 3,845,623</u>	<u>\$ 3,622,180</u>	<u>\$ 324,201</u>	<u>\$ 43,152</u>	<u>\$ 172,809</u>	<u>\$ 53,650</u>	<u>\$ 8,061,615</u>

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

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

20. DUE TO THE CENTRAL BANK AND OTHER BANKS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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	<u>140,285</u>	<u>61,415</u>
	<u>\$ 8,961,290</u>	<u>\$ 7,017,629</u>

21. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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	<u>245,736</u>	<u>825,306</u>
	<u>\$ 30,273,976</u>	<u>\$ 28,874,137</u>
Date of repurchase agreement	2018.01-2018.05	2017.01-2017.06
Amount of repurchase agreement	<u>\$ 30,311,830</u>	<u>\$ 28,907,147</u> (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	<u>653,100</u>	<u>834,671</u>
	<u>\$ 7,005,686</u>	<u>\$ 6,889,250</u>

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	<u>127,043</u>	<u>73,015</u>
	<u>\$ 449,412,119</u>	<u>\$ 432,062,824</u>

24. BANK DEBENTURES

	<u>December 31</u>	
	2017	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%	<u>500,000</u>	<u>-</u>
	<u>\$ 11,700,000</u>	<u>\$ 11,200,000</u>

25. OTHER FINANCIAL LIABILITIES

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

26. PROVISIONS

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

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	<u>1,530,695</u>	<u>1,529,311</u>
Deficit (surplus)	<u>(5,606)</u>	<u>(15,654)</u>
Net defined benefit liability	<u>\$ (5,606)</u>	<u>\$ (15,654)</u>

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)	<u>(22,715)</u>	<u>10,850</u>	<u>(11,865)</u>
Recognized in profit or loss	<u>(40,555)</u>	<u>10,850</u>	<u>(29,705)</u>

(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	<u>9,102</u>	<u>-</u>	<u>9,102</u>
Recognized in other comprehensive income	<u>(12,550)</u>	<u>(3,673)</u>	<u>(16,223)</u>
Contributions from the employer	-	836,144	836,144
Benefits paid	<u>22,505</u>	<u>(22,505)</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ (1,544,965)</u>	<u>\$ 1,529,311</u>	<u>\$ (15,654)</u>
Balance at January 1, 2017	<u>\$ (1,544,965)</u>	<u>\$ 1,529,311</u>	<u>\$ (15,654)</u>
Service cost			
Current service cost	(16,436)	-	(16,436)
Net interest expense (income)	<u>(21,243)</u>	<u>21,028</u>	<u>(215)</u>
Recognized in profit or loss	<u>(37,679)</u>	<u>21,028</u>	<u>(16,651)</u>
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	<u>26,494</u>	<u>-</u>	<u>26,494</u>
Recognized in other comprehensive income	<u>3</u>	<u>9,799</u>	<u>9,802</u>
Contributions from the employer	-	16,897	16,897
Benefits paid	<u>46,340</u>	<u>(46,340)</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ (1,536,301)</u>	<u>\$ 1,530,695</u>	<u>\$ (5,606)</u>

(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	<u>\$ (46,572)</u>	<u>\$ (48,617)</u>
0.25% decrease	<u>\$ 48,603</u>	<u>\$ 50,824</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 46,996</u>	<u>\$ 49,217</u>
0.25% decrease	<u>\$ (45,285)</u>	<u>\$ (47,343)</u>

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

	December 31	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 24,000</u>	<u>\$ 24,000</u>
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	<u>104,018</u>	<u>86,909</u>
	<u>\$ 571,236</u>	<u>\$ 522,686</u>

29. EQUITY

a. Capital stock

Common stock

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

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 Bank'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	<u>32,413</u>	<u>32,413</u>
	<u>\$ 8,032,413</u>	<u>\$ 32,413</u>

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 may 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	<u>26,364</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 585,206</u>	<u>\$ 558,842</u>

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	<u>(63,102)</u>	<u>(15,344)</u>
Balance at December 31	<u>\$ (765,444)</u>	<u>\$ (80,177)</u>

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	<u>(13,496)</u>	<u>20,870</u>
Balance at December 31	<u>\$ 2,345,701</u>	<u>\$ 1,272,308</u>

30. NET INTEREST

	For the Year Ended December 31	
	2017	2016
<u>Interest revenue</u>		
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	<u>23,187</u>	<u>19,225</u>
	<u>10,298,904</u>	<u>10,051,894</u>

(Continued)

	For the Year Ended December 31	
	2017	2016
<u>Interest expense</u>		
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	<u>25,346</u>	<u>18,978</u>
	<u>3,613,710</u>	<u>3,653,016</u>
	<u>\$ 6,685,194</u>	<u>\$ 6,398,878</u>

(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	<u>236,348</u>	<u>217,014</u>
	<u>3,072,058</u>	<u>3,262,716</u>
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	<u>73,707</u>	<u>68,533</u>
	<u>748,442</u>	<u>808,265</u>
	<u>\$ 2,323,616</u>	<u>\$ 2,454,451</u>

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
	<u>341,520</u>	<u>377,735</u>
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)
	<u>(47,144)</u>	<u>(12,457)</u>
	<u>\$ 294,376</u>	<u>\$ 365,278</u>

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
	<u>\$ 781,919</u>	<u>\$ 449,182</u>

34. IMPAIRMENT LOSS ON ASSETS (REVERSAL)

	For the Year Ended December 31	
	2017	2016
Other financial assets	\$ -	\$ 50,000
Foreclosed collaterals	<u>-</u>	<u>(717)</u>
	<u>\$ -</u>	<u>\$ 49,283</u>

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	<u>72,143</u>	<u>54,283</u>
	<u>\$ 3,130,909</u>	<u>\$ 3,137,375</u>

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	<u>60,594</u>	<u>57,549</u>
	<u>\$ 326,509</u>	<u>\$ 305,759</u>

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	<u>438,671</u>	<u>438,121</u>
	<u>\$ 3,160,198</u>	<u>\$ 3,066,039</u>

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	<u>63,776</u>	<u>110,488</u>
	134,489	130,097
Deferred tax		
Current year	<u>433,774</u>	<u>460,006</u>
Income tax expense recognized in profit or loss	<u>\$ 568,263</u>	<u>\$ 590,103</u>

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	<u>\$ 3,313,250</u>	<u>\$ 3,226,478</u>
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	<u>4</u>	<u>(8,122)</u>
Income tax expense recognized in profit or loss	<u>\$ 568,263</u>	<u>\$ 590,103</u>

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
<u>Deferred tax</u>		
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	<u>1,666</u>	<u>(2,758)</u>
Total income tax expenses recognized in other comprehensive income	<u>\$ (49,514)</u>	<u>\$ (71,372)</u>

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 Com- prehensive Income	Closing Balance
<u>Deferred tax assets</u>				
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	<u>15,243</u>	<u>(5,692)</u>	<u>-</u>	<u>9,551</u>
	256,192	(71,207)	186,830	371,815
Loss carryforwards	<u>1,051,378</u>	<u>(403,610)</u>	<u>-</u>	<u>647,768</u>
	<u>\$ 1,307,570</u>	<u>\$ (474,817)</u>	<u>\$ 186,830</u>	<u>\$ 1,019,583</u>
<u>Deferred tax liabilities</u>				
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	<u>(126,343)</u>	<u>41,043</u>	<u>-</u>	<u>(85,300)</u>
	<u>\$ (815,251)</u>	<u>\$ 41,043</u>	<u>\$ (137,316)</u>	<u>\$ (911,524)</u>

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com- prehensive Income	Closing Balance
<u>Deferred tax assets</u>				
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 Com- prehensive Income	Closing Balance
Allowance for possible losses and reserve for losses on guarantees	\$ 13,175	\$ 36,404	\$ -	\$ 49,579
Others	<u>15,385</u>	<u>(142)</u>	<u>-</u>	<u>15,243</u>
	207,383	46,051	2,758	256,192
Loss carryforwards	<u>1,542,767</u>	<u>(491,389)</u>	<u>-</u>	<u>1,051,378</u>
	<u>\$ 1,750,150</u>	<u>\$ (445,338)</u>	<u>\$ 2,758</u>	<u>\$ 1,307,570</u>
<u>Deferred tax liabilities</u>				
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	<u>(111,675)</u>	<u>(14,668)</u>	<u>-</u>	<u>(126,343)</u>
	<u>\$ (869,197)</u>	<u>\$ (14,668)</u>	<u>\$ 68,614</u>	<u>\$ (815,251)</u> (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
<u>40,176</u>	2020
<u>\$ 3,810,402</u>	

e. Information on the Bank's integrated income tax

	<u>December 31</u>	
	2017	2016
Imputation credits accounts	Note	<u>\$ 114,475</u>

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

	<u>For the Year Ended December 31</u>	
	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:

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

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

<u>Related Party</u>	<u>Relationship with the Bank</u>
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		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
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		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
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	%
<u>2017</u>				
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
<u>2016</u>				
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						
Related Party	Contract	Period	Notional Amount	Unrealized Gain (Loss)	Balance Sheets	
					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						
Related Party	Contract	Period	Notional Amount	Unrealized Gain (Loss)	Balance Sheets	
					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	<u>(4,869)</u>	<u>(4,503)</u>
	<u>\$ (4,869)</u>	<u>\$ (8,420)</u>

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	<u>1,218</u>	<u>1,140</u>
	32,721	33,317
Post-employment benefits	<u>6,055</u>	<u>2,167</u>
	<u>\$ 38,776</u>	<u>\$ 35,484</u>

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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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:

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

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:

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

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	<u>112,814</u>
Accounts receivable	5,693		
Stock in custody	10,430,388		
Real estate - land and building	<u>14,201,638</u>		
Total	<u>\$ 68,285,472</u>	Total	<u>\$ 68,285,472</u>

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	<u>(81,184)</u>
Accounts receivable	1,825		
Stock in custody	7,189,491		
Real estate - land and building	<u>11,136,708</u>		
 Total	 <u>\$ 59,974,657</u>	 Total	 <u>\$ 59,974,657</u>

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	<u>1,243</u>
Total trust income	<u>190,356</u>
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	<u>120</u>
Total trust expense	<u>78,815</u>
Loss before tax	111,541
Income tax expense	<u>(2,255)</u>
 Net income	 <u>\$ 109,286</u>

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	<u>482</u>
Total trust income	<u>34,949</u>
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	<u>383</u>
Total trust expense	<u>102,559</u>
Loss before tax	(67,610)
Income tax expense	<u>(1,332)</u>
Net loss	<u>\$ (68,942)</u>

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	<u>14,201,638</u>
	<u>\$ 68,285,472</u>

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	<u>11,136,708</u>
	<u>\$ 59,974,657</u>

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
<u>Measured at fair value on a recurring basis</u>				
<u>Nonderivative financial instruments</u>				
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	-	-
<u>Derivative financial instruments</u>				
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
<u>Measured at fair value on a recurring basis</u>				
<u>Nonderivative financial instruments</u>				
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	-	-
<u>Derivative financial instruments</u>				
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 contracts 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 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 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
<u>Financial assets</u>				
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
<u>Financial liabilities</u>				
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
<u>Financial assets</u>				
Held-to-maturity financial assets	\$ 51,388,334	\$ -	\$ 51,388,334	\$ -
Debt instruments with no active market	46,737,536	-	46,737,536	-
<u>Financial liabilities</u>				
Bank debentures	11,887,884	-	11,887,884	-

Items	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<u>Financial assets</u>				
Held-to-maturity financial assets	\$ 7,088,803	\$ -	\$ 7,088,803	\$ -
Debt instruments with no active market	53,015,036	-	53,015,036	-
<u>Financial liabilities</u>				
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
<u>In-balance sheet items</u>				
Discount and loans	\$ 250,557,922	\$ -	\$ -	\$ 250,557,922

December 31, 2016	Collateral	Netting Arrangements	Other Credit Enhancement	Total
<u>In-balance sheet items</u>				
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:

Discounts and loans

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	<u>9,130,874</u>	<u>14,004,333</u>	<u>179,429</u>	<u>75,817</u>	<u>-</u>	<u>23,390,453</u>
	51,455	82,512	1,015	591	-	135,573
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 51,455</u>	<u>\$ 82,512</u>	<u>\$ 1,015</u>	<u>\$ 591</u>	<u>\$ -</u>	<u>\$ 135,573</u>
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	<u>3,038,160</u>	<u>652,804</u>	<u>416,978</u>	<u>173,221</u>	<u>-</u>	<u>4,281,163</u>
	20,821	9,679	4,322	2,990	-	37,812
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 20,821</u>	<u>\$ 9,679</u>	<u>\$ 4,322</u>	<u>\$ 2,990</u>	<u>\$ -</u>	<u>\$ 37,812</u>

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	<u>\$ 3,560</u>	<u>\$ 7,482</u>	<u>\$ 2,380</u>	<u>\$ 2,480</u>	<u>\$ -</u>	<u>\$ 15,902</u>
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	<u>\$ (1,318)</u>	<u>\$ (3,018)</u>	<u>\$ (2,567)</u>	<u>\$ (3,924)</u>	<u>\$ -</u>	<u>\$ (10,827)</u>

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
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
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
<u>Financial assets</u>			
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

<u>Financial liabilities</u>			
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	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	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.

UNION BANK OF TAIWAN

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement 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		
1	Union Financial and Leasing International Corporation	Union Capital (Cayman) Corp.	Affiliates of 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
2	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Affiliates of 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
		Uflc Capital (Singapore) Holding Pte. Ltd.	Affiliates of 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
3	Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJI (Japan)	Affiliates of 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
4	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJI (Japan)	Affiliates of 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

UNION BANK OF TAIWAN

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee		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
		Name	Relationship											
1	Union Financial and Leasing International Corporation	Union Capital (Cayman) Corp.	Union Financial and Leasing International Corporation and subsidiaries	\$ 2,664,239	\$ 746,200 (US\$ 25,000)	\$ 746,200 (US\$ 25,000)	\$ -	\$ -	28.01	\$ 2,664,239	Yes	No	No	

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Holding Company	Type and Issuer/ Name of 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	
Union Finance and Leasing International Corporation	<u>Stock</u>							
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	931	\$ 8,101	0.06	\$ 8,101	Note 4
	China Chemical Corporation	-	Available-for-sale financial assets	356	6,646	0.12	6,646	Note 4
	Hey-Song Corporation	-	Available-for-sale financial assets	4,551	143,129	1.13	143,129	Note 4
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	517,572	100.00	517,572	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	85,652	100.00	85,652	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33	1,415	Note 1
	<u>Beneficial certificates</u>							
	Union Advantage Global FI Portfolio Fund	-	Available-for-sale financial assets	6,614	100,088		100,088	Note 4
	Union Golden Balance Fund	-	Available-for-sale financial assets	854	19,603		19,603	Note 4
Union Information Technology Corporation	<u>Stock</u>							
	ELTA Technology Co., Ltd.	-	Unquoted equity instruments	2,646	23,411	14.70	29,319	Note 3
Union Securities Investment Trust Corporation (USITC)	<u>Stock</u>							
	Fundrish Securities Co., Ltd.	-	Unquoted equity instruments	566	7,235	0.94	6,534	Note 2
	<u>Beneficial certificates</u>							
	Union Advantage Global FI Portfolio Fund	-	Financial assets at fair value through profit or loss	1,068	17,478		17,478	Note 4
	Union Emerging Asia Bond A	-	Financial assets at fair value through profit or loss	486	5,539		5,539	Note 4
	Union Money Market	-	Financial assets at fair value through profit or loss	1,230	16,154		16,154	Note 4
	Union Golden Balance Fund	-	Financial assets at fair value through profit or loss	575	13,215		13,215	Note 4
	Union Emerg Res-rich Countries HYBd A	-	Financial assets at fair value through profit or loss	800	8,894		8,894	Note 4
	Union China	-	Financial assets at fair value through profit or loss	1,006	24,919		24,919	Note 4
	Union Technology Fund	-	Financial assets at fair value through profit or loss	1,460	18,266		18,266	Note 4
	Union APEC Balanced A	-	Financial assets at fair value through profit or loss	1,001	12,326		12,326	Note 4
	Union Global ETF Fund	-	Financial assets at fair value through profit or loss	513	5,403		5,403	Note 4
	Union Asian High Yield Bond A	-	Financial assets at fair value through profit or loss	1,451	15,194		15,194	Note 4
Union Finance International (HK) Limited	<u>Bond</u>							
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900 units	US\$ 917		US\$ 917	Note 4

(Continued)

Holding Company	Type and Issuer/ Name of 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	
	<u>Stock</u> Apple Computer Inc.	-	Financial assets at fair value through profit or loss	17	US\$ 2,945		US\$ 2,945	Note 4
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US\$ 658		US\$ 658	Note 4
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US\$ 516		US\$ 516	Note 4
	Obsidian	-	Financial assets at fair value through profit or loss	119	US\$ 148		US\$ 148	Note 4
	Qualcomm	-	Financial assets at fair value through profit or loss	5	US\$ 320		US\$ 320	Note 4
	AT&T	-	Financial assets at fair value through profit or loss	10	US\$ 389		US\$ 389	Note 4
	WMI Holdings	-	Financial assets at fair value through profit or loss	18	US\$ 15		US\$ 15	Note 4
New Asian Ventures Ltd.	<u>Stock</u> Grace T.H.W. Holding Limited	-	Unquoted equity instruments	1,667	\$ 64,320	0.81	US\$ 2,714	Note 2
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 58,927	100.00	JPY 58,927	Note 5
	Uflc Capital (Singapore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 66,975	100.00	JPY 66,975	Note 5
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1	Subsidiary	Equity investment - equity method	9	JPY 470,173	30.55	JPY 470,173	Note 5
	Tokutei Mokuteki Kaisha SSG15	Subsidiary	Equity investment - equity method	Note 7	JPY 700,750	49.00	JPY 700,750	Note 5
Kabushiki Kaisha UCJ1	Tokutei Mokuteki Kaisha SSG15	Subsidiary	Equity investment - equity method	Preferred stock 15	JPY 729,300	51.00	JPY 729,300	Note 5
	Tokutei Mokuteki Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 9	JPY 1,013,159	51.00	JPY 1,013,159	Note 5
	Tokutei Mokuteki Kaisha SSG16	Subsidiary	Equity investment - equity method	Preferred stock 26	JPY 1,290,300	51.00	JPY 1,290,300	Note 5
Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1	Subsidiary	Equity investment - equity method	21	JPY 1,068,923	69.45	JPY 1,068,923	Note 5
	Tokutei Mokuteki Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 8	JPY 973,477	49.00	JPY 973,477	Note 5
	Tokutei Mokuteki Kaisha SSG16	Subsidiary	Equity investment - equity method	Note 6	JPY 1,239,750	49.00	JPY 1,239,750	Note 5

The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

Note 1: Union Finance and Leasing International Corporation:

- a. ERA Communications Co., Ltd. - the audited statements of stockholders' equity as of December 31, 2016.
- b. New Asian Ventures Ltd. and Union Capital (Cayman) Corp. - the audited statements of stockholders' equity as of December 31, 2017.

Note 2: Union Securities Investment Trust Corporation (USITC):

Fundrish Securities Co., Ltd. - the audited statements of stockholders' equity as of December 31, 2017.

New Asian Ventures Ltd.:

Grace T.H.W. Holding Limited - unaudited statements of stockholders' equity as of December 31, 2017.

Note 3: Union Information Technology Corporation:

ELTA Technology Co., Ltd. - unaudited statements of stockholders' equity as of December 31, 2017.

(Continued)

Note 4: The market values of the listed and OTC stocks included in financial assets at fair value through profit or loss and available-for-sale financial assets were based on the daily closing prices as of balance sheet date. The market values of beneficial certificates were based on net asset values as of the balance sheet date.

Note 5: Union Capital (Singapore) Holding Pte. Ltd., Uflc Capital (Singapore) Holding Pte. Ltd. and Tokutei Mokuteki Kaisha SSG15, SSG12 and SSG16 - the audited statements of stockholders' equity as of September 30, 2017.
Kabushiki Kaisha UCJ1 - unaudited statements of stockholders' equity as of September 30, 2017.

Note 6: Common stock 1 shares and preferred stock 25 thousand shares.

Note 7: Common stock 1 shares and preferred stock 14 thousand shares.

Note 8: Common stock 1 shares and preferred stock 19 thousand shares.

Note 9: Preferred stock 20 thousand shares.

(Concluded)

UNION BANK OF TAIWAN

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS300 MILLION OR 10% OF THE PAID-IN CAPITAL

DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Union Finance and Leasing International Corporation	Union Capital (Cayman) Corp.	Subsidiary	\$ 1,716,636 (JPY 5,639,163) (US\$ 7,453)	-	\$ -	-	\$ -	\$ -
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Subsidiary	709,363 (JPY 2,677,225)	-	-	-	-	-
	Uflc Capital (Singapore) Holding Pte. Ltd.	Subsidiary	1,464,978 (JPY 5,523,808) (US\$ 46)	-	-	-	-	-
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	388,398 (JPY 1,465,865)	-	-	-	-	-
Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	596,907 (JPY 2,252,804)	-	-	-	-	-

TABLE 5

UNION BANK OF TAIWAN

ASSET QUALITY - NONPERFORMING LOANS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, %)

Period		December 31, 2017					December 31, 2016					
Items		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)	
Corporate banking	Secured	\$ 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%	
	Unsecured	24,424	70,604,009	0.03%			26,529	57,311,972	0.05%			
Consumer banking	Housing mortgage (Note 4)	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%	
	Cash card	682	45,043	1.51%	2,153	315.69%	1,047	60,542	1.73%	2,579	246.32%	
	Small-scale credit loans (Note 5)	61,359	17,032,760	0.36%	208,107	339.16%	64,924	13,535,125	0.48%	167,511	258.01%	
	Other (Note 6)	Secured	18,868	16,886,175	0.11%	205,264	1,051.72%	28,153	15,998,751	0.18%	206,915	713.04%
		Unsecured	649	2,704,621	0.02%			866	2,836,563	0.03%		
Loan		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)	
Credit cards		42,074	14,575,314	0.29%	91,701	217.95%	40,754	13,959,135	0.29%	98,445	241.56%	
Accounts receivable factored without recourse		-	396,449	-	3,964	-	-	799,844	-	3,504	-	

Note 1: Nonperforming loans are reported to the authorities and 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."

Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.

Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

(Continued)

Not reported as nonperforming loans or nonperforming receivables

Types \ Items	December 31, 2017		December 31, 2016	
	Not Reported as Nonperforming Loan	Not Reported as Nonperforming Receivable	Not Reported as Nonperforming Loan	Not Reported as Nonperforming Receivable
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	\$ 42,254	\$ 178,460	\$ 56,493	\$ 234,830
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	77,446	768,034	67,968	798,500
Total	119,700	946,494	124,461	1,033,330

Note 1: Amounts of executed contracts on negotiated debts that 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).

Note 2: Amounts of discharged and executed contracts on clearance 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. No. 09700318940).

(Concluded)

UNION BANK OF TAIWAN

INFORMATION ON AND PROPORTIONATE SHARE IN INVESTEEES

DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

Investee Company	Location	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 (%)	
Financial-related										
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00	\$ 2,664,239	\$ 148,356	117,000	-	117,000	100.00	Note 3
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99	99,514	33,476	30,000	-	30,000	99.99	Note 3
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00	144,248	11,333	10,500	-	10,500	35.00	Note 3
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution, system programming development, system development outsourcing, website design, e-commerce, etc.	99.99	20,244	864	1,000	-	1,000	99.99	Note 3
Ipass Corporation	Kaohsiung	IC card	16.25	123,320	-	13,000	-	13,000	16.25	
Taiwan Gin Lian Asset Management Corporation	Taipei	Purchase, sale and management of nonperforming loans from financial institutions	0.57	75,000	-	7,500	-	7,500	0.57	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	50,000	-	5,000	-	5,000	2.94	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53	20,055	-	2,103	-	2,103	0.53	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44	3,864	-	386	-	386	6.44	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	2,113	-	160	-	160	0.81	
Financial Information Service Co., Ltd.	Taipei	Information service	2.39	118,782	-	12,498	-	12,498	2.39	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25	13,916	-	899	-	899	0.25	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04	71,250	-	6,422	-	6,422	2.04	
Taiwan Mobile Payment Corporation	Taipei	International trade, data processing service	1.00	6,000	-	600	-	600	1.00	
Nonfinancial-related										
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00	53,121	(326)	2,000	-	2,000	40.00	Note 3
Fu Hua Venture Corporation	Taipei	Investments	5.00	9,852	-	990	-	990	5.00	
Li Yu Venture Corporation	Taipei	Investment	4.76	5,837	-	607	-	607	4.76	
Lian An Service Corporation	Taipei	Security service	5.00	1,501	-	125	-	125	5.00	
Taiwan Power Corporation	Taipei	Electricity-related business	0.0012	6,124	-	395	-	395	0.0012	

Note 1: The investees' information shown above is based on audited financial reports as of December 31, 2017.

Note 2: Pro forma shares are considered if equity securities - convertible 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.

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	\$ 12,136,172	2	\$ 10,971,118	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Note 7)	19,180,985	4	54,414,461	10
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	12,136,325	2	9,538,090	2
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 9)	28,234,334	5	27,855,242	5
RECEIVABLES, NET (Notes 4, 5, 10 and 12)	17,751,420	3	17,888,230	3
CURRENT TAX ASSETS (Note 4)	52,134	-	186,231	-
DISCOUNTS AND LOANS, NET (Notes 4, 5, 11, 12 and 43)	316,728,989	56	282,416,950	53
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 13 and 43)	35,489,633	6	39,978,425	8
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 4 and 14)	51,285,957	9	7,192,115	1
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 16)	53,121	-	53,447	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 17 and 44)	48,267,839	9	57,403,743	11
PROPERTY AND EQUIPMENT, NET (Notes 4 and 18)	8,081,729	2	8,156,305	2
INVESTMENT PROPERTIES, NET (Notes 4, 19 and 27)	5,284,434	1	5,415,376	1
INTANGIBLE ASSETS (Notes 4 and 20)				
Goodwill	1,985,307	-	1,985,307	-
Computer software	184,137	-	182,423	-
Total intangible assets	<u>2,169,444</u>	<u>-</u>	<u>2,167,730</u>	<u>-</u>
DEFERRED TAX ASSETS (Notes 4 and 41)	1,172,974	-	1,447,039	-
OTHER ASSETS, NET (Notes 4, 21, 30, 43 and 45)	<u>7,590,797</u>	<u>1</u>	<u>7,622,068</u>	<u>2</u>
TOTAL	<u>\$ 565,616,287</u>	<u>100</u>	<u>\$ 532,706,570</u>	<u>100</u>
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 22)	\$ 9,249,185	2	\$ 8,389,312	2
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	183,384	-	39,523	-
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 4 and 23)	30,273,976	5	28,874,137	5
ACCOUNTS PAYABLE (Note 24)	7,108,824	1	6,981,464	1
CURRENT TAX LIABILITIES (Note 4)	77,173	-	97,549	-
DEPOSITS AND REMITTANCES (Notes 25 and 43)	449,049,470	79	431,618,915	81
BANK DEBENTURES (Note 26)	11,700,000	2	11,200,000	2
BOND PAYABLE (Note 27)	1,409,598	-	1,135,884	-
OTHER FINANCIAL LIABILITIES (Note 28)	4,291,441	1	4,235,138	1
PROVISIONS (Notes 4, 29 and 30)	182,262	-	189,572	-
DEFERRED TAX LIABILITIES (Notes 4 and 41)	937,196	-	834,410	-
OTHER LIABILITIES (Notes 31 and 45)	<u>2,967,213</u>	<u>1</u>	<u>2,892,210</u>	<u>1</u>
Total liabilities	<u>517,429,722</u>	<u>91</u>	<u>496,488,114</u>	<u>93</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK				
Share capital				
Ordinary shares	26,051,524	5	26,051,524	5
Preference shares	2,000,000	-	-	-
Total share capital	<u>28,051,524</u>	<u>5</u>	<u>26,051,524</u>	<u>5</u>
Capital surplus	8,032,413	2	32,413	-
Retained earnings				
Legal reserve	5,165,280	1	4,374,367	1
Special reserve	585,206	-	558,842	-
Unappropriated earnings	4,503,995	1	3,740,039	1
Total retained earnings	<u>10,254,481</u>	<u>2</u>	<u>8,673,248</u>	<u>2</u>
Other equity	<u>1,580,257</u>	<u>-</u>	<u>1,192,131</u>	<u>-</u>
Total equity attributable to owners of the Bank	47,918,675	9	35,949,316	7
NON-CONTROLLING INTERESTS	<u>267,890</u>	<u>-</u>	<u>269,140</u>	<u>-</u>
Total equity	<u>48,186,565</u>	<u>9</u>	<u>36,218,456</u>	<u>7</u>
TOTAL	<u>\$ 565,616,287</u>	<u>100</u>	<u>\$ 532,706,570</u>	<u>100</u>

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

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	<u>3,677,756</u>	<u>29</u>	<u>3,709,965</u>	<u>31</u>	(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	<u>64,299</u>	<u>-</u>	<u>97,758</u>	<u>1</u>	(34)
TOTAL NET REVENUES	<u>12,471,365</u>	<u>100</u>	<u>12,011,660</u>	<u>100</u>	4
PROVISIONS (Note 12)					
Provision of allowance for doubtful accounts	<u>356,861</u>	<u>3</u>	<u>171,542</u>	<u>2</u>	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)	<u>3,437,849</u>	<u>28</u>	<u>3,362,722</u>	<u>28</u>	2
Total operating expenses	<u>8,727,933</u>	<u>70</u>	<u>8,529,331</u>	<u>71</u>	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)	<u>620,536</u>	<u>5</u>	<u>649,166</u>	<u>5</u>	(4)
CONSOLIDATED NET INCOME	<u>2,766,035</u>	<u>22</u>	<u>2,661,621</u>	<u>22</u>	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)	<u>64,104</u>	<u>-</u>	<u>71,757</u>	<u>1</u>	(11)
Other comprehensive income (loss) for the year, net of income tax	<u>396,819</u>	<u>3</u>	<u>(535,336)</u>	<u>(4)</u>	174
TOTAL COMPREHENSIVE INCOME	<u>\$ 3,162,854</u>	<u>25</u>	<u>\$ 2,126,285</u>	<u>18</u>	49
NET INCOME ATTRIBUTABLE TO:					
Owners of the Bank	\$ 2,744,987	22	\$ 2,636,375	22	4
Non-controlling interests	<u>21,048</u>	<u>-</u>	<u>25,246</u>	<u>-</u>	(17)
	<u>\$ 2,766,035</u>	<u>22</u>	<u>\$ 2,661,621</u>	<u>22</u>	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	<u>21,176</u>	<u>-</u>	<u>25,072</u>	<u>-</u>	(16)
	<u>\$ 3,162,854</u>	<u>25</u>	<u>\$ 2,126,285</u>	<u>18</u>	49
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 42)					
Basic	<u>\$1.05</u>		<u>\$1.01</u>		
Diluted	<u>\$1.05</u>		<u>\$1.01</u>		

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

(Concluded)

UNION BANK OF TAIWAN AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)**

	Equity Attributable Owners of the Company							Other Equity		Total	Non-controlling Interests (Note 32)	Total Equity	
	Share Capital (Note 32)		Share Capital (Note 32)	Retained Earnings (Notes 4 and 32)				Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations				
	Ordinary Shares	Preference Shares		Legal Reserve	Special Reserve	Unappropriated Earnings	Total						
BALANCE AT JANUARY 1, 2016	\$ 26,051,524	\$ -	\$ 32,413	\$ 3,450,907	\$ 558,842	\$ 3,078,201	\$ 7,087,950	\$ 1,302,228	\$ 416,049	\$ 1,718,277	\$ 34,890,164	\$ 260,253	\$ 35,150,417
Appropriation of the 2015 earnings													
Legal reserve	-	-	-	923,460	-	(923,460)	-	-	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	-	(1,042,061)	(1,042,061)	-	-	-	(1,042,061)	-	(1,042,061)
Net income for the year ended December 31, 2016	-	-	-	-	-	2,636,375	2,636,375	-	-	-	2,636,375	25,246	2,661,621
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	-	(9,016)	(9,016)	(29,920)	(496,226)	(526,146)	(535,162)	(174)	(535,336)
Cash dividends on subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(16,185)	(16,185)
BALANCE AT DECEMBER 31, 2016	26,051,524	-	32,413	4,374,367	558,842	3,740,039	8,673,248	1,272,308	(80,177)	1,192,131	35,949,316	269,140	36,218,456
Appropriation of the 2016 earnings													
Legal reserve	-	-	-	790,913	-	(790,913)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	26,364	(26,364)	-	-	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	-	(1,172,319)	(1,172,319)	-	-	-	(1,172,319)	-	(1,172,319)
Net income for the year ended December 31, 2017	-	-	-	-	-	2,744,987	2,744,987	-	-	-	2,744,987	21,048	2,766,035
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	8,565	8,565	1,073,393	(685,267)	388,126	396,691	128	396,819
Issuance of preference shares	-	2,000,000	8,000,000	-	-	-	-	-	-	-	10,000,000	-	10,000,000
Cash dividends on subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(22,426)	(22,426)
BALANCE AT DECEMBER 31, 2017	<u>\$ 26,051,524</u>	<u>\$ 2,000,000</u>	<u>\$ 8,032,413</u>	<u>\$ 5,165,280</u>	<u>\$ 585,206</u>	<u>\$ 4,503,995</u>	<u>\$ 10,254,481</u>	<u>\$ 2,345,701</u>	<u>\$ (765,444)</u>	<u>\$ 1,580,257</u>	<u>\$ 47,918,675</u>	<u>\$ 267,890</u>	<u>\$ 48,186,565</u>

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

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	<u>(44,455,052)</u>	<u>1,525,203</u>

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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 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	<u>(1,574,695)</u>	<u>(2,095,105)</u>
Net cash used in investing activities	<u>(1,792,547)</u>	<u>(4,394,206)</u>
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	<u>10,000,000</u>	<u>-</u>
Net cash generated from financing activities	<u>9,744,071</u>	<u>2,937,056</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(827,215)</u>	<u>(560,639)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,330,743)	(492,586)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>78,026,360</u>	<u>78,518,946</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 40,695,617</u>	<u>\$ 78,026,360</u>

(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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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	<u>28,234,334</u>	<u>27,855,242</u>
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 40,695,617</u>	<u>\$ 78,026,360</u>

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.

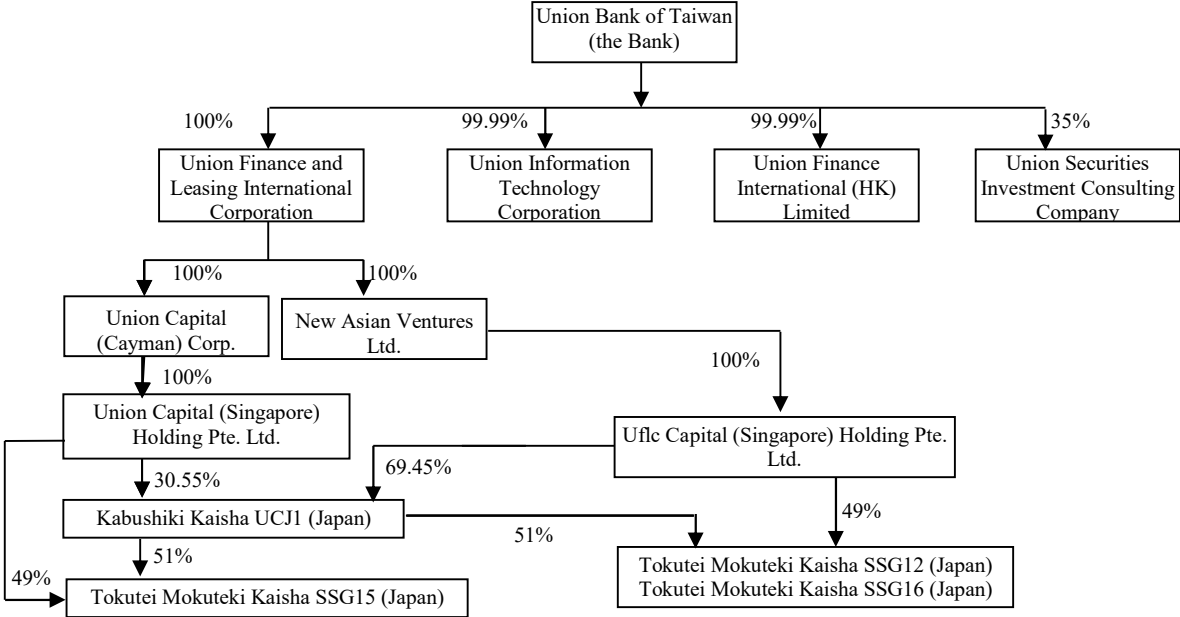
On August 26, 2015, the board of directors of the Bank resolved to merge UIB in order to integrate the resources, strengthen management and business synergy. The merger is approved by FSC (Rule No. 10502022990). The effective date of this merger is August 1, 2016.

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
<u>Impact on assets, liabilities and equity</u>			
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	<u>(603,994)</u>	-
Total effect on assets		<u>\$ 448,151</u>	
Provisions	182,262	\$ 27,308	209,570
Deferred tax liability	937,196	<u>1,262</u>	938,458
Total effect on liabilities		<u>\$ 28,570</u>	
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	<u>(1,254)</u>	266,636
Total effect on equity		<u>\$ 419,581</u>	

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 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 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's 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 rereasurement) 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. Rereasurement, 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. Rereasurement 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 rereasurement 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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 5,775,662	\$ 5,818,152
Checks for clearing	4,042,078	3,563,014
Due from banks	<u>2,318,432</u>	<u>1,589,952</u>
	<u>\$ 12,136,172</u>	<u>\$ 10,971,118</u>

7. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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	<u>-</u>	<u>39,200,000</u>
	<u>\$ 19,180,985</u>	<u>\$ 54,414,461</u>

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets held for trading</u>		
Commercial paper	\$ 10,389,618	\$ 8,300,747
Government bonds	-	151,223
Quoted stocks	188,973	192,085
Mutual funds	<u>1,020,400</u>	<u>128,425</u>
	<u>11,598,991</u>	<u>8,772,480</u>
<u>Derivative instruments</u>		
Forward exchange contracts	311,723	418,515
Currency swap contracts	177,358	15,982
Option contracts	<u>48,253</u>	<u>8,145</u>
	<u>537,334</u>	<u>442,642</u>
	<u>12,136,325</u>	<u>9,215,122</u>
<u>Financial assets designated as at fair value through profit or loss</u>		
Principal guaranteed notes	<u>-</u>	<u>322,968</u>
	<u>\$ 12,136,325</u>	<u>\$ 9,538,090</u>
<u>Financial liabilities held for trading</u>		
<u>Derivative instrument</u>		
Option contracts	\$ 48,259	\$ 8,135
Forward exchange contracts	14,246	23,924
Currency swap contracts	<u>120,879</u>	<u>7,464</u>
	<u>\$ 183,384</u>	<u>\$ 39,523</u>

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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Commercial paper	\$ 12,094,964	\$ 14,877,255
Corporate bonds	15,820,141	12,037,280
Government bonds	300,229	940,707
Bank debentures	<u>19,000</u>	<u>-</u>
	<u>\$ 28,234,334</u>	<u>\$ 27,855,242</u>
Date of the resell agreement	2018.01-2017.02	2017.01-2017.02
Amount of the resell	<u>\$ 28,245,475</u>	<u>\$ 27,862,410</u>

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

10. RECEIVABLES, NET

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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	<u>373,848</u>	<u>177,679</u>
	17,939,719	18,256,476
Less: Allowance for doubtful accounts	<u>188,299</u>	<u>368,246</u>
	<u>\$ 17,751,420</u>	<u>\$ 17,888,230</u>

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	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	<u>247,336</u>	<u>179,120</u>
	320,130,807	285,614,244
Less: Allowance for doubtful accounts	<u>3,401,818</u>	<u>3,197,294</u>
	<u>\$ 316,728,989</u>	<u>\$ 282,416,950</u>

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	<u>(22,430)</u>	<u>(5,712)</u>	<u>(146)</u>	<u>(28,288)</u>
Balance at December 31, 2017	<u>\$ 188,299</u>	<u>\$ 3,401,818</u>	<u>\$ 138,975</u>	<u>\$ 3,729,092</u>

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	<u>\$ 368,246</u>	<u>\$ 3,197,294</u>	<u>\$ 134,621</u>	<u>\$ 3,700,161</u>

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	<u>951,695</u>	<u>948,277</u>
	<u>\$ 35,489,633</u>	<u>\$ 39,978,425</u>

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	<u>25,668</u>	<u>27,759</u>
	<u>\$ 51,285,957</u>	<u>\$ 7,192,115</u>

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		
			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

	<u>December 31</u>	
	2017	2016
<u>None individually material</u>		
Union Real-Estate Management Corporation	<u>\$ 53,121</u>	<u>\$ 53,447</u>

The summarized financial information in respect of the Company's associate is set out below:

	<u>For the Year Ended December 31</u>	
	2017	2016
Net loss	<u>\$ (326)</u>	<u>\$ (347)</u>

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

	<u>December 31</u>	
	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	<u>27,903</u>	<u>7,460</u>
	<u>\$ 48,267,839</u>	<u>\$ 57,403,743</u>

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	<u>101,322</u>	<u>97,387</u>
	<u>\$ 603,994</u>	<u>\$ 600,059</u>

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
<u>Cost</u>							
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	<u>3,845,623</u>	<u>5,139,058</u>	<u>1,410,499</u>	<u>286,084</u>	<u>264,519</u>	<u>46,961</u>	<u>10,992,744</u>
<u>Accumulated depreciation</u>							
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	<u>-</u>	<u>1,408,792</u>	<u>1,065,016</u>	<u>248,880</u>	<u>113,751</u>	<u>-</u>	<u>2,836,439</u>
Balance at December 31, 2016, net	<u>\$ 3,845,623</u>	<u>\$ 3,730,266</u>	<u>\$ 345,483</u>	<u>\$ 37,204</u>	<u>\$ 150,768</u>	<u>\$ 46,961</u>	<u>\$ 8,156,305</u>
<u>Cost</u>							
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	<u>3,845,623</u>	<u>5,154,708</u>	<u>1,369,053</u>	<u>297,163</u>	<u>332,825</u>	<u>53,781</u>	<u>11,053,153</u>

(Continued)

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
<u>Accumulated depreciation</u>							
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	<u>\$ 3,845,623</u>	<u>\$ 3,622,179</u>	<u>\$ 334,970</u>	<u>\$ 43,152</u>	<u>\$ 182,024</u>	<u>\$ 53,781</u>	<u>\$ 8,081,729</u>

(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
<u>Cost</u>			
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	<u>2,362</u>	<u>1,064</u>	<u>3,426</u>
Balance at December 31, 2016	<u>\$ 4,542,134</u>	<u>\$ 975,438</u>	<u>\$ 5,517,572</u>

(Continued)

	Land	Buildings	Total
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2016	\$ -	\$ (69,458)	\$ (69,458)
Depreciation	-	(34,061)	(34,061)
Net exchange differences	<u>-</u>	<u>1,323</u>	<u>1,323</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ (102,196)</u>	<u>\$ (102,196)</u>
Balance at December 31, 2016, net	<u>\$ 4,542,134</u>	<u>\$ 873,242</u>	<u>\$ 5,415,376</u>

Cost

Balance at January 1, 2017	\$ 4,542,134	\$ 975,438	\$ 5,517,572
Additions	132	14,945	15,077
Net exchange difference	<u>(74,994)</u>	<u>(28,951)</u>	<u>(103,945)</u>
Balance at December 31, 2017	<u>\$ 4,467,272</u>	<u>\$ 961,432</u>	<u>\$ 5,428,704</u>

Accumulated depreciation and impairment

Balance at January 1, 2017	\$ -	\$ (102,196)	\$ (102,196)
Depreciation	-	(38,342)	(38,342)
Net exchange differences	<u>-</u>	<u>(3,732)</u>	<u>(3,732)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ (144,270)</u>	<u>\$ (144,270)</u>
Balance at December 31, 2017, net	<u>\$ 4,467,272</u>	<u>\$ 817,162</u>	<u>\$ 5,284,434</u> (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	<u>61,286</u>	<u>98,434</u>
	<u>\$ 7,590,797</u>	<u>\$ 7,622,068</u>

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	<u>87,635</u>	<u>51,577</u>
	<u>\$ 9,249,185</u>	<u>\$ 8,389,312</u>

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	<u>245,736</u>	<u>825,306</u>
	<u>\$ 30,273,976</u>	<u>\$ 28,874,137</u>
Date of repurchase agreement	2018.01-2018.05	2017.01-2017.06
Amount of repurchase agreement	<u>\$ 30,311,830</u>	<u>\$ 28,907,147</u>

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	<u>711,644</u>	<u>1,414,736</u>
	<u>\$ 7,108,824</u>	<u>\$ 6,981,464</u>

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	<u>127,043</u>	<u>73,015</u>
	<u>\$ 449,049,470</u>	<u>\$ 431,618,915</u>

26. BANK DEBENTURES

	December 31	
	2017	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%	<u>500,000</u>	<u>-</u>
	<u>\$ 11,700,000</u>	<u>\$ 11,200,000</u>

27. BONDS PAYABLE

	December 31	
	2017	2016
Overseas corporate bonds - secured	<u>\$ 1,409,598</u>	<u>\$ 1,135,884</u>

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	<u>1,362</u>	<u>4,613</u>
	<u>\$ 4,291,441</u>	<u>\$ 4,235,138</u>

29. PROVISIONS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Reserve for losses on guarantees	\$ 138,975	\$ 134,621
Provisions for employee benefits	16,109	28,672
Others	<u>27,178</u>	<u>26,279</u>
	<u>\$ 182,262</u>	<u>\$ 189,572</u>

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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Present value of defined benefit obligation	\$ (1,571,309)	\$ (1,580,240)
Fair value of plan assets	<u>1,577,056</u>	<u>1,574,668</u>
Surplus (deficit)	<u>5,747</u>	<u>(5,572)</u>
Net defined benefit asset (liability)	<u>\$ 5,747</u>	<u>\$ (5,572)</u>
Provisions - accrued retirement liabilities	<u>\$ (16,109)</u>	<u>\$ (28,672)</u>
Other assets - prepaid retirement	<u>\$ 21,856</u>	<u>\$ 23,100</u>

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)	<u>(23,273)</u>	<u>11,414</u>	<u>(11,859)</u>
Recognized in profit or loss	<u>(41,780)</u>	<u>11,414</u>	<u>(30,366)</u>
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	<u>13,570</u>	<u>-</u>	<u>13,570</u>
Recognized in other comprehensive income	<u>(7,152)</u>	<u>(3,921)</u>	<u>(11,073)</u>
Contributions from the employer	-	836,694	836,694
Benefits paid	<u>22,505</u>	<u>(22,505)</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ (1,580,240)</u>	<u>\$ 1,574,668</u>	<u>\$ (5,572)</u>
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)	<u>(21,728)</u>	<u>21,653</u>	<u>(75)</u>
Recognized in profit or loss	<u>(38,684)</u>	<u>21,653</u>	<u>(17,031)</u>
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	<u>26,944</u>	<u>-</u>	<u>26,944</u>
Recognized in other comprehensive income	<u>854</u>	<u>9,620</u>	<u>10,474</u>
Contributions from the employer	-	17,455	17,455
Benefits paid	<u>46,761</u>	<u>(46,340)</u>	<u>421</u>
Balance at December 31, 2017	<u>\$ (1,571,309)</u>	<u>\$ 1,577,056</u>	<u>\$ 5,747</u>

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:

	<u>December 31</u>	
	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:

	<u>December 31</u>	
	2017	2016
Discount rate(s)		
0.25% increase	<u>\$ (47,535)</u>	<u>\$ (49,702)</u>
0.25% decrease	<u>\$ 49,605</u>	<u>\$ 51,956</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 47,972</u>	<u>\$ 50,319</u>
0.25% decrease	<u>\$ (46,228)</u>	<u>\$ (48,405)</u>

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

	<u>December 31</u>	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 24,571</u>	<u>\$ 24,566</u>
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

	<u>December 31</u>	
	2017	2016
Guarantee deposits received	\$ 2,362,921	\$ 2,360,609
Advance receipts	486,850	432,465
Others	<u>117,442</u>	<u>99,136</u>
	<u>\$ 2,967,213</u>	<u>\$ 2,892,210</u>

32. EQUITY

a. Capital stock

Common stock

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

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 Bank'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	<u>32,413</u>	<u>32,413</u>
	<u>\$ 8,032,413</u>	<u>\$ 32,413</u>

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	<u>26,364</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 585,206</u>	<u>\$ 558,842</u>

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:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
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:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
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	<u>205,384</u>	<u>61,807</u>
Balance at December 31	<u>\$ (765,444)</u>	<u>\$ (80,177)</u>

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	<u>(611,262)</u>	<u>(299,540)</u>
Balance, end of the year	<u>\$ 2,345,701</u>	<u>\$ 1,272,308</u>

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	<u>(22,426)</u>	<u>(16,185)</u>
Balance at December 31	<u>\$ 267,890</u>	<u>\$ 269,140</u>

33. NET INTEREST

	For the Year Ended December 31	
	2017	2016
<u>Interest revenue</u>		
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
	<u>10,268,804</u>	<u>10,014,337</u>
<u>Interest expense</u>		
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
	<u>3,677,756</u>	<u>3,709,965</u>
	<u>\$ 6,591,048</u>	<u>\$ 6,304,372</u>

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
	<u>3,053,889</u>	<u>3,239,982</u>
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
	<u>755,872</u>	<u>816,493</u>
	<u>\$ 2,298,017</u>	<u>\$ 2,423,489</u>

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	<u>111,951</u>	<u>163,896</u>
	<u>356,075</u>	<u>378,321</u>
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	<u>5,788</u>	<u>(88,726)</u>
	<u>404</u>	<u>4,437</u>
	<u>\$ 356,479</u>	<u>\$ 382,758</u>

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	<u>218,868</u>	<u>162,300</u>
	<u>\$ 830,130</u>	<u>\$ 461,840</u>

37. IMPAIRMENT LOSS ON ASSET (REVERSAL)

	For the Year Ended December 31	
	2017	2016
Other financial assets	\$ 799	\$ 50,000
Foreclosed collaterals	<u>-</u>	<u>(717)</u>
	<u>\$ 799</u>	<u>\$ 49,283</u>

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	<u>75,074</u>	<u>56,404</u>
	<u>\$ 3,352,574</u>	<u>\$ 3,345,749</u>

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	<u>-</u>	<u>7,985</u>
	<u>\$ 1,937,510</u>	<u>\$ 1,820,860</u>

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	<u>713,355</u>	<u>740,139</u>
	<u>\$ 3,437,849</u>	<u>\$ 3,362,722</u>

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	<u>4</u>	<u>(7,564)</u>
	<u>181,314</u>	<u>183,263</u>
Deferred tax		
Current year	<u>439,222</u>	<u>465,903</u>
Income tax expense recognized in profit or loss	<u>\$ 620,536</u>	<u>\$ 649,166</u>

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	<u>\$ 3,386,571</u>	<u>\$ 3,310,787</u>
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	<u>4</u>	<u>(7,564)</u>
Income tax expense recognized in profit or loss	<u>\$ 620,536</u>	<u>\$ 649,166</u>

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
<u>Deferred tax</u>		
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	<u>1,781</u>	<u>(1,883)</u>
Total income tax expenses (profit) recognized in other comprehensive income	<u>\$ (62,323)</u>	<u>\$ (73,640)</u>

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
<u>Deferred tax assets</u>					
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
	<u>\$ 1,447,039</u>	<u>\$ (473,462)</u>	<u>\$ 199,397</u>	<u>\$ -</u>	<u>\$ 1,172,974</u>
<u>Deferred tax liabilities</u>					
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)
	<u>\$ (834,410)</u>	<u>\$ 34,240</u>	<u>\$ (137,074)</u>	<u>\$ 48</u>	<u>\$ (937,196)</u>

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
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
	<u>\$ 1,886,538</u>	<u>\$ (444,448)</u>	<u>\$ 4,949</u>	<u>\$ -</u>	<u>\$ 1,447,039</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax liabilities</u>					
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)
	<u>\$ (881,731)</u>	<u>\$ (21,455)</u>	<u>\$ 68,691</u>	<u>\$ 85</u>	<u>\$ (834,410)</u>
					(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
<u>52,956</u>	2023
<u>\$ 3,863,358</u>	

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

	<u>December 31</u>	
	2017	2016
Imputation credits account	<u>Note</u>	<u>\$ 114,475</u>

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

	<u>December 31</u>	
	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

	<u>Examined and Cleared</u>
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:

	<u>Numerator (Amounts)</u>		<u>Denominator (Shares in Thousands)</u>	<u>Earnings Per Share (NT\$)</u>	
	Pretax	After Tax		Pretax	After Tax
<u>2017</u>					
Basic EPS					
Income for the year attributable to common stockholders	\$ 3,313,250	\$ 2,744,987	2,605,152	<u>\$ 1.27</u>	<u>\$ 1.50</u>
Bonus to employees	<u>-</u>	<u>-</u>	<u>8,135</u>		
Diluted EPS	<u>\$ 3,313,250</u>	<u>\$ 2,744,987</u>	<u>2,613,287</u>	<u>\$ 1.27</u>	<u>\$ 1.50</u>
<u>2016</u>					
Basic EPS					
Income for the year attributable to common stockholders	\$ 3,226,478	\$ 2,636,375	2,605,152	<u>\$ 1.24</u>	<u>\$ 1.01</u>
Bonus to employees	<u>-</u>	<u>-</u>	<u>8,328</u>		
Diluted EPS	<u>\$ 3,226,478</u>	<u>\$ 2,636,375</u>	<u>2,613,480</u>	<u>\$ 1.23</u>	<u>\$ 1.01</u>

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		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
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		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
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	%
<u>2017</u>				
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	%
<u>2016</u>				
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	<u>27</u>	<u>33</u>
	44,430	48,942
Post-employment benefits	<u>6,284</u>	<u>2,555</u>
	<u>\$ 50,714</u>	<u>\$ 51,497</u>

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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Other financial assets		
Pledge assets	<u>\$ 70,718</u>	<u>\$ 690,392</u>
Investment property	<u>\$ 2,522,582</u>	<u>\$ 1,974,113</u>

- 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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Within 1 year	\$ 436,507	\$ 444,548
Over 1 year up to 5 years	858,653	1,135,301
Over 5 years	<u>352,242</u>	<u>386,690</u>
	<u>\$ 1,647,402</u>	<u>\$ 1,966,539</u>

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	<u>71,422</u>	<u>84,556</u>
	<u>\$ 656,780</u>	<u>\$ 649,066</u>

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	<u>1,629,586</u>	<u>1,581,947</u>
	<u>\$ 3,468,763</u>	<u>\$ 3,409,977</u>

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	<u>112,814</u>
Accounts receivable	5,693		
Stock in custody	10,430,388		
Real estate - land and building	<u>14,201,638</u>		
Total	<u>\$ 68,285,472</u>	Total	<u>\$ 68,285,472</u>

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	<u>(81,184)</u>
Accounts receivable	1,825		
Stock in custody	7,189,491		
Real estate - land and building	<u>11,136,708</u>		
 Total	 <u>\$ 59,974,657</u>	 Total	 <u>\$ 59,974,657</u>

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	<u>1,243</u>
Total trust income	<u>190,356</u>
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	<u>120</u>
Total trust expense	<u>78,815</u>
Loss before tax	111,541
Income tax expense	<u>(2,255)</u>
 Net income	 <u>\$ 109,286</u>

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	<u>482</u>
Total trust income	<u>34,949</u>
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	<u>383</u>
Total trust expense	<u>102,559</u>
Loss before tax	(67,610)
Income tax expense	<u>(1,332)</u>
Net loss	<u>\$ (68,942)</u>

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	<u>14,201,638</u>
	<u>\$ 68,285,472</u>

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	<u>11,136,708</u>
	<u>\$ 59,974,657</u>

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
<u>Measured at fair value on a recurring basis</u>				
<u>Nonderivative financial instruments</u>				
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	-	-
<u>Derivative financial instruments</u>				
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
<u>Measured at fair value on a recurring basis</u>				
<u>Nonderivative financial instruments</u>				
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	-	-
<u>Derivative financial instruments</u>				
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 contracts 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	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
Financial assets at fair value through profit or loss						
Derivative financial instruments	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
Financial liabilities at fair value through profit or loss						

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
<u>Financial assets</u>				
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
<u>Financial liabilities</u>				
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
<u>Financial assets</u>				
Held-to-maturity financial assets	\$ 51,388,334	\$ -	\$ 51,388,334	\$ -
Debt instruments with no active market	46,737,536	-	46,737,536	-
<u>Financial liabilities</u>				
Bank debentures	11,887,884	-	11,887,884	-

Items	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<u>Financial assets</u>				
Held-to-maturity financial assets	\$ 7,088,803	\$ -	\$ 7,088,803	\$ -
Debt instruments with no active market	53,015,036	-	53,015,036	-
<u>Financial liabilities</u>				
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 measures 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
<u>In-balance sheet items</u>				
Discount and loans	\$ 248,662,563	\$ -	\$ -	\$ 248,662,563

December 31, 2016	Collateral	Netting Arrangements	Other Credit Enhancement	Total
<u>In-balance sheet items</u>				
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	-	-	600,059

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	<u>9,130,874</u>	<u>14,004,333</u>	<u>179,429</u>	<u>75,817</u>	<u>-</u>	<u>23,390,453</u>
Subtotal	51,455	82,512	1,015	591	-	135,573
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	<u>\$ 51,455</u>	<u>\$ 82,512</u>	<u>\$ 1,015</u>	<u>\$ 591</u>	<u>\$ -</u>	<u>\$ 135,573</u>
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	<u>3,038,160</u>	<u>652,804</u>	<u>416,978</u>	<u>173,221</u>	<u>-</u>	<u>4,281,163</u>
Subtotal	20,821	9,679	4,322	2,990	-	37,812
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	<u>\$ 20,821</u>	<u>\$ 9,679</u>	<u>\$ 4,322</u>	<u>\$ 2,990</u>	<u>\$ -</u>	<u>\$ 37,812</u>

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	<u>\$ 3,560</u>	<u>\$ 7,482</u>	<u>\$ 2,380</u>	<u>\$ 2,480</u>	<u>\$ -</u>	<u>\$ 15,902</u>
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	<u>\$ (1,318)</u>	<u>\$ (3,018)</u>	<u>\$ (2,567)</u>	<u>\$ (3,924)</u>	<u>\$ -</u>	<u>\$ (10,827)</u>

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
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
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
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
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)		Year	December 31, 2016	
			Own Capital Adequacy Ratio	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	<u>120,443</u>	<u>(1,024)</u>	<u>4,682</u>	<u>664,553</u>	<u>2,338,384</u>	<u>343,310</u>	<u>3,470,348</u>
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	<u>697,608</u>	<u>2,500,534</u>	<u>543,350</u>	<u>192,373</u>	<u>2,042,365</u>	<u>2,751,703</u>	<u>8,727,933</u>
Income before income tax	<u>\$ 760,106</u>	<u>\$ 920,658</u>	<u>\$ 403,787</u>	<u>\$ 1,798,670</u>	<u>\$ 200,494</u>	<u>(\$ 697,144)</u>	<u>\$ 3,386,571</u>
	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	<u>531,466</u>	<u>(6,102)</u>	<u>3,553</u>	<u>416,710</u>	<u>2,251,983</u>	<u>(77,707)</u>	<u>3,119,903</u>
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	<u>771,806</u>	<u>2,331,776</u>	<u>544,057</u>	<u>198,413</u>	<u>1,950,717</u>	<u>2,732,562</u>	<u>8,529,331</u>
Income before income tax	<u>\$ 1,054,757</u>	<u>\$ 819,931</u>	<u>\$ 553,269</u>	<u>\$ 1,863,629</u>	<u>\$ 201,838</u>	<u>(\$ 1,182,637)</u>	<u>\$ 3,310,787</u>

Note: Include interest revenue of financial assets at fair value through profit or loss.

UNION BANK OF TAIWAN AND SUBSIDIARIES

LOANS PROVIDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement 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		
1	Union Financial and Leasing International Corporation	Union Capital (Cayman) Corp.	Affiliates of 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
2	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Affiliates of 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
		Ufrc Capital (Singapore) Holding Pte. Ltd.	Affiliates of 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
3	Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Affiliates of 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
4	Ufrc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Affiliates of 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

UNION BANK OF TAIWAN AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee		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
		Name	Relationship											
1	Union Financial and Leasing International Corporation	Union Capital (Cayman) Corp.	Union Financial and Leasing International Corporation and subsidiaries	\$ 2,664,239	\$ 746,200 (US\$ 25,000)	\$ 746,200 (US\$ 25,000)	\$ -	\$ -	28.01	\$ 2,664,239	Yes	No	No	

UNION BANK OF TAIWAN AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Holding Company	Type and Issuer/ Name of 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	
Union Finance and Leasing International Corporation	<u>Stock</u>							
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	931	\$ 8,101	0.06	\$ 8,101	Note 4
	China Chemical Corporation	-	Available-for-sale financial assets	356	6,646	0.12	6,646	Note 4
	Hey-Song Corporation	-	Available-for-sale financial assets	4,551	143,129	1.13	143,129	Note 4
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	517,572	100.00	517,572	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	85,652	100.00	85,652	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33	1,415	Note 1
	<u>Beneficial certificates</u>							
	Union Advantage Global FI Portfolio Fund	-	Available-for-sale financial assets	6,614	100,088		100,088	Note 4
	Union Golden Balance Fund	-	Available-for-sale financial assets	854	19,603		19,603	Note 4
Union Information Technology Corporation	<u>Stock</u>							
	ELTA Technology Co., Ltd.	-	Unquoted equity instruments	2,646	23,411	14.70	29,319	Note 3
Union Securities Investment Trust Corporation (USITC)	<u>Stock</u>							
	Fundrish Securities Co., Ltd.	-	Unquoted equity instruments	566	7,235	0.94	6,534	Note 2
	<u>Beneficial certificates</u>							
	Union Advantage Global FI Portfolio Fund	-	Financial assets at fair value through profit or loss	1,068	17,478		17,478	Note 4
	Union Emerging Asia Bond A	-	Financial assets at fair value through profit or loss	486	5,539		5,539	Note 4
	Union Money Market	-	Financial assets at fair value through profit or loss	1,230	16,154		16,154	Note 4
	Union Golden Balance Fund	-	Financial assets at fair value through profit or loss	575	13,215		13,215	Note 4
	Union Emerg Res-rich Countries HYBd A	-	Financial assets at fair value through profit or loss	800	8,894		8,894	Note 4
	Union China	-	Financial assets at fair value through profit or loss	1,006	24,919		24,919	Note 4
	Union Technology Fund	-	Financial assets at fair value through profit or loss	1,460	18,266		18,266	Note 4
	Union APEC Balanced A	-	Financial assets at fair value through profit or loss	1,001	12,326		12,326	Note 4
	Union Global ETF Fund	-	Financial assets at fair value through profit or loss	513	5,403		5,403	Note 4
	Union Asian High Yield Bond A	-	Financial assets at fair value through profit or loss	1,451	15,194		15,194	Note 4
Union Finance International (HK) Limited	<u>Bond</u>							
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900 units	US\$ 917		US\$ 917	Note 4

(Continued)

Holding Company	Type and Issuer/ Name of 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	
	<u>Stock</u> Apple Computer Inc.	-	Financial assets at fair value through profit or loss	17	US\$ 2,945		US\$ 2,945	Note 4
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US\$ 658		US\$ 658	Note 4
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US\$ 516		US\$ 516	Note 4
	Obsidian	-	Financial assets at fair value through profit or loss	119	US\$ 148		US\$ 148	Note 4
	Qualcomm	-	Financial assets at fair value through profit or loss	5	US\$ 320		US\$ 320	Note 4
	AT&T	-	Financial assets at fair value through profit or loss	10	US\$ 389		US\$ 389	Note 4
	WMI Holdings	-	Financial assets at fair value through profit or loss	18	US\$ 15		US\$ 15	Note 4
New Asian Ventures Ltd.	<u>Stock</u> Grace T.H.W. Holding Limited	-	Unquoted equity instruments	1,667	\$ 64,320	0.81	US\$ 2,714	Note 2
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 58,927	100.00	JPY 58,927	Note 5
	Uflc Capital (Singapore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 66,975	100.00	JPY 66,975	Note 5
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1	Subsidiary	Equity investment - equity method	9	JPY 470,173	30.55	JPY 470,173	Note 5
	Tokutei Mokuteki Kaisha SSG15	Subsidiary	Equity investment - equity method	Note 7	JPY 700,750	49.00	JPY 700,750	Note 5
Kabushiki Kaisha UCJ1	Tokutei Mokuteki Kaisha SSG15	Subsidiary	Equity investment - equity method	Preferred stock 15	JPY 729,300	51.00	JPY 729,300	Note 5
	Tokutei Mokuteki Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 9	JPY 1,013,159	51.00	JPY 1,013,159	Note 5
	Tokutei Mokuteki Kaisha SSG16	Subsidiary	Equity investment - equity method	Preferred stock 26	JPY 1,290,300	51.00	JPY 1,290,300	Note 5
Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1	Subsidiary	Equity investment - equity method	21	JPY 1,068,923	69.45	JPY 1,068,923	Note 5
	Tokutei Mokuteki Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 8	JPY 973,477	49.00	JPY 973,477	Note 5
	Tokutei Mokuteki Kaisha SSG16	Subsidiary	Equity investment - equity method	Note 6	JPY 1,239,750	49.00	JPY 1,239,750	Note 5

The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

Note 1: Union Finance and Leasing International Corporation:

- a. ERA Communications Co., Ltd. - the audited statements of stockholders' equity as of December 31, 2016.
- b. New Asian Ventures Ltd. and Union Capital (Cayman) Corp. - the audited statements of stockholders' equity as of December 31, 2017.

Note 2: Union Securities Investment Trust. Corporation (USITC):

Fundrish Securities Co., Ltd. - the audited statements of stockholders' equity as of December 31, 2017.

New Asian Ventures Ltd.:

Grace T.H.W. Holding Limited - unaudited statements of stockholders' equity as of December 31, 2017.

Note 3: Union Information Technology Corporation:

ELTA Technology Co., Ltd. - unaudited statements of stockholders' equity as of December 31, 2017.

(Continued)

Note 4: The market values of the listed and OTC stocks included in financial assets at fair value through profit or loss and available-for-sale financial assets were based on the daily closing prices as of balance sheet date. The market values of beneficial certificates were based on net asset values as of the balance sheet date.

Note 5: Union Capital (Singapore) Holding Pte. Ltd., Uflc Capital (Singapore) Holding Pte. Ltd. and Tokutei Mokuteki Kaisha SSG15, SSG12 and SSG16 - the audited statements of stockholders' equity as of September 30, 2017.
Kabushiki Kaisha UCJ1 - unaudited statements of stockholders' equity as of September 30, 2017.

Note 6: Common stock 1 shares and preferred stock 25 thousand shares.

Note 7: Common stock 1 shares and preferred stock 14 thousand shares.

Note 8: Common stock 1 shares and preferred stock 19 thousand shares.

Note 9: Preferred stock 20 thousand shares.

(Concluded)

UNION BANK OF TAIWAN AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS300 MILLION OR 10% OF THE PAID-IN CAPITAL

DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Union Finance and Leasing International Corporation	Union Capital (Cayman) Corp.	Subsidiary	\$ 1,716,636 (JPY 5,639,163) (US\$ 7,453)	-	\$ -	-	\$ -	\$ -
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Subsidiary	709,363 (JPY 2,677,225)	-	-	-	-	-
	Uflc Capital (Singapore) Holding Pte. Ltd.	Subsidiary	1,464,978 (JPY 5,523,808) (US\$ 46)	-	-	-	-	-
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	388,398 (JPY 1,465,865)	-	-	-	-	-
Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	596,907 (JPY 2,252,804)	-	-	-	-	-

UNION BANK OF TAIWAN AND SUBSIDIARIES

ASSET QUALITY - NONPERFORMING LOANS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, %)

Period		December 31, 2017					December 31, 2016					
Items		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)	
Corporate banking	Secured	\$ 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%	
	Unsecured	24,424	70,604,009	0.03%			26,529	57,311,972	0.05%			
Consumer banking	Housing mortgage (Note 4)	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%	
	Cash card	682	45,043	1.51%	2,153	315.69%	1,047	60,542	1.73%	2,579	246.32%	
	Small-scale credit loans (Note 5)	61,359	17,032,760	0.36%	208,107	339.16%	64,924	13,535,125	0.48%	167,511	258.01%	
	Other (Note 6)	Secured	18,868	16,886,175	0.11%	205,264	1,051.72%	28,153	15,998,751	0.18%	206,915	713.04%
		Unsecured	649	2,704,621	0.02%			866	2,836,563	0.03%		
Loan		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)	
Credit cards		42,074	14,575,314	0.29%	91,701	217.95%	40,754	13,959,135	0.29%	98,445	241.56%	
Accounts receivable factored without recourse		-	396,449	-	3,964	-	-	799,844	-	3,504	-	

Note 1: Nonperforming loans are reported to the authorities and 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."

Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.

Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

(Continued)

Not reported as nonperforming loans or nonperforming receivables

Types \ Items	December 31, 2017		December 31, 2016	
	Not Reported as Nonperforming Loan	Not Reported as Nonperforming Receivable	Not Reported as Nonperforming Loan	Not Reported as Nonperforming Receivable
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	\$ 42,254	\$ 178,460	\$ 56,493	\$ 234,830
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	77,446	768,034	67,968	798,500
Total	119,700	946,494	124,461	1,033,330

Note 1: Amounts of executed contracts on negotiated debts that 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).

Note 2: Amounts of discharged and executed contracts on clearance 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. No. 09700318940).

(Concluded)

UNION BANK OF TAIWAN AND SUBSIDIARIES

INFORMATION ON AND PROPORTIONATE SHARE IN INVESTEEES

DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

Investee Company	Location	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 (%)	
<u>Financial-related</u>										
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00	\$ 2,664,239	\$ 148,356	117,000	-	117,000	100.00	Note 3
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99	99,514	33,476	30,000	-	30,000	99.99	Note 3
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00	144,248	11,333	10,500	-	10,500	35.00	Note 3
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution, system programming development, system development outsourcing, website design, e-commerce, etc.	99.99	20,244	864	1,000	-	1,000	99.99	Note 3
Ipass Corporation	Kaohsiung	IC card	16.25	123,320	-	13,000	-	13,000	16.25	
Taiwan Gin Lian Asset Management Corporation	Taipei	Purchase, sale and management of nonperforming loans from financial institutions	0.57	75,000	-	7,500	-	7,500	0.57	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	50,000	-	5,000	-	5,000	2.94	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53	20,055	-	2,103	-	2,103	0.53	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44	3,864	-	386	-	386	6.44	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	2,113	-	160	-	160	0.81	
Financial Information Service Co., Ltd.	Taipei	Information service	2.39	118,782	-	12,498	-	12,498	2.39	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25	13,916	-	899	-	899	0.25	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04	71,250	-	6,422	-	6,422	2.04	
Taiwan Mobile Payment Corporation	Taipei	International trade, data processing service	1.00	6,000	-	600	-	600	1.00	
<u>Nonfinancial-related</u>										
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00	53,121	(326)	2,000	-	2,000	40.00	Note 3
Fu Hua Venture Corporation	Taipei	Investments	5.00	9,852	-	990	-	990	5.00	
Li Yu Venture Corporation	Taipei	Investment	4.76	5,837	-	607	-	607	4.76	
Lian An Service Corporation	Taipei	Security service	5.00	1,501	-	125	-	125	5.00	
Taiwan Power Corporation	Taipei	Electricity-related business	0.0012	6,124	-	395	-	395	0.0012	

Note 1: The investees' information shown above is based on audited financial reports as of December 31, 2017.

Note 2: Pro forma shares are considered if equity securities - convertible bonds, warrants, etc. - or derivative contracts such as stock options, are converted to shares.

UNION BANK OF TAIWAN AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS AMONG THE BANK AND SUBSIDIARIES

YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Transacting Corporation	Counterparty	Flow of Transaction (Note 2)	Description of Transaction			
				Financial Statement Account	Amount	Trading Terms	Percentage of Total Revenue or Total Assets (Note 3)
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - demand deposits	\$ 64,209	Note 4	0.01
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - checking deposits	17,327	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - time deposits	19,200	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Due from banks	100,736	Note 4	0.02
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - time deposits	4,038	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Other assets	4,038	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Discounts and loans - short-term, secured	1,895,359	Note 4	0.34
1	UFLIC and its subsidiaries	The Bank	b	Call loans and due to other banks - call loans from banks	1,895,359	Note 4	0.34
0	The Bank	UFLIC and its subsidiaries	a	Other operating expenses	11,558	Note 4	0.09
1	UFLIC and its subsidiaries	The Bank	b	Rental revenue	11,558	Note 4	0.09
0	The Bank	UFLIC and its subsidiaries	a	Interest revenue	35,385	Note 4	0.28
1	UFLIC and its subsidiaries	The Bank	b	Interest expense	35,385	Note 4	0.28
0	The Bank	UFLIC and its subsidiaries	a	Rental revenue	1,814	Note 4	0.01
1	UFLIC and its subsidiaries	The Bank	b	Other operating expenses	1,814	Note 4	0.01
0	The Bank	UFLIC and its subsidiaries	a	Exchange loss	4,884	Note 4	0.04
1	UFLIC and its subsidiaries	The Bank	b	Exchange gain	4,884	Note 4	0.04
0	The Bank	Union Finance International (HK) Limited	a	Deposits and remittances - demand deposits	3,291	Note 4	-
2	Union Finance International (HK) Limited	The Bank	b	Due from banks	3,291	Note 4	-
0	The Bank	UIT	a	Deposits and remittances - demand deposits	23,442	Note 4	-
3	UIT	The Bank	b	Due from banks	23,442	Note 4	-
0	The Bank	UIT	a	Deposits and remittances - time deposits	1,088	Note 4	-
3	UIT	The Bank	b	Other financial assets	1,088	Note 4	-
0	The Bank	UIT	a	Other assets	29,238	Note 4	0.01
3	UIT	The Bank	b	Other liabilities	29,238	Note 4	0.01
0	The Bank	UIT	a	Other operating expenses	111,589	Note 4	0.89
3	UIT	The Bank	b	Net revenues other than interest	111,589	Note 4	0.89
0	The Bank	USITC	a	Deposits and remittances - demand deposits	2,052	Note 4	-
0	The Bank	USITC	a	Deposits and remittances - time deposits	29,700	Note 4	0.01
0	The Bank	USITC	a	Deposits and remittances - checking deposits	2	Note 4	-
5	USITC	The Bank	b	Due from banks	31,754	Note 4	0.01
0	The Bank	USITC	a	Deposits and remittances - time deposits	198,300	Note 4	0.04
5	USITC	The Bank	b	Other financial assets	198,300	Note 4	0.04
0	The Bank	USITC	a	Interest expense	2,547	Note 4	0.02
5	USITC	The Bank	b	Interest revenue	2,547	Note 4	0.02
0	The Bank	USITC	a	Commissions and fee revenues	18,050	Note 4	0.14
5	USITC	The Bank	b	Commissions and fee expenses	18,050	Note 4	0.14
3	UIT	UFLIC and its subsidiaries	c	Net revenues other than interest	5,614	Note 4	0.05

(Continued)

No. (Note 1)	Transacting Corporation	Counterparty	Flow of Transaction (Note 2)	Description of Transaction			
				Financial Statement Account	Amount	Trading Terms	Percentage of Total Revenue or Total Assets (Note 3)
1	UFLIC and its subsidiaries	UIT	c	Amortization expense	\$ 2,819	Note 4	0.02
1	UFLIC and its subsidiaries	UIT	c	Other operating expenses	2,766	Note 4	0.02
1	UFLIC and its subsidiaries	UIT	c	Advertisement expense	29	Note 4	-
6	UFLIC	Union Capital (Cayman) Corp.	c	Receivables - receivables from related parties	1,729,517	Note 4	0.31
7	Union Capital (Cayman) Corp.	UFLIC	c	Payables - payables to related parties	1,729,517	Note 4	0.31
6	UFLIC	Union Capital (Cayman) Corp.	c	Interest revenue	24,707	Note 4	0.20
7	Union Capital (Cayman) Corp.	UFLIC	c	Interest expense	24,707	Note 4	0.20
7	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding PTE. Ltd.	c	Receivables - receivables from related parties	710,476	Note 4	0.13
8	Union Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Payables - payables to related parties	710,476	Note 4	0.13
7	Union Capital (Cayman) Corp.	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Receivables - receivables from related parties	1,477,284	Note 4	0.26
10	Uflc Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Payables - payables to related parties	1,477,284	Note 4	0.26
7	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding PTE. Ltd.	c	Interest revenue	10,920	Note 4	0.09
8	Union Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Interest expense	10,920	Note 4	0.09
7	Union Capital (Cayman) Corp.	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Interest revenue	22,350	Note 4	0.18
10	Uflc Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Interest expense	22,350	Note 4	0.18
8	Union Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Receivables - receivables from related parties	388,750	Note 4	0.07
9	Kabushiki Kaisha UCJ1	Union Capital (Singapore) Holding PTE. Ltd.	c	Payables - payables to related parties	388,750	Note 4	0.07
10	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Receivables - receivables from related parties	601,772	Note 4	0.11
9	Kabushiki Kaisha UCJ1	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Payables - payables to related parties	601,772	Note 4	0.11
8	Union Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Interest revenue	10,912	Note 4	0.09
9	Kabushiki Kaisha UCJ1	Union Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	10,912	Note 4	0.09
10	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Interest revenue	15,784	Note 4	0.13
9	Kabushiki Kaisha UCJ1	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	15,784	Note 4	0.13

Note 1: The transacting corporation is identified in the No. column as follows:

- a. 0 for parent company.
- b. Sequentially from 1 for subsidiaries.

Note 2: The flow of transactions is as follows:

- a. From parent company to subsidiary.
- b. From subsidiary to parent company.
- c. Between subsidiaries.

Note 3: The percentage is calculated as follows:

- a. Assets and liabilities: Ending balance divided by total consolidated assets.
- b. Income and expenses: The amount for the year ended divided by consolidated net income.

Note 4: The terms of the transactions between the Bank and related parties were similar to those for unrelated parties.

(Concluded)