Union Bank of Taiwan

Financial Statements for the
Years Ended December 31, 2018 and 2017 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018. 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, 2018 are described as follows:

Accuracy of Interest Revenue from Discounts and Loans

For the year ended December 31, 2018, the amount of interest revenue from discounts and loans was $7,022,177 thousand which, represented approximately 66% of total net revenue, and was considered material to the financial statements as a whole. Refer to Note 33 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, 2018.

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 interest revenue from commercial loans and discounts. Testing of operating effectiveness of relevant automated controls in the application system.

3. Select material loans to verify if the balance generated from the information system is the same with the carry amount.

4. Testing and assessment of the accuracy of interest revenue generated by information system. Verify if there is any difference between the interest revenue of the aforementioned loans derived from the information system and those recorded in the ledgers.

Assessment of the Impairment of Discounts and Loans

As of December 31, 2018, the net amount of discounts and loans of the Bank was $326,837,853 thousand which, represented approximately 51% of total assets, and was considered material to the financial statements as a whole. Refer to Note 14 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, 2018.

The Bank's management periodically performs loan impairment assessment through making judgements to measure the loss allowance at an amount equal to 12-month expected credit losses or the lifetime expected credit losses. Also, the allowance provision should comply with classification of credit assets and relevant regulations for the provision issued by the authorities.

For the accounting policies and relevant information on loan impairment assessment, refer to Notes 4, 5 and 14 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. Obtain an understanding of and perform test on the relevant internal controls in respect of the Bank's loan impairment assessment.

2. Obtain an understanding of the assumptions and critical factors of the impairment assessment model, including the Probability of Default and the Loss Given Default, and testing whether those estimates reasonably reflected the actual status of each loan.

3. Perform test on reasonableness of calculation of expected credit losses for selected loans.

4. Test the classification of credit assets by length of overdue period for the respective loans and its collateral in order to assess whether the provision of allowances for possible losses complies with relevant regulations issued by authorities.

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, 2018 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.

Cheng, Shiuh Ran   Yang, Chen Hsiu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2019

<u>*Notice to Readers*</u>

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	$ 12,677,719	2	$ 10,756,051	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 7)	29,262,634	5	19,180,985	4
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 3, 4 and 8)	36,355,695	6	11,852,723	2
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 3, 4, 5 and 11)	33,118,474	5	-	-
INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST (Notes 3, 4, 5, 10 and 11)	94,149,872	15	-	-
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 12)	68,467,365	11	28,215,334	5
RECEIVABLES, NET (Notes 4, 5 and 13)	17,870,713	3	17,627,438	3
CURRENT TAX ASSETS (Note 4)	73,563	-	46,909	-
DISCOUNTS AND LOANS, NET (Notes 4, 5, 14 and 44)	326,837,853	51	318,624,348	57
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 3 and 16)	-	-	35,183,406	6
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 3, 4 and 17)	-	-	51,285,957	9
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 18)	4,725,795	1	2,981,366	1
OTHER FINANCIAL ASSETS, NET (Notes 3, 4, 19 and 45)	2,204,959	-	48,100,741	9
PROPERTY AND EQUIPMENT, NET (Notes 4 and 20)	7,982,503	1	8,061,615	2
INTANGIBLE ASSETS (Notes 4 and 21)				
Goodwill	1,985,307	-	1,985,307	-
Computer software	169,280	-	177,528	-
Total intangible assets	2,154,587	-	2,162,835	-
DEFERRED TAX ASSETS (Notes 4 and 42)	634,777	-	1,019,583	-
OTHER ASSETS, NET (Notes 4, 22, 44 and 46)	2,490,419	-	2,102,313	-
TOTAL	$ 639,006,928	100	$ 557,201,604	100
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 23)	$ 11,389,841	2	$ 8,961,290	2
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	307,799	-	183,611	-
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 4 and 24)	44,334,388	7	30,273,976	5
ACCOUNTS PAYABLE (Notes 25 and 44)	6,912,587	1	7,005,686	1
CURRENT TAX LIABILITIES (Note 4)	24,379	-	70,008	-
DEPOSITS (Notes 26 and 44)	514,386,800	80	449,412,119	81
BANK DEBENTURES (Notes 4 and 27)	9,700,000	2	11,700,000	2
OTHER FINANCIAL LIABILITIES (Note 28)	11,825	-	21,720	-
PROVISIONS (Notes 4, 15 and 27)	252,949	-	171,759	-
DEFERRED TAX LIABILITIES (Notes 4 and 42)	1,228,719	-	911,524	-
OTHER LIABILITIES (Notes 31, 44 and 46)	644,612	-	571,236	-
Total liabilities	589,193,899	92	509,282,929	91
EQUITY				
Share capital				
Ordinary shares	26,900,129	4	26,051,524	5
Preference shares	2,000,000	1	2,000,000	-
Total share capital	28,900,129	5	28,051,524	5
Capital surplus	8,032,413	1	8,032,413	2
Retained earnings				
Legal reserve	5,988,776	1	5,165,280	1
Special reserve	612,656	-	585,206	-
Unappropriated earnings	4,619,232	1	4,503,995	1
Total retained earnings	11,220,664	2	10,254,481	2
Other equity	1,659,823	-	1,580,257	-
Total equity	49,813,029	8	47,918,675	9
TOTAL	$ 639,006,928	100	$ 557,201,604	100

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

(With Deloitte & Touche auditors' report dated March 26, 2019)

UNION BANK OF TAIWAN

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
NET INTEREST (Notes 4, 33 and 44)					
Interest revenues	$ 11,016,864	104	$ 10,298,904	100	7
Interest expenses	4,225,103	40	3,613,710	35	17
Net interest	6,791,761	64	6,685,194	65	2
NET REVENUES OTHER THAN INTEREST					
Commissions and fee revenues, net (Notes 4, 34 and 44)	2,444,065	23	2,323,616	22	5
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 35)	257,274	3	294,376	3	(13)
Realized gain on available-for-sale financial assets, net (Notes 4 and 36)	-	-	781,919	8	(100)
Realized gain on financial assets at fair value through other comprehensive income (Note 37)	436,244	4	-	-	-
Share of profit of subsidiaries and associates (Note 4)	96,603	1	193,703	2	(50)
Foreign exchange gain (loss), net (Note 4)	450,995	4	(138,588)	(1)	425
Loss from asset impairment, net (Notes 4 and 38)	(33,589)	-	-	-	-
Securities brokerage fee revenues, net	103,379	1	75,549	1	37
Gain on financial assets measured at cost, net	-	-	55,482	-	(100)
Property loss, net (Note 4)	(2,257)	-	(4,496)	-	(50)
Other noninterest net gain	27,237	-	20,972	-	30
TOTAL NET REVENUES	10,571,712	100	10,287,727	100	3
PROVISIONS (Notes 4, 5, 13, 14 and 15)					
Provision of allowance for doubtful accounts and provision for losses on commitments and guarantees	291,985	3	356,861	4	(18)

(Continued)

UNION BANK OF TAIWAN

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
OPERATING EXPENSES					
Personnel expenses (Notes 4, 30, 39 and 44)	$ 3,303,509	31	$ 3,130,909	30	6
Depreciation and amortization (Notes 4 and 40)	354,939	3	326,509	3	9
Others (Notes 41 and 44)	3,184,254	30	3,160,198	31	1
Total operating expenses	6,842,702	64	6,617,616	64	3
INCOME BEFORE INCOME TAX	3,437,025	33	3,313,250	32	4
INCOME TAX EXPENSE (Notes 4 and 42)	480,301	5	568,263	5	(15)
NET INCOME	2,956,724	28	2,744,987	27	8
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans	(13,151)	-	9,802	-	(234)
Unrealized gain on investments in equity instrument at fair value through other comprehensive income	417,367	4	-	-	-
Share of the other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method	(5,211)	-	429	-	(1,315)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 42)	(197,434)	(2)	(1,666)	-	11,751
Items that will not be reclassified subsequently to profit or loss, net of income tax	201,571	2	8,565	-	2,253

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UNION BANK OF TAIWAN

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	$ 303,314	3	$ (814,626)	(8)	137
Unrealized gain on available-for-sale financial assets	-	-	1,228,170	12	(100)
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method	85,530	1	(76,598)	(1)	212
Unrealized loss on investment in debt instruments at fair value through other comprehensive income	(1,006,753)	(10)	-	-	-
Reversal of impairment loss on investments in debt instruments at fair value through other comprehensive income	40,778	-	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 42)	(36,924)	-	51,180	1	(172)
Items that may be reclassified subsequently to profit or loss, net of income tax	(614,055)	(6)	388,126	4	(258)
Other comprehensive income (loss) for the year, net of income tax	(412,484)	(4)	396,691	4	(204)
TOTAL COMPREHENSIVE INCOME	$ 2,544,240	24	$ 3,141,678	31	(19)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 43)					
Basic	$1.07		$1.02		
Diluted	$1.06		$1.02		

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

(With Deloitte & Touche auditors' report dated March 26, 2019) (Concluded)

UNION BANK OF TAIWAN

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Share Capital (Notes 32 and 39)				Retained Earnings (Notes 4 and 32)				Other Equity (Notes 4 and 32)				
	Ordinary Shares	Preference Shares	Total	Capital Surplus	Legal Reserve	Special Reserve	Unappro-priated Earnings	Total	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	Total Equity
BALANCE AT JANUARY 1, 2017	$ 26,051,524	$ -	$ 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	2,000,000	8,000,000	-	-	-	-	-	-	-	-	10,000,000
BALANCE AT DECEMBER 31, 2017	26,051,524	2,000,000	28,051,524	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
Effect of retrospective application of IFRS 9	-	-	-	-	-	-	(31,391)	(31,391)	(2,345,701)	-	2,797,843	452,142	420,751
BALANCE AT JANUARY 1, 2018 AS APPLIED RETROSPECTIVELY	26,051,524	2,000,000	28,051,524	8,032,413	5,165,280	585,206	4,472,604	10,223,090	-	(765,444)	2,797,843	2,032,399	48,339,426
Appropriation of the 2017 earnings													
Legal reserve	-	-	-	-	823,496	-	(823,496)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	27,450	(27,450)	-	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	-	-	(1,042,061)	(1,042,061)	-	-	-	-	(1,042,061)
Stock dividends on common shares	781,546	-	781,546	-	-	-	(781,546)	(781,546)	-	-	-	-	-
Cash dividends on preference shares	-	-	-	-	-	-	(90,740)	(90,740)	-	-	-	-	(90,740)
Net income for the year ended December 31, 2018	-	-	-	-	-	-	2,956,724	2,956,724	-	-	-	-	2,956,724
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	-	(4,302)	(4,302)	-	351,920	(760,102)	(408,182)	(412,484)
Share-based payment	67,059	-	67,059	-	-	-	(4,895)	(4,895)	-	-	-	-	62,164
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(35,606)	(35,606)	-	-	35,606	35,606	-
BALANCE AT DECEMBER 31, 2018	$ 26,900,129	$ 2,000,000	$ 28,900,129	$ 8,032,413	$ 5,988,776	$ 612,656	$ 4,619,232	$ 11,220,664	$ -	$ (413,524)	$ 2,073,347	$ 1,659,823	$ 49,813,029

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

UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,437,025	$ 3,313,250
Adjustments for:		
Depreciation expenses	288,758	265,915
Amortization expenses	66,181	60,594
Expected credit losses/provision of allowance for doubtful accounts	291,985	356,861
Net gain on disposal of financial assets at fair value through profit or loss	(257,274)	(294,376)
Interest expenses	4,225,103	3,613,710
Interest revenues	(11,016,864)	(10,298,904)
Dividend income	(435,866)	(225,302)
Share of profit of associates	(96,603)	(193,703)
Loss on disposal of properties and equipment	2,258	4,496
Gain on disposal of investments	-	(612,099)
Impairment loss recognized on financial assets	39,935	-
Reversal of impairment losses on financial asset	(6,346)	-
Loss on disposal of collaterals	2,658	-
Changes in operating assets and liabilities		
Due from the Central Bank and call loans banks	(4,081,105)	(3,641,413)
Financial assets at fair value through profit or loss	(23,169,161)	(1,848,607)
Financial assets at fair value through other comprehensive income	2,701,189	-
Investments in debt instruments at amortized cost	2,634,924	-
Accounts receivable	(342,585)	(219,901)
Discounts and loans	(8,451,780)	(34,727,226)
Available-for-sale financial assets	-	6,205,466
Held-to-maturity financial assets	-	(44,498,510)
Other financial assets	(322,286)	9,079,422
Due to the Central Bank and other banks	2,428,551	1,943,661
Financial liabilities at fair value through profit or loss	(845,089)	(277,453)
Securities sold under repurchase agreements	14,060,412	1,399,839
Accounts payable	(136,334)	55,090
Deposits	64,974,681	17,349,295
Other financial liabilities	(9,895)	2,154
Provisions for employee benefits	(25)	(246)
Other liabilities	(499)	899
Cash generated from (used) in operations	45,981,948	(53,187,088)
Interest received	10,957,721	10,304,523
Dividend received	450,598	267,762
Interest paid	(4,119,704)	(3,552,364)
Income tax returned (paid)	(86,202)	7,417
Net cash generated from (used in) operating activities	53,184,361	(46,159,750)

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of associates	$ (1,579,977)	$ -
Payments for properties and equipment	(223,854)	(191,869)
Proceeds of the disposal of properties and equipment	1,092	22
Increase in settlement fund	(1,957)	-
Decrease in settlement fund	-	161,568
Increase in refundable deposits	(379,678)	(96,519)
Payments for intangible assets	(47,075)	(62,718)
Proceeds of the disposal of collaterals	3,688	-
Increase in other assets	(6,471)	-
Decrease in other assets	-	63,412
Net cash used in investing activities	(2,234,232)	(126,104)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issue of bank debentures	-	500,000
Repayments of bank debentures	(2,000,000)	-
Increase in guarantee deposits received	3,302	-
Decrease in guarantee deposits received	-	(2,513)
Increase in other liabilities	52,354	42,773
Cash dividends paid	(1,132,801)	(1,172,319)
Issuance of preference shares	-	10,000,000
Net cash generated from (used in) financing activities	(3,077,145)	9,367,941
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	301,259	(805,523)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,174,243	(37,723,436)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	39,296,496	77,019,932
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 87,470,739	$ 39,296,496

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(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, 2018 and 2017:

	December 31	
	2018	**2017**
Cash and cash equivalents in balance sheets	$ 12,677,719	$ 10,756,051
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"	6,325,655	325,111
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	68,467,365	28,215,334
Cash and cash equivalents in statements of cash flows	$ 87,470,739	$ 39,296,496

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

(With Deloitte & Touche auditors' report dated March 26, 2019) (Concluded)

1. GENERAL INFORMATION

The Union Bank of Taiwan (the Bank) was incorporated on December 31, 1991 after obtaining approval from the Ministry of Finance (MOF) on August 1, 1991 and 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 Union Bills Finance Corporation (UBF) on August 16, 2010, with the Bank as the surviving 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 was approved by the Financial Supervisory Commission (FSC) under Rule No. 10502022990. The effective date of this merger was 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 the 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 13, 2019.

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:

- IFRS 9 "Financial Instruments" and related amendments

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Bank has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Bank's financial assets and financial liabilities as of January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Financial assets at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	$ 11,852,723	$ 11,852,723	
		Fair value through other comprehensive income	883,014	883,014	1)
Receivables, net	Amortized cost (loans and receivables)	Amortized cost	17,627,438	17,610,701	2)
Available-for-sale financial assets, net	Fair value through other comprehensive income	Fair value through profit or loss	924,339	924,255	3)
		Fair value through other comprehensive income	34,259,067	34,259,067	4)
Held-to-maturity financial assets, net	Amortized cost	Fair value through profit or loss	25,668	30,024	5)
		Amortized cost	50,960,289	50,960,289	6)
		Fair value through other comprehensive income	300,000	304,786	7)
Other financial assets, net	Amortized cost	Fair value through other comprehensive income	507,614	962,182	8)
	Amortized cost (debt instruments with no active market)	Amortized cost	45,701,827	45,701,827	9)
		Fair value through profit or loss	32,927	35,993	10)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ 11,852,723	$ -	$ -	$ 11,852,723	$ -	$ -	
Add: Reclassification from available-for-sale (IAS 39)	-	924,339	(84)	924,255	(11,419)	11,335	3)
Add: Reclassification from held-to-maturity (IAS 39)	-	25,668	4,356	30,024	4,356	-	5)
Add: Reclassification from investment in debt instruments with no active market	-	32,927	3,066	35,993	3,066	-	10)
Less: Reclassification to FVTOCI (IFRS 9)	-	(883,014)	-	(883,014)	8,831	(8,831)	1)
	11,852,723	99,920	7,338	11,959,981	4,834	2,504	
FVTOCI							
Debt instruments							
Add: Reclassification from available-for-sale (IAS 39)	27,469,523	-	-	27,469,523	(22,723)	22,723	4)
Add: Reclassification from held-to-maturity (IAS 39)	-	300,000	4,786	304,786	(57)	4,843	7)
Equity instruments							
Add: Reclassification from FVTOCI (IFRS 9)	-	883,014	-	883,014	-	-	1)
Add: Reclassification from available-for-sale (IAS 39)	6,789,544	-	-	6,789,544	-	-	4)
Reclassification from financial assets carried at cost	-	507,614	454,568	962,182	12,440	442,128	8)
Debt and equity instruments							
Less: Reclassification from Available-for-sale (IAS 39) to FVTPL (IFRS 9)	924,339	(924,339)	-	-	-	-	3)
	35,183,406	766,289	459,354	36,409,049	(10,340)	469,694	
Amortized cost	114,648,149	-	-	114,648,149	-	-	
Add: Reclassification from loans and receivables (IAS 39)	-	-	(16,737)	(16,737)	(16,737)	-	2)
Less: Reclassification to FVTOCI (IFRS 9)	-	(300,000)	-	(300,000)	-	-	7)
Reclassification to FVTPL (IFRS 9)	-	(58,595)	-	(58,595)	-	-	5) and 10)
	114,648,149	(358,595)	(16,737)	114,272,817	(16,737)	-	
Carried at cost	507,614	-	-	507,614	-	-	
Less: Reclassification to FVTOCI (IFRS 9)	-	(507,614)	-	(507,614)	-	-	8)
	507,614	(507,614)	-	-	-	-	
Balance of financial assets, reclassification and remeasurements	$ 162,191,892	$ -	$ 449,955	$ 162,641,847	$ (22,243)	$ 472,198	

1) As stipulated by the “Accounting Treatments on the Holdings of Real Estate Investment Trusts” issued by the Accounting Research and Development Foundation, the Bank classified all of its investments in Real Estate Investment Trusts (REITs) as equity instruments. As a result, beneficiary securities of $883,014 thousand that were previously classified as at fair value through profit or loss are now classified as at FVTOCI under IFRS 9. As a result of retrospective application, the adjustments comprised a decrease in unrealized gain on financial assets at FVTOCI of $8,831 thousand and an increase in retained earnings of $8,831 thousand on January 1, 2018.

2) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9. As a result of retrospective application, the adjustments comprised an increase in the loss allowance of $16,737 thousand and a decrease in retained earnings of $16,737 thousand on January 1, 2018.

3) Beneficial certificates that were previously classified as available-for-sale financial assets under IAS 39 were classified as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding. As a result of retrospective application, the related adjustments comprised a decrease in retained earnings of $11,605 thousand and an increase in other equity - unrealized gain (loss) on available-for-sale financial assets of $11,605 thousand on January 1, 2018.

The Bank elected to classify debt investments of $7,086 thousand previously classified as available-for-sale financial assets under IAS 39 as at FVTOCI under IFRS 9. As a result, the related adjustment comprised a decrease in the unrealized gain on financial assets at FVTOCI of $270 thousand and an increase in retained earnings of $186 thousand on January 1, 2018.

4) The Bank elected to designate all its investments in equity securities of $6,789,544 thousand previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain on available-for-sale financial assets of $2,791,359 thousand was reclassified to other equity - unrealized gain on financial assets at FVTOCI.

   Debt investments of $27,469,523 thousand previously classified as available-for-sale financial assets under IAS 39 were classified as at FVTOCI with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised an increase in other equity - unrealized gain (loss) on financial assets at FVTOCI of $22,723 thousand and a decrease in retained earnings of $22,723 thousand on January 1, 2018.

5) Debt investments of $25,668 thousand previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at FVTPL under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding, but the objective of the Bank’s business model was not to collect contractual cash flows nor was it achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustment comprised an increase in both retained earnings and deferred tax liabilities of $4,356 thousand and $741 thousand, respectively, on January 1, 2018.

6) Debt investments and negotiable certificates of deposit of $50,960,289 thousand previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.

7) Debt investments of $300,000 previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at FVTOCI with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised an increase in other equity - unrealized gain on financial assets at FVTOCI of $4,843 thousand and a decrease in retained earnings of $57 thousand on January 1, 2018.

8) Investments in unlisted shares of $507,614 thousand previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $454,568 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain on financial assets at FVTOCI on January 1, 2018.

The Bank recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of $12,440 thousand in other equity - unrealized loss on financial assets at FVTOCI and an increase of $12,440 thousand in retained earnings on January 1, 2018.

9) Debt investments of $45,701,827 thousand previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.

10) Debt investments of $32,927 thousand previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at FVTPL under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding, but the objective of the Group's business model was not to collect contractual cash flows nor was it achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustment comprised an increase in both retained earnings and deferred tax liabilities of $3,066 thousand and $520 thousand respectively on January 1, 2018.

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 impairment loss model to the new impairment allowance measured in accordance with the expected loss model under IFRS 9 at January 1, 2018:

Measurement Category	Loss Allowance under IAS 39/ Provision under IAS 37	Reclassification	Remeasurement	Loss Allowance under IFRS 9
Loans and receivables (IAS 39)/financial assets at amortised cost (IFRS 9)				
Loans	$ 3,401,818	$ -	$ -	$ 3,401,818
Accounts receivables	188,299	-	16,737	205,036
Available-for-sale financial assets (IAS 39)/ financial assets at FVTOCI (IFRS 9)				
Available-for-sale financial assets	-	-	22,723	22,723
Held-to-maturity financial assets	-	-	57	57
Debt investments with no active market (IAS 39)/financial assets at amortized cost (IFRS 9)				
Bond investments with no active market	258,245	-	-	258,245
Loan commitments and financial guarantee contracts				
Loans (loan commitments)	-	-	1,862	1,862
Credit cards (loan commitments)	-	-	25,446	25,446
	$ 3,848,362	$ -	$ 66,825	$ 3,915,187

b. The Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "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 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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: The Bank shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 "Leases"

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

Definition of a lease

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

The Bank as lessee

Upon initial application of IFRS 16, the Bank will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Bank will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities.

The Bank anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Except for the leases of investment properties mentioned below, lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Except for the following practical expedients which are to be applied, the Group will apply IAS 36 to all right-of-use assets.

The Bank expects to apply the following practical expedients:

a) The Bank will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Bank will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Bank will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Right-of-use assets	$ -	$ 1,204,347	$ 1,204,347
Other assets	27,312	(27,312)	-
Total effect on assets	$ 27,312	$ 1,177,035	$ 1,204,347
Lease liabilities	$ -	$ 1,177,035	$ 1,177,035
Total effect on liabilities	$ -	$ 1,117,035	$ 1,117,035

The Bank as lessor

Except for sublease transactions, the Bank will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

2) 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.

3) 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 the 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 explain 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.

4) 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 Bank will apply the above amendments prospectively.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Bank continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Bank financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

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

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 Bank's interest as an unrelated investor 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 Bank's interest as an unrelated investor in the associate or joint venture, i.e. the Bank's share of the gain or loss is eliminated.

2) Amendments to IFRS 3 "Definition of a Business"

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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 fair value. 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 investments 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 as the amounts attributable to the owner of the Bank in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the 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 the Bank, transactions in currencies other than the Bank's functional currency (i.e. 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 the 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 dollar, 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 financial statements of the investee company as a whole. 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 Bank's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the Bank's financial statements only to the extent of interests in the subsidiaries that are not related to the Bank.

b. Investments 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 Bank.

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 transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Bank' 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 the Bank becomes a party to the contractual provisions of the instruments.

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

a. Financial assets

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

1) Measurement categories

<u>2018</u>

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, investments in debt instruments at FVTOCI and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

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

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

Financial assets at FVTPL are subsequently measured at fair value, 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 48.

b) Financial assets at amortized cost

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

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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.

c) Investments in debt instruments at FVTOCI

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

i. The debt instrument is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and

ii. The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

d) Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: [Financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets and loans and receivables].

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

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

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

iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at FVTPL

Financial assets at FVTPL 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 48.

Investments in equity instruments under financial assets at FVTPL 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 instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented as 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.

b) Held-to-maturity investments

Commercial paper, corporate bonds and foreign government bonds, which have credit ratings above a specific credit rating and which the Bank has a positive intent and ability to hold to maturity, are classified as 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.

c) 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 FVTPL.

Commercial papers, listed shares, beneficiary certificates, corporate bonds, negotiable certificates of deposits and foreign government bonds, which have a quoted market price in an active market, are classified as available-for-sale financial assets which are subsequently measured at fair value at the end of each reporting period. Fair value is determined in the manner described in Note 48.

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 as 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 of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

d) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market and other receivables) 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.

2) Impairment of financial assets

2018

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

For financial instruments and contract assets, the Bank recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

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 credit assets into these five classes: normal, special mention, substandard, doubtful and losses; the minimum loan loss provision and guarantee reserve for the unsound credit assets (those other than normal) should be 2%, 10%, 50% and 100%, respectively, of the outstanding credit balance.

The MOF issued a guideline stating that from January 1, 2014, the minimum loan loss provision and guarantee should be the sum of 1% of the outstanding balance of the normal credit asset's claim, 2% of the balance of special mention credit assets, 10% of the balance of substandard credit assets, 50% of the balance of doubtful credit assets, and the full balance of losses credit assets (excluding assets that represent claims against the central and local government in Taiwan). Also, in accordance with Rule No. 10300329440 issued by FSC, the minimum allowance for mortgage loans should be 1.5%.

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.

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

2017

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 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 that is 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.

3) 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.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and any associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Equity instruments

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

Equity instruments issued by the Bank 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.

c. Financial liabilities

1) Subsequent measurement

A financial liability may be designated as at FVTPL 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 group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the 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 combined contract (asset or liability) can be designated as at FVTPL.

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

Fair value is determined in the manner described in Note 48.

Before (and including) 2017, financial liabilities at FVTPL, which are obligations to deliver unquoted equity instruments borrowed by a short seller whose fair value cannot be reliably measured, and derivatives, which are linked to and must be settled by 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 as a separate line item as financial liabilities measured at cost. If, in a subsequent period, the fair value of the financial liabilities can be reliably measured, the financial liabilities are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

Financial guarantee contracts

2018

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

a) The amount of the loss allowance reflecting expected credit losses; and

b) The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the revenue recognition policies.

2017

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

2) Derecognition of financial liabilities

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.

d. Derivative financial instruments

Derivatives are initially recognized at fair value at the date on which 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 a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

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 credit assets into these five classes: normal, special mention, substandard, doubtful and losses; the minimum loan loss provision and guarantee reserve for the unsound credit assets (those other than normal) should be 2%, 10%, 50% and 100%, respectively, of the outstanding credit balance.

The MOF issued a guideline stating that from January 1, 2014, the minimum loan loss provision and guarantee should be the sum of 1% of the outstanding balance of the normal credit asset's claim, 2% of the balance of special mention credit assets, 10% of the balance of substandard credit assets, 50% of the balance of doubtful credit assets, and the full balance of losses credit assets (excluding assets that represent claims against the central and local government in Taiwan). Also, in accordance with Rule No. 10300329440 issued by FSC, the minimum allowance for mortgage loans should be 1.5%.

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 Resale Transactions

Securities purchased under resale agreements and securities sold under repurchase agreements 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 the lease term of an item of property and equipment is shorter than its useful life, such asset is depreciated over its 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 groups of cash-generating units (referred to as "cash-generating units") that are 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

<u>Intangible assets acquired separately</u>

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 and net realizable value as of the balance sheet date.

Impairment of Tangible and Intangible Assets (Excluding 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. The Bank as lessee

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

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

Provisions

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

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

d. Termination benefits

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

Income Tax

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

a. Current tax

   According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain 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

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

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 the regulations of the Ministry of Finance, 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 financial assets - 2018

The provision for impairment of loans, receivables, investments in debt instruments and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Bank uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Bank's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 49. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of loans and receivables - 2017

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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash on hand	$ 5,138,330	$ 5,775,427
Checks for clearing	3,926,902	4,042,078
Due from banks	3,612,487	938,546
	$ 12,677,719	$ 10,756,051

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2018	**2017**
Deposit reserve - checking account	$ 10,140,387	$ 7,342,004
Required deposit reserve	12,719,759	11,439,250
Deposit reserve - foreign-currency deposits	76,833	74,620
Call loans to banks	6,325,655	325,111
	$ 29,262,634	$ 19,180,985

Under a directive issued by the Central Bank of the ROC, the Bank determines monthly the 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 do not bear interest.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	**2017**
Financial assets held for trading		
Commercial paper	$ -	$ 10,389,618
Domestic listed stocks	-	42,757
Mutual funds	-	883,014
	-	11,315,389
Derivative financial instruments		
Foreign exchange forward contracts	-	311,723
Currency swap contracts	-	177,358
Option contracts	-	48,253
	-	537,334
	-	11,852,723
Financial assets designated as at fair value through profit or loss		
Commercial paper	31,510,394	-
Domestic listed stock	578,929	-
Beneficiary certificates	2,313,976	-
Principal guaranteed notes	1,368,547	-
Asset-backed securities	60,415	-
	35,832,261	-
Derivative financial instruments		
Foreign exchange forward contracts	406,099	-
Currency swap contracts	79,147	-
Option contracts	36,521	-
Cross-currency swap contracts	1,667	-
	523,434	-
	$ 36,355,695	$ 11,852,723
Financial liabilities held for trading		
Derivative financial instruments		
Option contracts	$ 36,522	$ 48,259
Foreign exchange forward contracts	43,633	14,246
Currency swap contracts	227,644	121,106
	$ 307,799	$ 183,611

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, 2018 and 2017 were as follows:

	December 31	
	2018	2017
Currency swap contracts	$ 53,298,782	$ 32,026,895
Foreign exchange forward contracts	4,995,891	6,348,016
Cross-currency swap contracts	463,125	-
Option contracts		
Buy	899,831	2,465,312
Sell	899,831	2,465,312

As of December 31, 2018 and 2017, financial assets at fair value through profit and loss in the amounts of $12,453,108 thousand and $8,552,033 thousand were sold under repurchase agreements.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018
Investments in equity instruments at FVTOCI	
Domestic listed shares	$ 3,466,804
Overseas listed shares	3,811,075
Domestic unlisted shares	1,011,440
Overseas REITs	129,905
	8,419,224
Investments in debt instruments at FVTOCI	
Overseas corporate bonds	9,019,959
Overseas bond debentures	5,091,463
Overseas government bonds	5,897,016
Corporate bonds	4,190,917
Government bonds	499,895
	24,699,250
	$ 33,118,474

Details of the Banks investments in foreign and domestic listed and unlisted shares are as follows:

	December 31, 2018
Taiwan Futures Exchange	$ 424,908
Financial Information Service Co., Ltd.	267,269
iPass Corporation	94,313
Taiwan Asset Management Corporation	74,748
Taiwan Depository & Clearing Corporation	56,680
Taiwan Financial Asset Service Corporation	47,788
Others	45,734
	$ 1,011,440

a. Investments in equity instruments at FVTOCI

These investments in equity instruments are not held for trading. Instead, they are held for long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI. These investments in equity instruments were classified as available-for-sale financial assets and other financial assets under IAS 39. Refer to Notes 3, 16 and 19 for information relating to their reclassification and comparative information for 2017.

b. Investments in debt instruments at FVTOCI

1) For detailed information on the reclassification of investments in debt instruments at FVTOCI that were previously classified as available-for-sale financial assets under IAS 39 as well as their comparative information for 2017, refer to Notes 3 and 16.

2) For detailed information on the reclassification of investments in debt instruments at FVTOCI that were previously classified as debt investments with no active market under IAS 39 as well as their comparative information for 2017, refer to Notes 3 and 19.

3) For further information regarding credit risk management and impairment assessment of financial assets at FVTOCI, refer to Note 11.

The Bank has sold $12,865,389 thousand of financial assets at FVTOCI under a repurchase agreement on December 31, 2018.

10. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Negotiable certificates of deposit	$ 42,200,000
Debt instruments	
Government bonds	9,828,243
Overseas asset-backed securities	42,121,629
	51,949,872
	$ 94,149,872

a. Negotiable certificates of deposit were previously classified as held-to-maturity financial assets under IAS 39. Refer to Notes 3 and 17 for further information relating to their reclassification and comparative information for 2017.

b. Government bonds were previously classified as held-to-maturity financial assets under IAS 39. Refer to Notes 3 and 17 for further information relating to their reclassification and comparative information for 2017.

c. Asset-backed securities were previously classified as debt instruments with no active market under IAS 39. Refer to Notes 3 and 19 for further information relating to their reclassification and comparative information for 2017.

d. For further information regarding credit risk management and impairment assessment on financial assets at amortized cost, refer to Note 11.

The Bank has sold $28,655,857 thousand of financial assets at amortized cost under repurchase agreements on December 31, 2018.

11. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS - 2018

Debt instruments that the Bank invested in have been further split into two categories, financial assets at FVTOCI and financial assets at amortized cost.

	December 31, 2018		
	Financial Assets at FVTOCI	**Financial Assets at Amortized Cost**	**Total**
Book value	$ 25,665,800	$ 52,215,774	$ 77,881,574
Loss allowance	(63,557)	(265,902)	(329,459)
Fair value adjustment	(902,993)	-	(902,993)
	$ 24,699,250	$ 51,949,872	$ 76,649,122

The Bank continuously monitors the external credit rating information and price movements of the debt instruments invested in to assess whether their credit risks have significantly increased since initial recognition.
The Bank takes into consideration the multi-period default probability table for each rating of securities issued by credit rating agencies and the recovery rates of different types of bonds to assess the 12-month expected credit losses or lifetime expected credit losses.

The carrying values of financial assets at FVTOCI and at amortized cost sorted by credit rating are as follows:

Credit Ratings	**Definition**	**ECL Recognition Basis**	**Expected Credit Loss Rate**	**Carrying Value (Including Premiums and Discounts) on December 31, 2018**
Low credit risk	Low credit risk at the reporting date	12-month expected credit losses	0%-2.261%	$ 76,338,664
Significant increase in credit risk	Credit risk has increased significantly since initial recognition	Lifetime expected credit losses	4.208%	310,458
Default	Objective evidence of impairment at the reporting date	Lifetime expected credit losses	100%	-

The following table shows changes in balances of loss allowances of financial assets at FVTOCI and debt instruments at amortized cost, sorted by credit risk ratings resulting from the application of IFRS 9:

	Credit Risk Ratings		
	Low Credit Risk	Significant Increase in Credit Risk (Lifetime Expected Credit Losses with No Credit Impairment)	Default Evidence of Impairment (Lifetime Expected Credit Losses with Credit Impairment)
Balance as of January 1, 2018 (IAS 39)	$ 258,245	$ -	$ -
Retrospective application effect of IFRS 9	22,780	-	-
Balance as of January 1, 2018 (IFRS 9)	281,025	-	-
Changes in credit risk ratings			
Low credit risk to significant increase in credit risk	-	13,313	-
Significant increase in credit risk to default	-	-	-
New debt instruments purchased	1,294	-	-
Derecognition	(701)	-	-
Changes in risk or model parameters	26,029	-	-
Change in exchange rates	8,499	-	-
Loss allowance on December 31, 2018	$ 316,146	$ 13,313	$ -

12. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	December 31	
	2018	2017
Commercial paper	$ 30,533,909	$ 12,094,964
Government bonds	1,000,010	300,229
Corporate bonds	32,933,199	15,820,141
Negotiable certificates of deposit	4,000,247	-
	$ 68,467,365	$ 28,215,334
Maturity date	2019.01-2019.02	2018.01-2018.02
Resale price	$ 69,491,589	$ 28,226,473

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

13. RECEIVABLES, NET

	December 31	
	2018	2017
Notes and accounts receivable	$ 15,247,121	$ 14,725,496
Interest receivable	912,511	835,648
Interbank clearing fund receivable	800,244	800,470
Accounts receivable factoring without recourse	183,566	396,449
Investment receivable	293,640	398,156
Acceptances receivable	188,102	186,974
Collections receivable	138,044	123,276
Others	376,037	349,268
	18,139,265	17,815,737
Less: Allowance for doubtful accounts	268,552	188,299
	$ 17,870,713	$ 17,627,438

The changes in gross carrying amounts of receivables for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Total
Balance at January 1, 2018	$ 16,411,732	$ 89,565	$ 1,314,440	$ 17,815,737
Receivables assessed collectively	(249,705)	48,322	201,383	-
Receivables purchased or originated	7,085,765	40,042	110,348	7,236,155
Write-offs	(86,762)	(27,400)	(104,271)	(218,433)
Derecognition	(6,374,880)	(51,135)	(268,179)	(6,694,194)
Balance at December 31, 2018	$ 16,786,150	$ 99,394	$ 1,253,721	$ 18,139,265

Refer to Note 49 for the impairment loss analysis of receivables.

The Bank has accrued an allowance for doubtful accounts on receivables, the changes in allowance for doubtful accounts on receivables for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Difference of Impairment Loss under (Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-accrual Loans)	Total
Balance at January 1, 2018	$ 45,116	$ 1,792	$ 150,236	$ 197,144	$ 7,892	$ 205,036
Changes of financial instruments recognized at the beginning of the current reporting period						
Transfers to						
Lifetime ECL	(429)	496	(67)	-	-	-
Credit-impaired financial assets	(1,092)	(504)	1,596	-	-	-
12-month ECL	122	(107)	(15)	-	-	-
Derecognition of financial assets in the current reporting period	(29,017)	(371)	(5,400)	(34,788)	-	(34,788)
New financial assets purchased or originated	94,185	43,907	115,267	253,359	-	253,359
Difference of impairment loss under regulations	-	-	-	-	62,774	62,774
Write-offs	(86,762)	(27,400)	(104,271)	(218,433)	-	(218,433)
Recovery of written-off receivables	-	-	269,494	269,494	-	269,494
Change in others	(14)	164	(269,040)	(268,890)	-	(268,890)
Balance at December 31, 2018	$ 22,109	$ 17,977	$ 157,800	$ 197,886	$ 70,666	$ 268,552

	December 31, 2017
Balance at January 1, 2017	$ 368,246
Provision of allowance for doubtful accounts	208,906
Write-offs	(665,750)
Recovery of written-off credits	299,327
Effects of exchange rate changes	(22,430)
Balance at December 31, 2018	$ 188,299

14. DISCOUNTS AND LOANS, NET

		December 31	
		2018	2017
Discounts and overdraft		$ 32,467	$ 212,176
Accounts receivable - financing		12,147	14,290
Loans			
Short-term	- unsecured	30,569,537	61,312,117
	- secured	67,127,057	60,714,827
Medium-term	- unsecured	23,347,445	18,561,250
	- secured	60,020,806	49,686,071
Long-term	- unsecured	6,440,964	5,682,256
	- secured	142,841,656	125,557,881

(Continued)

	December 31	
	2018	2017
Import and export negotiations	$ 84,667	$ 37,962
Overdue loans	213,760	247,336
	330,690,506	322,026,166
Less: Allowance for doubtful accounts	3,852,653	3,401,818
	$ 326,837,853	$ 318,624,348

(Concluded)

As of December 31, 2018 and 2017, the balances of nonaccrual loans were $213,760 thousand and $247,336 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $6,529 thousand in 2018 and $6,751 thousand in 2017.

In 2018 and 2017, the Bank wrote off certain credits after completing the required legal procedures.

The Bank had set up an allowance for doubtful accounts on discounts and loans.

The changes in the gross carrying amounts on receivables for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Total
Balance at January 1, 2018	$ 318,214,516	$ 2,120,891	$ 1,690,759	$ 322,026,166
Discount and loans assessed collectively	(421,079)	(28,093)	449,172	-
Discount and loans purchased or originated	184,212,323	624,030	690,586	185,526,939
Write-offs	-	-	(78,905)	(78,905)
Derecognition	(174,886,040)	(917,941)	(979,713)	(176,783,694)
Balance at December 31, 2018	$ 327,119,720	$ 1,798,887	$ 1,771,899	$ 330,690,506

Refer to Note 49 for the impairment loss analysis of discounts and loans.

The Bank has accrued an allowance for doubtful accounts on discount and loans, the changes in allowance for doubtful accounts on discounts and loans for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Difference of Impairment Loss under (Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-accrual Loans)	Total
Balance at January 1, 2018	$ 500,131	$ 8,392	$ 245,124	$ 753,647	$ 2,648,171	$ 3,401,818
Changes of financial instruments recognized at the beginning of the current reporting period						
Transfers to					-	-
Lifetime ECL	(570)	1,582	(1,012)	-	-	-
Credit-impaired financial assets	(342)	(1,549)	1,891	-	-	-
12-month ECL	3,090	(3,090)	-	-	-	-
Derecognition of financial assets in the current reporting period	(461,939)	(1,894)	(19,599)	(483,432)	-	(483,432)
New financial assets purchased or originated	131,929	75,518	41,350	248,797	-	248,797
Difference of impairment loss under regulations	-	-	-	-	586,939	586,939
Write-offs	-	-	(78,905)	(78,905)	-	(78,905)
Recovery of written-off receivables	-	-	289,320	289,320	-	289,320
Change in others	(2,850)	83,477	(194,606)	(113,979)	-	(113,979)
Change in exchange rate	1,044	-	1,051	2,095	-	2,095
Balance at December 31, 2018	$ 170,493	$ 162,436	$ 284,614	$ 617,543	$ 3,235,110	$ 3,852,653

	December 31, 2017
Balance at January 1, 2018	$ 3,197,294
Provision of allowance for doubtful accounts	133,955
Write-offs	(296,290)
Recovery of written-off credits	363,071
Reclassification	9,500
Effects of exchange rate changes	(5,712)
Balance at December 31, 2018	$ 3,401,818

15. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	December 31	
	2018	2017
Provision of allowance for doubtful accounts		
Receivables	$ 12,455	$ 208,906
Discounts and loans	238,325	133,955
Reserve for losses on guarantees	26,367	14,000
Reserve for losses on loan commitments	14,838	-
	$ 291,985	$ 356,861

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017
Overseas corporate bonds	$ 10,105,102
Overseas financial bonds	6,302,487
Domestic corporate bonds	4,150,714
Overseas government bonds	5,966,611
Domestic listed shares	3,583,369
Mutual funds	917,253
Overseas listed shares	3,206,175
Domestic government bonds	951,695
	$ 35,183,406

Available-for-sale financial assets amounting to $10,837,361 thousand as of December 31, 2017, had been sold under repurchase agreements.

17. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31, 2017
Convertible deposits	$ 42,300,000
Domestic government bonds	8,660,289
Domestic corporate bonds	300,000
Asset-based securities	25,668
	$ 51,285,957

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

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

	December 31	
	2018	2017
Investments in subsidiaries	$ 3,102,333	$ 2,928,245
Investments in associates	1,623,462	53,121
	$ 4,725,795	$ 2,981,366

a. Investments in subsidiaries

	December 31	
	2018	2017
Union Finance and Leasing International Corporation (UFLIC)	$ 2,879,129	$ 2,664,239
Union Securities Investment Trust Corporation (USITC)	132,313	144,248
Union Finance International (H.K.) Limited	69,721	99,514
Union Information Technology Corporation (UIT)	21,170	20,244
	$ 3,102,333	$ 2,928,245

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

	December 31	
	2018	2017
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%

As the Bank has control over the finance, operating and human resource policies of USITC, USITC was included as a subsidiary in the Bank's financial statements.

In order to actively support the FSC's needs to adapt to the nation's overall industry development needs, and to boost the diversification of the corporate banking business as well as improve the efficiency of the use of funds, in coordination with the nation's financial policies, Union Bank of Taiwan established Union Venture Capital, which was approved by the board of directors on September 30, 2018. The expected total investment amount was $1,200,000 thousand, and the Bank held 100% of Union Venture Capital's shares. Related operational procedures will be carried out after approval from the authorities has been obtained

b. Investments in as associates

	December 31	
	2018	2017
Not individually material		
Union Real-Estate Management Corporation	$ 52,832	$ 53,121
Line BIZ+ Taiwan Limited	1,570,630	-
	$ 1,623,462	$ 53,121

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

	For the Year Ended December 31	
	2018	2017
Net loss	$ (9,636)	$ (326)

To promote innovative financial technology services and popularize mobile payment endorsed by the government, the board of directors of the Bank approved the investment in Line BIZ+ Taiwan Limited on July 25, 2018 and later acquired 5,471 thousand of their ordinary shares with a price of $1,579,977 thousand on September 21, 2018, resulting in a 10% shareholding and a seat on the board. The Bank has significant influence over Line BIZ+ Taiwan Limited; thus, the Bank uses the equity method to account for the investment.

The Bank's share of profit and other comprehensive income recognized from investments in associates other than Line BIZ+ Taiwan Limited during the fiscal years 2018 and 2017 were based on financial statements audited by their respective auditors for the same reporting periods as those of the Bank

Management of the Bank consider the fact that the numbers referenced from the non-audited financial statements of Line BIZ+ Taiwan Limited will not lead to material misstatements on the Bank's financial statements.

19. OTHER FINANCIAL ASSETS, NET

	December 31	
	2018	**2017**
Debt instruments with no active markets, net	$ -	$ 45,734,754
Pledged assets (Note 45)	617,767	594,026
Due from banks - certificate of deposit	1,060,360	937,964
Financial assets carried at cost, net	-	507,614
Call loans to securities	522,461	298,480
Non-overdue loans	2,243	25,105
Others	2,128	2,798
	$ 2,204,959	$ 48,100,741

a. Debt instruments with no active markets

Debt instruments with no active market held by the Bank are mortgage bonds guaranteed by the government of the United States of America.

As of December 31, 2017, debt instruments with no active market amounting to $15,415,779 thousand were sold under repurchase agreements.

b. Financial assets carried at cost, net

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

Financial assets carried at cost were unlisted common shares 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 - certificates 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.

20. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Cost							
Balance at January 1, 2017	$ 3,845,623	$ 5,139,058	$ 1,359,169	$ 286,085	$ 247,769	$ 43,793	$ 10,921,497
Additions	-	10,869	79,654	11,994	42,302	47,050	191,869
Disposals	-	(66)	(128,799)	(5,737)	(856)	-	(135,458)
Reclassification	-	4,847	6,475	4,821	24,855	(37,193)	3,805
Balance at December 31, 2017	3,845,623	5,154,708	1,316,499	297,163	314,070	53,650	10,981,713
Accumulated depreciation							
Balance at January 1, 2017	-	1,408,792	1,024,559	248,880	102,892	-	2,785,123
Depreciation	-	123,754	92,699	10,404	39,058	-	265,915
Disposals	-	(18)	(124,960)	(5,273)	(689)	-	(130,940)
Balance at December 31, 2017	-	1,532,528	992,298	254,011	141,261	-	2,920,098
Balance at December 31, 2017, net	$ 3,845,623	$ 3,622,180	$ 324,201	$ 43,152	$ 172,809	$ 53,650	$ 8,061,615
Cost							
Balance at January 1, 2018	$ 3,845,623	$ 5,154,708	$ 1,316,499	$ 297,163	$ 314,070	$ 53,650	$ 10,981,713
Additions	-	19,379	81,010	17,308	46,317	59,840	223,854
Disposals	(225)	-	(65,833)	(5,467)	(289)	-	(71,814)
Reclassification	-	382	12,018	758	15,663	(39,679)	(10,858)
Balance at December 31, 2018	3,845,398	5,174,469	1,343,694	309,762	375,761	73,811	11,122,895
Accumulated depreciation							
Balance at January 1, 2018	-	1,532,528	992,298	254,011	141,261	-	2,920,098
Depreciation	-	125,502	104,226	13,022	46,008	-	288,758
Disposals	-	-	(63,372)	(5,092)	-	-	(68,464)
Balance at December 31, 2018	-	1,658,030	1,033,152	261,941	187,269	-	3,140,392
Balance at December 31, 2018, net	$ 3,845,398	$ 3,516,439	$ 310,542	$ 47,821	$ 188,492	$ 73,811	$ 7,982,503

The above items of property and equipment are depreciated on a straight-line basis over their estimated useful lives 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.

On June 25, 2018,the board of directors of the Bank and UFLIC resolved respectively to rescind the cooperation contract in Tucheng District, New Taipei City. The Bank will afford the related costs and purchase the land which is going to reserved for the public facilities to the government in exchange for TDR. The Bank will contract third parties to construct on land owned. Estimated cost amounting to $887,240 thousand including the cost of purchasing land previously.

21. 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 surviving 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, 2018 and 2017, the balances of accumulated impairment were both $902,691 thousand.

22. OTHER ASSETS, NET

	December 31	
	2018	**2017**
Refundable deposits	$ 2,084,298	$ 1,702,663
Prepaid expenses	405,938	399,484
Others	183	166
	$ 2,490,419	$ 2,102,313

23. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2018	2017
Due to Chunghwa Post Co., Ltd.	$ 5,599,730	$ 1,233,370
Call loans from banks	5,500,000	7,500,000
Due to the Central Bank and other banks	128,863	87,635
Overdraft	161,248	140,285
	$ 11,389,841	$ 8,961,290

24. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	December 31	
	2018	2017
Commercial paper	$ 12,462,948	$ 8,557,700
Asset-based securities	19,716,083	12,042,309
Corporate bonds	7,389,338	6,110,732
Government bonds	3,917,112	3,317,499
Financial bonds	848,907	245,736
	$ 44,334,388	$ 30,273,976
Maturity date	2019.01-2019.03	2018.01-2018.05
Repurchase price	$ 44,509,373	$ 30,311,830

25. PAYABLES

	December 31	
	2018	2017
Notes and checks in clearing	$ 3,926,902	$ 4,042,080
Interest payable	821,065	715,666
Accrued expenses	712,681	657,149
Investments payable	420,237	426,104
Collections payable	147,465	179,160
Bank acceptances payable	189,277	188,076
Tax taxable	98,627	92,580
Reimbursed for settlement	21,170	51,771
Others	575,163	653,100
	$ 6,912,587	$ 7,005,686

26. DEPOSITS AND REMITTANCES

	December 31	
	2018	2017
Checking deposits	$ 6,081,176	$ 5,402,312
Demand deposits	80,650,690	72,976,860
Savings deposits	302,787,459	290,040,825
Time deposits	114,105,307	80,626,779
Negotiable certificates of deposit	10,477,200	238,300
Inward and outward remittances	284,968	127,043
	$ 514,386,800	$ 449,412,119

27. BANK DEBENTURES

	December 31	
	2018	2017
First issue of subordinated bank debentures in 2011; fixed rate at 2.78%; maturity: June 2018	$ -	$ 2,000,000
First issue of subordinated bank debentures in 2012; fixed rate at 2.32%; maturity: March 2019	1,500,000	1,500,000
First issue of subordinated bank debentures in 2013; fixed rate at 2.10%; maturity: December 2020	3,000,000	3,000,000
First issue of subordinated bank debentures in 2015; fixed rate at 2.08%; maturity: April 2022	2,200,000	2,200,000
First issue of subordinated bank debentures in 2016; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	2,500,000	2,500,000
First issue of subordinated bank debentures in 2017; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	500,000	500,000
	$ 9,700,000	$ 11,700,000

In order to increase long-term capital and capital adequacy ratio, the board approved to issue $5,000,000 thousand worth of subordinated bank debentures with a par value of $1,000 thousand. Periods of the debentures are between 5.5-10 years. The Bank will initiate issuance procedures after subsequent approval from the authorities has been obtained.

28. OTHER FINANCIAL LIABILITIES

	December 31	
	2018	2017
Principal amount of structured products	$ 11,640	$ 20,358
Funds obtained from the government - intended for specific types of loans	185	1,362
	$ 11,825	$ 21,720

29. PROVISIONS

	December 31 2018	December 31 2017
Provisions for employee benefits	$ 18,732	$ 5,606
Reserve for losses on guarantees and loan commitments	207,539	138,975
Others	26,678	27,178
	$ 252,949	$ 171,759

The Bank has accrued an allowance for doubtful accounts on guarantees and loan commitments; the changes in allowance for doubtful accounts on guarantees and loan commitments for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Difference of Impairment Loss under (Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-accrual Loans)	Total
Balance at January 1, 2018	$ 53,685	$ 304	$ 20	$ 54,009	$ 112,274	$ 166,283
Changes of financial instruments recognized at the beginning of the current reporting period						
Transfers to						
Lifetime ECL	(47)	47	-	-	-	-
Credit-impaired financial assets	(70)	(59)	129	-	-	-
12-month ECL	148	(147)	(1)	-	-	-
Derecognition of financial assets in the current reporting period	(45,622)	(135)	(78)	(45,835)	-	(45,835)
New financial assets purchased or originated	16,275	3,395	41	19,711	-	19,711
Difference of impairment loss under regulations	-	-	-	-	38,708	38,708
Change in others	-	-	28,621	28,621	-	28,621
Change in exchange rates	51	-	-	51	-	51
Balance at December 31, 2018	$ 24,420	$ 3,405	$ 28,732	$ 56,557	$ 150,982	$ 207,539

	For the Year Ended December 31, 2017
Balance at January 1, 2018	$ 134,621
Provision of allowance for doubtful accounts	14,000
Write-offs	-
Recovery of written-off credits	-
Reclassification	(9,500)
Effects of exchange rate changes	(146)
Balance at December 31, 2018	$ 138,975

30. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Bank adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the 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	
	2018	**2017**
Present value of defined benefit obligation	$ (1,604,372)	$ (1,536,301)
Fair value of plan assets	1,585,640	1,530,695
Deficit (surplus)	(18,732)	(5,606)
Net defined benefit liability	$ (18,732)	$ (5,606)

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Total**
Balance at January 1, 2017	$ (1,544,965)	$ 1,529,311	$ (15,654)
Service cost			
Current service cost	(16,436)	-	(16,436)
Net interest expense (income)	(21,243)	21,028	(215)
Recognized in profit or loss	(37,679)	21,028	(16,651)

(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)	$ -	$ 9,799	$ 9,799
Actuarial loss - changes in financial assumptions	(26,491)	-	(26,491)
Actuarial gain - experience adjustments	26,494	-	26,494
Recognized in other comprehensive income	3	9,799	9,802
Contributions from the employer	-	16,897	16,897
Benefits paid	46,340	(46,340)	-
Balance at December 31, 2017	$ (1,536,301)	$ 1,530,695	$ (5,606)
Balance at January 1, 2018	$ (1,536,301)	$ 1,530,695	$ (5,606)
Service cost			
Current service cost	(15,851)	-	(15,851)
Net interest expense (income)	(18,820)	18,751	(69)
Recognized in profit or loss	(34,671)	18,751	(15,920)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	36,826	36,826
Actuarial loss - changes in financial assumptions	47,120	-	47,120
Actuarial gain - experience adjustments	(97,097)	-	(97,097)
Recognized in other comprehensive income	(49,977)	36,826	(13,151)
Contributions from the employer	-	15,945	15,945
Benefits paid	16,577	(16,577)	-
Balance at December 31, 2018	$ (1,604,372)	$ 1,585,640	$ (18,732)

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	
	2018	2017
Discount rate	1.008%	1.225%
Expected rates of future salary increase	2.50%	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	
	2018	2017
Discount rate(s)		
0.25% increase	$ (45,804)	$ (46,572)
0.25% decrease	$ 47,711	$ 48,603
Expected rate(s) of salary increase		
0.25% increase	$ 46,235	$ 46,996
0.25% decrease	$ (44,630)	$ (45,285)

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	
	2018	2017
The expected contributions to the plan for the next year	$ 16,343	$ 24,000
The average duration of the defined benefit obligation	12 years	13 years

31. OTHER LIABILITIES

	December 31	
	2018	2017
Advance receipts	$ 433,840	$ 369,925
Guarantee deposits received	100,595	97,293
Others	110,177	104,018
	$ 644,612	$ 571,236

32. EQUITY

a. Capital stock

Common stock

	December 31	
	2018	2017
Number of shares authorized (in thousands)	4,500,000	4,500,000
Amount of shares authorized	$ 45,000,000	$ 45,000,000
Number of shares issued and fully paid (in thousands)	2,690,013	2,605,152
Amount of shares issued	$ 26,900,129	$ 26,051,524

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

Preferred stock

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

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

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

1) Tenor: Perpetual.

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

3) Dividend Payment: Whereas the Bank 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 Ordinary 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	
	2018	**2017**
Issuance of preference shares	$ 8,000,000	$ 8,000,000
Treasury stock transactions	32,413	32,413
	$ 8,032,413	$ 8,032,413

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

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

c. Legal reserve

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

d. Special reserve

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

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

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

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

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

	December 31	
	2018	**2017**
Balance at January 1, 2018	$ 585,206	$ 558,842
Special reserves appropriated	27,450	26,364
Balance at December 31, 2018	$ 612,656	$ 585,206

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 2017 and 2016 were approved in stockholders' meetings on June 8, 2018 and June 20, 2017, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)		
	2017	**2016**	**2017**	**2016**	
Legal reserve	$ 823,496	$ 790,913			
Special reserve	27,450	26,364			
Cash dividends on ordinary shares	1,042,061	1,172,319	$0.40	$0.45	
Share dividends on ordinary shares	781,546	-	0.30	-	
Cash dividends on preferred shares	90,740	-	0.45369863	-	(Note)

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

The appropriations from the 2018 earnings were proposed by the board of directors on March 13, 2019. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 887,017	
Special reserve	14,784	
Stock dividends on ordinary shares	1,883,009	$0.7
Cash dividends on preference shares	480,000	2.4

About the appropriation of earnings of 2018 will be approved in stockholders' meetings in May 31, 2019.

f. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2018	2017
Balance at January 1	$ (765,444)	$ (80,177)
Exchange differences arising on translating the foreign operations	303,314	(814,626)
Income tax on related from translating the net assets of foreign operations	(36,924)	192,461
Share of exchange difference of subsidiaries accounted for using the equity method	85,530	(63,102)
Balance at December 31	$ (413,524)	$ (765,444)

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

Balance at January 1	$ 1,272,308
Unrealized gain from the revaluation of available-for-sale financial assets	1,840,269
Income tax on unrealized gain from the revaluation of available-for-sale financial assets	(141,281)
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	(612,099)
Share of exchange difference of subsidiaries accounted for using the equity method	(13,496)
Balance at December 31	$ 2,345,701
Balance at January 1, 2018 (IAS 39)	$ 2,345,701
IFRS 9 retrospective application effect	(2,345,701)
Balance at January 1, 2018 (IFRS 9)	$ -

3) Unrealized gain (loss) on financial assets at FVTOCI

Balance at January 1 (IAS 39)	$ -
IFRS 9 retrospective application effect	2,797,843
Balance at January 1 (IFRS 9)	2,797,843
Generated this year	
Unrealized gain (loss)	
Debt instruments	(1,006,375)
Equity instruments	210,142
Adjustments to loss allowance for debt instruments	40,778
Share of associates	(4,269)
Disposal of debt instruments	(378)
Other comprehensive loss for the year	(760,102)
Accumulated gain (loss) transferred retained earnings denied from disposal of equity instruments at FVTOCI	35,606
Balance at year-end	$ 2,073,347

33. NET INTEREST

	For the Year Ended December 31	
	2018	2017
Interest revenue		
Discounts and loans	$ 7,022,177	$ 6,342,642
Debt instruments with no active market	-	1,722,890
Credit card	789,060	726,838
Due from the Central Bank and call loans to other banks	128,912	329,176
Available-for-sale financial assets	-	953,877
Securities purchased under resell agreements	144,854	115,813
Held-to-maturity financial assets	-	84,481
Debt instruments at amortized cost	1,995,101	-
Financial assets at FVTOCI	899,538	-
Others	37,222	23,187
	11,016,864	10,298,904
Interest expense		
Deposits	3,302,516	2,922,401
Securities sold under repurchase agreements	568,090	331,824
Bank debentures	294,889	322,024
Due to Chunghwa Post Co., Ltd.	16,362	12,115
Others	43,246	25,346
	4,225,103	3,613,710
	$ 6,791,761	$ 6,685,194

34. COMMISSION AND FEE REVENUES, NET

	For the Year Ended December 31	
	2018	2017
Commission and fee revenues		
Insurance commission	$ 903,812	$ 820,626
Credit cards and cash cards	1,085,296	1,084,776
Trust business	384,548	382,052
Loan business	285,365	235,023
Interbank service fee	101,957	162,258
Underwriting business	68,892	65,963
Guarantee business	107,355	85,012
Others	267,430	236,348
	3,204,655	3,072,058
Commission and fee expense		
Credit card	589,004	590,427
Verification of credit	37,960	33,462
Interbank service fee	20,571	22,653
Acquiring liquidation deal	14,540	14,259
Agency fee	15,550	13,934
Others	82,965	73,707
	760,590	748,442
	$ 2,444,065	$ 2,323,616

35. GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2018	2017
Realized gain or loss on financial assets at fair value through profit or loss		
Foreign exchange forward contracts	$ (151,378)	$ (22,909)
Interest revenue	196,079	111,951
Currency swap contracts	504,342	224,482
Corporate bonds	282	-
Commercial paper	14,975	18,600
Option contracts	5,167	6,535
Beneficial securities and shares	(160,323)	4,049
Government bonds	(181)	(5,695)
Dividend	26,359	4,507
	435,322	341,520
Unrealized gain or loss on financial assets at fair value through profit or loss		
Derivative financial assets and liabilities	(139,551)	(49,801)
Government bonds and corporate bonds	(3,350)	5,788
Beneficial securities and shares	(35,278)	(3,384)
Commercial paper	131	253
	(178,048)	(47,144)
	$ 257,274	$ 294,376

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

	For the Year Ended December 31, 2017
Net income (loss) on disposal - beneficial securities	$ 165,990
Dividend	169,820
Net income on disposal - stocks	342,848
Net income on disposal - government bonds	26,496
Net income on disposal - corporate bonds	48,445
Net income on disposal - financial bonds	28,320
	$ 781,919

37. REALIZED GAIN ON FINANCIAL ASSETS AT FVTOCI - 2018

	For the Year Ended December 31, 2018
Dividend revenue	$ 435,866
Net profit from disposal of government bonds	378
	$ 436,244

38. IMPAIRMENT LOSS ON ASSETS (REVERSAL)

	For the Year Ended December 31	
	2018	2017
Debt instruments at FVTOCI	$ (39,935)	$ -
Foreclosed collaterals	6,346	-
	$ (33,589)	$ -

39. EMPLOYEE BENEFIT EXPENSES

	For the Year Ended December 31	
	2018	2017
Salaries and wages	$ 2,826,908	$ 2,675,427
Pension		
Defined contribution plans	124,621	117,785
Defined benefit plans	15,920	16,651
Labor insurance and national health insurance	261,775	250,389
Director's remuneration	13,190	13,048
Others	61,095	57,609
	$ 3,303,509	$ 3,130,909

In 2018 and 2017, the Bank had 3,767 and 3,640 employees on average, respectively; of which there were 9 and 10 non-employee directors, respective.

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, 2018 and 2017 which have been approved by the Bank's board of directors on March 13, 2019 and March 14, 2018, respectively, were as follows:

Accrual Rate

	For the Year Ended December 31	
	2018	**2017**
Employees' compensation	1.84%	1.84%
Remuneration of directors	0.09%	0.09%

Amount

	For the Year Ended December 31			
	2018		**2017**	
	Cash	**Share**	**Cash**	**Share**
Employees' compensation	$ -	$ 64,486	$ -	$ 62,164
Remuneration of directors and supervisors	3,154	-	3,041	-

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.

The number of shares of the employees' compensation, which was determined by dividing the amount of the employees' compensation resolved for 2018 and 2017 by $10.5 and $9.27, respectively, which is the closing price per share on the day immediately preceding the meeting of the Bank's board of directors was 6,142 thousand shares and 6,706 thousand shares for 2018 and 2017, respectively.

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 2018 and 2017.

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

40. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2018	**2017**
Property and equipment	$ 288,758	$ 265,915
Intangible assets	66,181	60,594
	$ 354,939	$ 326,509

41. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2018	2017
Rental	$ 615,361	$ 648,039
Outsourcing service	297,055	295,866
Taxation and government fee	550,656	509,799
Advertisement	431,080	489,766
Postage/cable charge	257,748	243,678
Computer operating	171,658	165,376
Deposit insurance	135,088	131,783
Maintenance charge	92,812	90,969
Marketing	91,760	77,459
Donation	31,822	24,279
Printing and binding	46,503	44,513
Others	462,711	438,671
	$ 3,184,254	$ 3,160,198

42. 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	
	2018	2017
Current tax		
Current year	$ 24,379	$ 70,709
Additional tax on unappropriated earnings	-	63,776
Prior year's adjustments	(10,460)	4
Deferred tax		
Current year	540,573	433,774
Change in tax rate	(74,191)	-
Income tax expense recognized in profit or loss	$ 480,301	$ 568,263

A reconciliation of accounting profit and current income tax expenses for the years ended December 31, 2018 and 2017 is as follows:

	For the Year Ended December 31	
	2018	2017
Income before tax	$ 3,437,025	$ 3,313,250
Income tax expense at the 20% statutory rate	$ 687,405	$ 563,252
	(32,384)	-
Nondeductible expenses in determining taxable income	40	1,021
Additional income tax under the Alternative Minimum Tax Act	24,379	70,709
Unrecognized deductible temporary differences	2,497	53,657
Additional tax of unappropriated earnings	-	63,776

(Continued)

	For the Year Ended December 31	
	2018	2017
Tax-exempt income	$ (116,985)	$ (184,156)
Adjustments for prior year's tax	(10,460)	4
	(74,191)	-
Income tax expense recognized in profit or loss	$ 480,301	$ 568,263

(Concluded)

The applicable tax rate used by the Bank was 17% in 2017.

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%.

As the manner of the 2019 appropriation of the 2018 earnings is uncertain, the income tax consequences on the 2018 unappropriated earnings cannot be reliably determined.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Recognized in other comprehensive income:		
Exchange differences on the translation of financial statements of foreign operations	$ (36,924)	$ 192,461
Unrealized gains on available-for-sale financial assets	-	(141,281)
Unrealized loss from financial assets at FVTOCI	(207,225)	-
Actuarial gains and losses on defined benefit plans	9,791	(1,666)
Total income tax expenses recognized in other comprehensive income	$ (234,358)	$ 49,514

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, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
Deferred tax assets					
Temporary differences					
Impairment loss of financial instruments	$ 46,454	$ 8,198	$ -	$ -	$ 54,652
Exchange difference on translation of foreign operations	134,522	-	(36,924)	-	97,598
Employee benefit plan	143,692	21,279	9,791	-	174,762
Allowance for possible losses and reserve for losses on guarantees	31,806	97,836	-	-	129,642
Payable for annual leave	5,790	330	-	-	6,120
Others	9,551	14,688	-	-	24,239
	371,815	142,331	(27,133)	-	487,013
Loss carryforwards	647,768	(500,004)	-	-	147,764
	$ 1,019,583	$ (357,673)	$ (27,133)	$ -	$ 634,777
Deferred tax liabilities					
Temporary differences					
Financial assets at fair value through other comprehensive income	$ (488,722)	$ -	$ (207,225)	$ -	$ (695,947)
Amortization of goodwill impairment loss	(337,502)	(59,559)	-	-	(397,061)
Others	(85,300)	(49,150)	-	(1,261)	(135,711)
	$ (911,524)	$ (108,709)	$ (207,225)	$ (1,261)	$ (1,228,719)

For the year ended December 31, 2017

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

(Continued)

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

(Concluded)

d. Information about loss carryforwards

The Bank's loss carryforwards as of December 31, 2018 were as followed:

Unused Amount	Expiry Year
$ 698,644	2019
40,176	2020
$ 738,820	

e. Income tax assessments

	Examined and Cleared
Union Bank of Taiwan	Through 2016

43. EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	$ 1.07	$ 1.02
Diluted earnings per share	$ 1.06	$ 1.02

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

Net Profit for the Period

	For the Year Ended December 31	
	2018	**2017**
Net profit	$ 2,956,724	$ 2,744,987
Less: Dividends on preference shares	(90,740)	-
Earnings used in the computation of basic earnings per share	$ 2,865,984	$ 2,744,987
Earnings used in the computation of diluted earnings per share	$ 2,865,984	$ 2,744,987

The weighted average number of ordinary shares outstanding (in thousand shares) is as follows:

	For the Year Ended December 31	
	2018	**2017**
Weighted average number of ordinary shares used in the computation of basic earnings per share	2,688,690	2,683,307
Effect of potentially dilutive ordinary shares		
Employees' compensation or bonuses issued to employees	8,047	8,135
Weighted average number of ordinary shares used in the computation of diluted earnings per share	2,696,737	2,691,442

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

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on August 18, 2018. The basic and diluted earnings per share was adjusted retrospectively from 1.05 to 1.02 for the year ended December 31, 2017

44. RELATED-PARTY TRANSACTIONS

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

a. Related parties and their relationships with the Bank

Related Party	Relationship with the Bank
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Information Technology Corporation (UIT)	Subsidiary
Union Finance International (H.K.) Limited	Subsidiary
Union Securities Investment Trust Corporation (USITC)	Subsidiary
Union Capital (Cayman) Corp. (UCCC)	Subsidiary of UFLIC
New Asian Ventures Ltd. (New Asian)	Subsidiary of UFLIC
Union Capital (Singapore) Holding Pte. Ltd. (UCSH)	Subsidiary of Cayman
Uflc Capital (Singapore) Holding Pte. Ltd. (UFLC)	Subsidiary of Cayman
Kabushiki Kaisha UCJ1 (KK)	Subsidiary of UCSH and UFLC
Tokutei Mokuteki Kaisha SSG15 (TMK SSG15)	Subsidiary of UCSH and KK
Tokutei Mokuteki Kaisha SSG12 (TMK SSG12)	Subsidiary of UFLC and KK
Tokutei Mokuteki Kaisha SSG16 (TMK SSG16)	Subsidiary of UFLC and KK
Union Real-Estate Management Corporation	Associates
LINE BIZ+ Taiwan, Ltd. (LINE PAY)	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
Hi-Life International Co., Ltd. (Hi-Life)	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

<u>December 31, 2018</u>

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2018	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonper-forming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	20	$ 21,669	$ 17,531	$ 17,531	$ -	Land, buildings and cars	None
Self-used housing mortgage loans	41	169,831	99,280	99,280	-	Real estate	None
Others	UFLIC	1,888,757	1,822,167	1,822,167	-	Land and buildings	None
Others	8	77,644	8,400	8,400	-	Land, plant, buildings, quoted stock and time deposits	None

December 31, 2017

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2018	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	13	$ 16,719	$ 13,679	$ 13,679	$ -	Land, buildings and cars	None
Self-used housing mortgage loans	18	162,034	117,965	117,965	-	Real estate	None
Others	UFLIC	1,934,751	1,895,359	1,895,359	-	Land and buildings	None
Others	9	1,108,800	62,850	62,850	-	Land, plant, buildings, quoted stock and time deposits	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2018	$ 1,947,358	0.60	1.06%-2.60%	$ 36,275	0.33
2017	2,089,853	0.66	1.06%-3.06%	42,681	0.41

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate (Note)	Amount	%
2018	$ 5,374,363	1.04	0%-4.80%	$ 43,673	1.03
2017	5,584,191	1.24	0%-4.80%	36,517	1.01

Note: Including foreign currency interest rate.

3) Guarantees and letters of credit

December 31, 2018

Name	Highest Balance in the Year Ended December 31, 2018	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 19,316	$ 19,316	$ -	0.50%	Time deposits
The Liberty Times Co., Ltd.	2,547	-	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.50%	Time deposits
Union Optronics Corporation	39,193	-	-	0.75%	Time deposits
Hi-Life International Co., Ltd.	318,374	318,374	-	0.40%	

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	$ -	0.50%	Time deposits
The Liberty Times Co., Ltd.	2,524	2,483	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.50%	Time deposits
Union Optronics Corporation	76,709	76,709	-	0.75%	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**	**%**
2018				
Yu-Pang	$ 454,888	21.82	$ 15,980	2.60
Hung-Kuo	219,465	10.53	104,361	16.96
Yong-Xuan	14,533	0.7	60,016	9.75
UECC	4,384	0.21	9,410	1.53
UFLIC	1,158	0.06	3,462	0.56
2017				
Yu-Pang	454,888	26.72	15,980	2.47
Hung-Kuo	218,768	12.85	101,476	15.66
Yong-Xuan	14,292	0.84	58,974	9.10
UECC	4,384	0.26	9,410	1.45
UFLIC	1,158	0.07	3,462	0.53

The Bank rented cars for business use from UFLIC; the rental expenses were $10,906 thousand in 2018 and $10,467 thousand in 2017. Rentals payable as of December 31, 2018 and 2017 were $56 thousand and $49 thousand, respectively.

b) The Bank as lessor

The Bank's South Taoyuan Branch, Kaohsiung Branch, Minchuan Branch, Fucheng Branch, Jiuru Branch and Xing-Zhong 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 August 2016 to July 2021, from July 2013 to June 2023, from May 2017 to April 2022, and from November 2017 to October 2022, respectively. The leasing revenues received were $1,570 thousand and $1,432 thousand in 2018 and 2017, respectively. The lease deposits received (included in other liabilities) were $388 thousand and $423 thousand in 2018 and 2017, respectively.

5) UIT sold computers and related materials and software and provided network services to the Bank. The purchase and service fees were $122.196 thousand in 2018 and $107,958 thousand in 2017.

6) Derivative financial instruments

December 31, 2018						
			Notional	Unrealized	Balance Sheets	
Related Party	**Contract**	**Period**	**Amount**	**Gain (Loss)**	**Account**	**Balance**
UCCC	Currency swap contracts	2018.12.21-2019.03.20	JPY1,480,000/ US$13,262	$ 7,164	Financial liabilities at fair value through profit or loss	$ 7,164

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

	2018	**2017**
Gain (loss) on financial instruments at fair value through profit or loss		
UCCC	$ (9,170)	$ (4,869)

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	
	2018	**2017**
Short-term employment benefits		
Salaries	$ 35,035	$ 31,503
Transportation expenses	1,310	1,218
	36,345	32,721
Post-employment benefits	1,017	6,055
	$ 37,362	$ 38,776

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

45. PLEDGED ASSETS

As of December 31, 2018 and 2017, government bonds and bank debentures, which amounted to $310,905 thousand and $286,705 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.

As of December 31, 2018 and 2017, the Bank both pledged a time deposit of $300,000 (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.

46. CONTINGENCIES AND COMMITMENTS

a. As of December 31, 2018 and 2017, the Bank's commitments consisted of the following:

	December 31	
	2018	**2017**
Irrevocable standby loan commitment	$ 101,075,098	$ 85,654,457
Unused credit card commitment	265,545,183	257,495,390
Unused letters of credit	822,060	1,241,648
Other guarantees	14,698,974	13,804,083
Collections for customers	27,451,323	28,800,426
Travelers' checks consigned-in	82,702	116,832
Guarantee notes payable	594,900	570,700
Trust assets	71,598,436	68,285,472
Marketable securities under custody	6,989,899	5,180,415

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, 2018 and 2017, refundable deposits paid under operating leases were $800,121 thousand and $799,182 thousand, respectively (included in other assets - refundable deposits).

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

	December 31	
	2018	**2017**
Within 1 year	$ 365,115	$ 411,532
Over 1 year up to 5 years	556,666	808,818
Over 5 years	292,699	345,302
	$ 1,214,480	$ 1,565,652

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, 2018 and 2017, refundable deposits paid under operating leases were $3,865 thousand and $3,807 thousand, respectively (included in other liabilities - guarantee deposits received).

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

	December 31 2018	December 31 2017
Within 1 year	$ 11,011	$ 8,072
Over 1 year up to 5 years	16,444	13,466
	$ 27,455	$ 21,538

d. Computer equipment purchase contracts

As of December 31, 2018 and 2017, the Bank had contracts to buy computer equipment and software for $121,492 thousand and $95,805 thousand, respectively, of which $77,168 thousand and $56,260 thousand had been paid as of December 31, 2018 and 2017, respectively.

e. Investment in internet-only banking

For the purposes of actively developing its digital finance business, the Bank participated in the establishment of the internet-only bank of LINE bank on November 7, 2018 after approval from the board of directors was obtained. The Bank expects to obtain 5% of the shareholdings of LINE bank at a total price of $500,000 thousand. The case has yet to be approved by the authorities, and as of March 2019, the Bank had been prepaid shares amounting to $109,790 thousand.

47. TRUST BUSINESS UNDER THE TRUST LAW

Balance Sheet of Trust Accounts
December 31, 2018

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 4,650,271	Management fee payable	$ 5
Investments		Income tax payable	566
Mutual funds	41,286,267	Marketable securities payable	10,501,272
Common stock	649,901	Trust capital	61,145,308
Short-term bills and securities purchased under resell agreements	203,097	Reserve and deficit	(48,715)
Accounts receivable	8,247		
Stock in custody	10,501,272		
Real estate - land and building	14,299,381		
Total	$ 71,598,436	Total	$ 71,598,436

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2018.

Balance Sheet of Trust Accounts
December 31, 2017

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

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

Income Statement of Trust Accounts
Year Ended December 31, 2018

	Amount
Trust income	
Interest revenue - demand accounts	$ 607
Interest revenue - time deposits	15,240
Interest revenue - short-term bills and securities purchased under resell agreements	292
Cash dividends - common stock	9,211
Service fee allowances - common stock	4
Other income from tax refund plus interest	3
Income from beneficial certificates	392
Realized capital gain - fund	944
Realized capital gain - common stock	143
Unrealized capital gain - fund	95
Unrealized capital gain - common stock at stock exchange market	15,428
Unrealized capital gain - common stock at over-the-counter market	5,214
Total trust income	47,573
Trust expense	
Management expense	12,451
Taxation	74,286
Business fees - attorney fees	100
Agency fees	7,088
Supervisor fee	80
Unrealized capital loss - common stock at stock exchange market	356
Realized capital loss - fund	560
Unrealized capital loss - fund	640
Others	125
Total trust expense	95,686
Loss before tax	(48,113)
Income tax expense	(981)
Net loss	$ (49,094)

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

Income Statement of Trust Accounts
Year Ended December 31, 2017

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

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

Trust Property and Equipment Accounts
December 31, 2018

Investment Portfolio	Amount
Bank deposits	$ 4,650,271
Investments	
Mutual funds	41,286,267
Common stock	649,901
Short-term bills and securities purchased under resell agreements	203,097
Accounts receivable	8,247
Stock in custody	10,501,272
Real estate - land and buildings	14,299,381
	$ 71,598,436

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2018.

Trust Property and Equipment Accounts
December 31, 2017

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

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

48. FINANCIAL INSTRUMENTS

a. Information on 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 equity investments with unlisted shares or no active market and complex foreign exchange options.

b. The fair value hierarchies of the Bank's financial instruments as of December 31, 2018 and 2017 were as follows:

(In Thousands of New Taiwan Dollars)

	December 31, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Financial assets mandatorily classified as at FVPTL				
Stock	$ 578,929	$ 578,929	$ -	$ -
Beneficial certificates	2,313,976	2,313,976	-	-
Commercial paper	31,510,394	-	31,510,394	-
Asset-based securities	60,415	-	60,415	-
Principal guaranteed notes	1,368,547	-	1,368,547	-
Financial assets at fair value through other comprehensive income				
Stock	8,289,319	7,277,879	-	1,011,440
Real estate investment trusts	129,905	129,905	-	-
Debt investments	24,699,250	-	24,699,250	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	523,434	-	486,913	36,521
Liabilities				
Financial liabilities at FVTPL	307,799	-	271,277	36,522

	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

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, fair value through other comprehensive income, available-for-sale financial assets and hedging derivative financial instruments with quoted price in an active market are based on their market prices; financial instruments with no quoted prices in an active market are estimated by valuation methods.

1) Marking to market

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

a) Ensure the consistency and integrity of market data.

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

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

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

2) Marking to model

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

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

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

3) Fair value adjustment

Credit risk assessment adjustment

Credit risk assessment adjustment refers to the fair value of the over the counter (OTC) derivative financial commodity contracts, which also reflects the credit risk of both parties. It can be mainly divided into "credit evaluation adjustment" and "debit evaluation adjustment":

a) Credit value adjustments (CVA): A transaction in a non-concentrated trading market, that is, the adjustment of the derivatives contract evaluation in the OTC transaction, which reflects the possibility of the company may not be able to collect the full market value or the counterparty may default on the repayment on the fair value.

b) Debit value adjustments (DVA): It refers to the transactions of the non-concentrated trading market, that is, the adjustment of the derivatives contract evaluation in the OTC transaction, which reflects the possibility that the company may not be able to collect the full market value or the counterparty may default on the repayment of the fair value.

Both CVA and DVA are concepts of estimated loss, calculated as the probability of default (PD) multiplied by the default loss rate (LGD) and multiplied by the exposure at default (EAD).

For customers with external credit ratings, the default probability is based on the default probability corresponding to the external rating; for customers without external credit ratings, the impairment rate calculated according to the bank's loan and receivable impairment assessment and the average incidence of impairment is taken as the default probability.

The Bank uses the fair value of OTC derivatives to calculate the amount of default risk (EAD).

The Bank uses 60% as the default loss rate based on the recommendation of "IFRS 13 CVA and DVA Related Disclosure Guidelines" of the Stock Exchange.

The Bank incorporates the credit risk assessment adjustment into the fair value calculation of financial instruments to reflect the counterparty's credit risk and the bank's credit quality.

4) Transfer between Level 1 and Level 2

There was no material transfer between Level 1 and Level 2 for 2018 and 2017.

5) Reconciliation of Level 3 items of financial instruments

a) Reconciliation of Level 3 items of financial assets

For the year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehen-sive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss								
Derivative financial assets	$ 48,253	$(22,635)	$ -	$ 50,712	$ -	$(39,809)	$ -	$ 36,521
Financial assets at fair value through other comprehensive income								
Investments in equity instruments	962,181	-	57,662	9,557	-	(17,960)	-	1,011,440

For the year ended December 31, 2017

(In Thousands of New Taiwan Dollars)

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

b) Reconciliation of Level 3 items of financial liabilities

For the year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehen-sive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss								
Derivative financial liabilities	$ 48,259	$ 7,772	$ -	$ 25,396	$ -	$(44,905)	$ -	$ 36,522

For the year ended December 31, 2017

(In Thousands of New Taiwan Dollars)

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

6) Quantitative information of significant unobservable inputs - Level 3 fair value measurement

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	$ 36,521	Option pricing model	Ratio	AUD/JPY 11.88% AUD/USD 9.08%-9.70% EUR/USD 7.35%-7.45% NZD/USD 9.74% USD/TWD 3.69%-5.61% USD/ZAR 18.29-%-18.38%	The higher the ratio is, the higher fair value
Non-derivative financial instruments						
Financial assets at fair value through other comprehensive income	Investment in equity instruments	1,011,440	Assets value model	Allowance of minority interest	10%-20%	The higher the equity dispersion is, the lower fair value
Derivative financial instruments						
Financial liabilities at fair value through profit or loss	Foreign exchange options	36,522	Option pricing model	Ratio	AUD/JPY 11.88% AUD/USD 9.08%-9.70% EUR/USD 7.35%-7.45% NZD/USD 9.74% USD/TWD 3.69%-5.61% USD/ZAR 18.29-%-18.38%	The higher the ratio is, the higher fair value

7) The assessment process of Level 3 fair value measurement

To ensure that the product assessment results can be close to the market, the risk management department of the Bank is responsible for the verification of the independent fair value. For products assessed by the model, before daily assessment, the information required for the assessment will be verified as correct and consistent with each other and the department will calibrate the model to the market quotation and update the input value required for the assessment model. In addition to regular checking of the accuracy of the assessment model, the reasonableness of the prices provided by third parties will also be checked

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

The Bank’s Level 3 financial instruments are foreign exchange options and unlisted shares. When engaging in foreign exchange option transactions, the Bank makes a match for other banks and unlisted shares 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.

The fair value measurement of financial instrument is reasonable although the use of different valuation models or parameters may lead to different results. For financial instruments classified in Level 3, if the parameter changes by 10%, the effects on profit or loss or other comprehensive income for the current periods are as follows:

December 31, 2018

	Changes in Fair Value Are Reflected in Other Comprehensive Income for the Current Period	
	Favorable Changes	**Unfavorable Changes**
Financial assets at fair value through other comprehensive income		
Investments in equity instruments	$ 101,144	$ (101,144)

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) Information of fair value

	December 31			
	2018		2017	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets				
Financial assets measured at amortized cost	$ 94,149,872	$ 94,475,696	$ -	$ -
Held-to-maturity financial assets	-	-	51,285,957	51,388,334
Debt instruments with no active market	-	-	45,734,754	46,737,536
Financial liabilities				
Bank debentures	9,700,000	9,828,544	11,700,000	11,887,884

2) Fair value hierarchy

Items	December 31, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets measured at amortized cost	$ 94,475,696	$ -	$ 94,475,696	$ -
Financial liabilities				
Bank debentures	9,828,544	-	9,828,544	-

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

3) Maximum exposure to credit risk

	December 31, 2018
Financial assets at fair value through profit or loss	
Commercial papers	$ 31,510,394
Mutual funds and beneficiary	2,313,976
Equity investments	578,929
Structure deposits	1,368,547
Derivative financial assets	523,434
Asset-based securities	60,415
	36,355,695
Financial assets at fair value through other comprehensive income	
Investments in equity instruments	8,289,319
Real estate investment trusts	129,905
	8,419,224
	$ 44,774,919

49. 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, 2018	December 31, 2017
Irrevocable standby loan commitment	$ 6,848,218	$ 2,199,776
Unused letters of credit	822,060	1,241,648
Other guarantees	14,698,974	13,804,083
Unused credit card commitments	265,545,183	257,495,390

December 31, 2018	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 285,187,706	$ -	$ -	$ 285,187,706

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

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, 2018		December 31, 2017	
	Amount	**%**	**Amount**	**%**
Private enterprises	$ 92,655,902	26.80	$ 84,654,639	25.19
Public enterprises	-	-	5,000,000	1.49
Government organizations	16,652,952	4.81	42,032,219	12.51
Nonprofit organizations	726,667	0.21	694,719	0.21
Private organizations	234,658,365	67.87	202,610,903	60.30
Foreign enterprises	1,069,388	0.31	1,024,743	0.30
Total	$ 345,763,274	100.00	$ 336,017,223	100.00

b) By geographical area

The Bank's operations are mainly in Taiwan.

c) By collaterals

	December 31, 2018		December 31, 2017	
	Amount	**%**	**Amount**	**%**
Unsecured	$ 52,407,081	15.16	$ 80,394,252	23.92
Secured				
Financial instruments	9,054,700	2.62	8,134,418	2.42
Stocks	9,725,963	2.81	9,397,235	2.80
Properties	248,043,713	71.74	213,097,461	63.42
Movables	18,583,172	5.37	16,925,126	5.04
Guarantees	7,041,228	2.04	6,288,007	1.87
Others	907,417	0.26	1,780,724	0.53
Total	$ 345,763,274	100.00	$ 336,017,223	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 - 2017

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

b) Credit quality analysis of securities - 2017

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

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 - 2017

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

10) Analysis of impairment for financial assets - 2017

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 - 2017

Type of Impairment		**December 31, 2017**	
		Discounts and Loans	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Assessment of individual impairment	$ 1,271,517	$ 129,051
	Assessment of collective impairment	406,929	104,599
With no objective evidence of impairment	Assessment of collective impairment	320,347,720	3,168,168

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 - 2017

Type of Impairment		**December 31, 2017**	
		Discounts and Loans	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Individually assessed for impairment	$ 127,247	$ 88,419
	Collectively assessed for impairment	1,214,203	66,562
With no objective evidence of impairment	Collectively assessed	16,474,287	33,318

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

The Bank observes the value of collateral for financial instruments and takes into consideration the impairment loss that should be recognized for financial assets that are credit-impaired. The values of the credit-impaired financial assets and the values of collateral to mitigate potential losses are as follows:

Credit-impaired financial assets	**Carrying Amount**	**Allowance for Impairment Loss**	**Exposure Amount (Amortized Cost)**	**Fair Value of Collateral**
Receivables				
Credit cards	$ 1,135,862	$ 65,863	$ 1,069,999	$ -
Other	117,859	91,937	25,922	28,534
Discounts and loans	1,771,899	284,614	1,487,285	4,331,271
	$ 3,025,620	$ 442,414	$ 2,583,206	$ 4,359,805

12) Judgment that credit risk has increased significantly since the initial recognition - 2018

On each reporting date, the Bank assesses the change in the default risk of financial assets, as well as considers reasonable and corroborative information that shows the credit risk has increased significantly since initial recognition, to determine whether the credit risk has increased significantly. The main considerations include:

Quantitative indicators

a) The borrower pays the amount for contracts overdue for at least one month (more than or equal to 30 days for the credit card business), or the amounts for other contracts that are overdue for at least one month (more than or equal to 30 days for the credit card business).

b) Debt instruments whose prices on the reporting date have fallen more than 40% from the original price since the acquisition date.

c) Debt instruments that have non-investment grades based on the debt (priority), issuer, and guarantor's credit rating and that have fallen by more than two grades and whose prices have fallen by more than 15% on the reporting date.

Qualitative indicators

a) The borrower's check bounced due to insufficient funds in the Bank's checking account, or announced as a rejected account.

b) The borrower's collateral was seized.

c) The borrower's debt has been recognized as a non-accrual loan or transferred to bad debt by other financial institutions.

d) The borrower has been reorganized.

e) An auditors' report on the borrower has been released where it was stated that a material uncertainty exists that may cast significant doubt on the borrower's ability to continue as a going concern.

f) The borrower has other bad debts that indicate that the borrower's ability to perform its debt obligations is weak or has signs of impairment, which has been assessed to affect its operations or repayment ability.

13) Definition of default and credit impaired financial assets - 2018

The Bank uses the same definitions for default and credit impairment of financial assets. If one or more of the conditions below are met, the Bank determines that the financial assets have defaulted and are credit impaired. The main considerations include:

a) The borrower pays the amount for contracts overdue for at least 3 months (90 days and above for the credit card business).

b) The debtor has significant financial difficulties (e.g., the debtor has ceased operations, is bankrupt, or has liquidated).

c) Economic or legal considerations, concessions to borrowers with financial difficulties (such as debt negotiations).

If the financial assets no longer meet the definition of default and credit impairment, they are judged as regaining their status of meeting performance obligations and are no longer regarded as financial assets that have defaulted and are credit impaired.

14) Reversal Policy -2018

When the Bank is unable to reasonably expect to recover all or part of the financial assets, the indicators that all or part of the financial assets that cannot be reasonably expected to be recovered include the following:

a) Recourse activities have stopped.

b) The borrower is assessed to have insufficient assets or sources of income to pay the outstanding amount.

The financial assets that have been written off by the Bank may still have ongoing recourse activities in accordance with the relevant policies.

15) Contractual cash flow modification of financial assets

The Bank may modify the contractual cash flow of financial assets due to the borrower's financial difficulties, increase in the recovery rate of the doubtful borrowers, or to maintain customer relationships. The modification of the contractual terms of the financial assets may include extending the contract period, modifying the interest payment time, and modifying the agreed interest rate or the exemption of some of the outstanding debts. The modification of contractual cash flows of financial assets may result in the delisting of existing financial assets in accordance with the Bank's financial assets delisting policy and recognition of new financial assets at fair value.

If the contractual cash flow modification of a financial asset does not result in a derecognition, the Bank assesses whether the credit risk of the financial asset has increased significantly by comparing the following:

a) Risk of default on the reporting date (based on modified contract terms).

b) The risk of default at the time of original recognition (based on the original unmodified contract terms).

The Bank considers the borrower's subsequent payment in accordance with the revised terms and several relevant behavioral indicators to assess the probability of default of the revised financial assets and confirm whether the contract modification improves or restores the ability of the bank to recover the relevant contract payments. If the borrower pays the contract amount according to the revised terms and shows good payment behavior, it can be determined that the credit risk is reduced and the loss allowance will be measured by the 12-month expected credit loss model.

The Bank regularly reviews the changes in credit risk of the revised financial assets in accordance with relevant policies, and evaluates whether there is a significant increase in credit risk following the revised financial assets based on a specific model.

16) Measurement of expected credit losses

For the purpose of assessing expected credit losses, credit assets are classified into the following groups based on the credit risk characteristics of the borrower's industry, credit risk rating, collateral type and remaining maturity period:

Business	Group	Definition
Corporate banking	Corporate banking	Corporate banking business
Consumer banking	Mortgages	Mortgage business
	Financial loans	Financial loan business
	Credit card	Credit card business
	Others	Other business

The Bank adopts the 12-month ECL model to evaluate the loss allowance of financial instruments whose credit risk have not increased significantly since initial recognition, and adopts the lifetime ECL model to evaluate the loss allowance of financial instruments whose credit risk has increased significantly since initial recognition or of that are credit-impaired.

The Bank considers both the 12-month and lifetime probability of default ("PD") of the borrower with the loss given default ("LGD"), multiplied by the exposure at default ("EAD"), as well as the impact of time value, to calculate the 12-month ECLs and lifetime ECLs, respectively.

"PD" refers to the borrower's probability to default and "LGD" refers to losses caused by the default. The Bank calculates the "PD" and "LGD" used in the impairment assessment of the credit business according to each group's historical information (such as credit loss experience) from internal statistical data, and after adjustment of the historical data based on current observable and forward-looking macroeconomic information.

	Account Receivable December 31, 2018				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL (Credit-impaired Financial Assets)**	**Additional Impairment Loss required under Regulations**	**Total**
Gross carrying amount	$ 16,786,150	$ 99,394	$ 1,253,721	$ -	$ 18,139,265
Less: Allowance for impairment loss	22,109	17,977	157,800	-	197,886
Less: Additional impairment loss required under	-	-	-	70,666	70,666
	$ 16,764,041	$ 81,417	$ 1,095,921	$ 70,666	$ 17,870,713

	Discounts and Loans December 31, 2018				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL (Credit-impaired Financial Assets)**	**Additional Impairment Loss required under Regulations**	**Total**
Gross carrying amount	$ 327,119,720	$ 1,798,887	$ 1,771,899	$ -	$ 330,690,506
Less: Allowance for impairment loss	170,493	162,436	284,614	-	617,543
Less: Additional impairment loss required under	-	-	-	3,235,110	3,235,110
	$ 326,949,227	$ 1,636,451	$ 1,487,285	$ 3,235,110	$ 326,837,853

When the Bank estimates the 12-month and lifetime expected credit losses for its loan commitments, it will give different credit conversion factors according to the characteristics of each product. The Bank will also take into consideration the amount that is expected to be utilized within 12 months from the reporting date and the expected lifetime of each commitment in determining the default risk amount that is used to calculate the expected credit loss

The estimation techniques or material assumptions used to assess expected credit losses have not changed significantly during the current period.

17) Consideration of forward-looking information

The Bank's credit (including credit card) segments are based on different loan properties, such as corporate banking, consumer finance, credit, car loans and credit cards, and forward-looking model estimates are carried out, based on actual default rates and overall economic variables of each segment in the past quarters. The default rate for the next year is estimated using the credit risk chain model, by estimating the relationship between the default rate and the overall economic variables. The investment function makes reference to external credit ratings in their consideration of forward-looking information.

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, financial assets at fair value through other comprehensive income, financial assets at amortized cost, 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, 2018					
	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	$ 5,790,111	$ 59,680	$ 3,025,050	$ 2,515,000	$ -	$ 11,389,841
Securities sold under repurchase agreements	21,177,132	23,157,255	-	-	-	44,334,387
Payables	5,291,579	945,030	447,999	208,441	19,538	6,912,587
Deposits and remittance	52,238,664	69,018,051	77,506,669	140,487,058	175,136,358	514,386,800
Bank debentures	-	1,500,000	-	-	8,200,000	9,700,000
Other liabilities	20,527	15	23	46	91,809	112,420

	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

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

	December 31, 2018					
	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	$ 19,774,642	$ 15,840,034	$ 958,437	$ 1,963,020	$ -	$ 38,536,133
Cash inflow	19,613,925	15,779,547	924,443	1,945,498	-	38,263,413
	160,717	60,487	33,994	17,522	-	272,720
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 160,717	$ 60,487	$ 33,994	$ 17,522	$ -	$ 272,720

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

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

	December 31, 2018					
	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	$ 662	$ 891	$ 17,062	$ 4,661	$ -	$ 23,276

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

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 2018 and 2017, 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 $380,167 thousand and $393,900 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: Foreign Currency (In Thousands)/NT$(In Thousands)

	December 31, 2018		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,352,339	30.733	$ 72,294,433
JPY	4,460,206	0.2784	1,241,628
GBP	137	38.8957	5,344
AUD	1,178	21.6760	25,539
HKD	34,287	3.9240	134,543
CAD	1,405	22.5912	31,750
CNY	872,097	4.4741	3,901,844
SGD	86	22.4854	1,923
ZAR	18,615	2.1291	39,632
CHF	60	31.2074	1,869
THB	430	0.9491	408
NZD	502	20.6249	10,350
EUR	10,666	35.2047	375,496
Financial liabilities			
USD	1,943,738	30.733	59,736,893
JPY	7,252,804	0.2784	2,019,028
GBP	2,151	38.8957	83,677
AUD	1,220	21.6760	26,434
HKD	33,588	3.9240	131,799
CAD	1,396	22.5912	31,537
CNY	872,724	4.4741	3,904,647
SGD	80	22.4854	1,792
ZAR	18,568	2.1291	39,532
CHF	73	31.2074	2,279
NZD	529	20.6249	10,912
EUR	13,824	35.2047	486,670

	December 31, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,809,313	29.848	$ 83,852,383
JPY	4,740,622	0.2650	1,256,085
GBP	1,409	40.2053	56,652
AUD	128,377	23.2635	2,986,498
HKD	190,976	3.8189	729,325
CAD	15,168	23.7795	360,685
CNY	706,005	4.5790	3,232,822
SGD	1,507	22.3246	33,654
ZAR	853,238	2.4191	2,064,030
CHF	1,687	30.5507	51,529
THB	331	0.9153	303
NZD	26,935	21.2010	571,041
EUR	32,026	35.6773	1,142,605
Financial liabilities			
USD	2,367,763	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

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, 2018					
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 assets at fair value through profit or loss Securities sold under repurchase agreements	$ 12,453,108	$ 12,462,948	$ 12,453,108	$ 12,462,948	$ (9,840)
Financial assets at fair value through other comprehensive income Securities sold under repurchase agreements	12,865,389	11,155,357	12,865,389	11,155,357	1,710,032
Financial assets at amortized costs Securities sold under repurchase agreements	28,655,857	20,716,083	28,844,548	20,716,083	8,128,465

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

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, 2018						
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	$ 523,434	$ -	$ 523,434	$ 96,760	$ -	$ 426,674

December 31, 2018						
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	$ 307,799	$ -	$ 307,799	$ 12,320	$ -	$ 295,479

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

50. 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.

c.

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

Items (Note 2)		Year	December 31, 2018 Own Capital Adequacy Ratio	December 31, 2018 Consolidated Capital Adequacy Ratio
Eligible capital	Common equity Tier 1 Ratio		$ 33,172,535	$ 32,575,667
	Other Tier 1 capital		11,720,972	12,496,555
	Tier 2 capital		4,310,985	7,313,533
	Eligible capital		49,204,492	52,385,755
Risk-weighted assets	Credit risk	Standard	289,969,304	300,008,530
		Internal rating-based approach	-	-
		Asset securitization	2,343,167	2,343,167
	Operational risk	Basic indicator approach	18,656,113	22,156,450
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	32,534,371	33,506,790
		Internal model approach	-	-
	Total risk-weighted assets		343,502,955	358,014,937
Capital adequacy rate			14.32%	14.63%
Ratio of common stockholders' equity to risk-weighted assets			9.66%	9.10%
Ratio of Tier 1 capital to risk-weighted assets			13.07%	12.59%
Leverage ratio			6.48%	6.42%

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

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 9.875%, the Tier 1 Capital Ratio at a minimum of 7.875% and the Common Equity Tier 1 Ratio at a minimum of 6.375%. 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.

51. 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 4.

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2018			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Company B - other financial intermediation	$ 1,822,167	3.66
2	Group U - real estate development	1,458,700	2.93
3	Company H - retail of other food and beverages	1,434,000	2.88
4	Company T - real estate development	1,172,543	2.35
5	Company Z - real estate development	932,000	1.87
6	Company W - real estate development	930,000	1.87
7	Company K - other financial, insurance and real estate	815,000	1.64
8	Company C - instant food manufacturing	779,730	1.57
9	Company Q - telecommunications	759,566	1.52
10	Company M - sporting and athletic articles manufacturing	705,000	1.42

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	Company 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

b. Market risk

Interest Rate Sensitivity
December 31, 2018

(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	$ 457,294,541	$ 5,064,654	$ 9,732,667	$ 42,968,957	$ 515,060,819
Interest rate-sensitive liabilities	265,564,886	170,310,303	57,553,564	19,103,321	512,532,074
Interest rate-sensitive gap	191,729,655	(165,245,649)	(47,820,897)	23,865,636	2,528,745
Net worth					50,030,191
Ratio of interest rate-sensitive assets to liabilities					100.49%
Ratio of interest rate sensitivity gap to net worth					5.05%

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%

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, 2018

(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	$ 1,369,796	$ 91,924	$ 269,795	$ 1,754,345	$ 3,485,860
Interest rate-sensitive liabilities	1,560,799	387,164	407,730	334,579	2,690,272
Interest rate-sensitive gap	(191,003)	(295,240)	(137,935)	1,419,766	795,588
Net worth					26,474
Ratio of interest rate-sensitive assets to liabilities					129.57%
Ratio of interest rate sensitivity gap to net worth					3,005.17%

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%

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, 2018	For the Year Ended December 31, 2017
Return on total assets	Before income tax	0.57	0.61
	After income tax	0.49	0.51
Return on common equity	Before income tax	8.56	8.97
	After income tax	7.33	7.43
Net income ratio		27.97	26.68

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, 2018 and 2017.

2) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2018

(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	$ 576,751,774	$ 178,305,659	$ 42,949,727	$ 43,346,518	$ 73,322,794	$ 238,827,076
Main capital outflow on maturity	662,529,252	91,088,874	93,951,174	89,290,503	169,096,433	219,102,268
Gap	(85,777,478)	87,216,785	(51,001,447)	(45,943,985)	(95,773,639)	19,724,808

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)

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, 2018

(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	$ 3,704,232	$ 757,570	$ 775,038	$ 99,150	$ 270,012	$ 1,802,462
Main capital outflow on maturity	3,643,476	771,552	1,249,752	430,144	504,897	687,131
Gap	60,756	(13,982)	(474,714)	(330,994)	(234,885)	1,115,331

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

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).

52. 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 or disposed of at costs or prices of at least $300 million or 10% of the paid-in capital - Table 3 (attached)

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

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

53. SEGMENT INFORMATION

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

UNION BANK OF TAIWAN

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(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.	Receivables of affiliates	$ 2,227,032 (JPY 8,000,000)	$ 2,227,032 (JPY 8,000,000)	$ 1,798,878 (JPY 5,639,163) (US$ 7,453)	1.50	Business transaction	$ 2,227,032 (JPY 8,000,000)	-	$ -	-	$ -	$ 2,879,129	$ 2,879,129
2	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Receivables of affiliates	1,030,002 (JPY 3,700,000)	1,030,002 (JPY 3,700,000)	731,364 (JPY 2,627,225)	1.50	Business transaction	1,030,002 (JPY 3,700,000)	-	-	-	-	2,879,129	2,879,129
		Uflc Capital (Singapore) Holding Pte. Ltd.	Receivables of affiliates	1,809,464 (JPY 6,500,000)	1,809,464 (JPY 6,500,000)	1,539,126 (JPY 5,523,808) (US$ 46)	1.50	Business transaction	1,809,464 (JPY 6,500,000)	-	-	-	-	2,879,129	2,879,129
3	Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Receivables of affiliates	528,920 (JPY 1,900,000)	528,920 (JPY 1,900,000)	408,066 (JPY 1,465,865)	2.75	Business transaction	528,920 (JPY 1,900,000)	-	-	-	-	2,879,129	2,879,129
4	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Receivables of affiliates	918,651 (JPY 3,300,000)	918,651 (JPY 3,300,000)	794,912 (JPY 2,855,504)	2.75	Business transaction	918,651 (JPY 3,300,000)	-	-	-	-	2,879,129	2,879,129

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(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, 2018				Note
				Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	Stock							
	Shin Kong Financial Holdings	-	Financial assets at fair value through other comprehensive income	921	$ 8,260	0.008	$ 8,260	
	China Chemical Corporation	-	Financial assets at fair value through other comprehensive income	356	6,451	0.12	6,451	
	Hey-Song Corporation	-	Financial assets at fair value through other comprehensive income	4,551	136,302	1.13	136,302	
	ERA Communications Co., Ltd.	-	Financial assets at fair value through other comprehensive income	425	1,415	0.33	1,415	
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	6,114	96,198		96,198	
	Union Golden Balance Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	854	17,858		17,858	
Union Information Technology Corporation	Stock							
	ELTA Technology Co., Ltd.	-	Financial assets at fair value through other comprehensive income	3,019	30,241	14.38	30,241	
	Greenway Technology Co., Ltd.		Financial assets at fair value through other comprehensive income	1,100	17,600	2.82	17,600	
Union Securities Investment Trust (USITC)	Stock							
	Fundrish Securities Co., Ltd.	-	Financial assets at fair value through other comprehensive income	566	4,871	0.94	4,871	
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	1,595	16,798		16,798	
	Union Emerging Asia Bond A	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	274	5,332		5,332	
	Union Money Market	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	693	16,221		16,221	
	Union Golden Balance Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	867	12,039		12,039	

(Continued)

Holding Company	Type and Issuer/ Name of Marketable Security	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2018 Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	Note
	Union China	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	2,024	$ 22,194		$ 22,194	
	Union Technology Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	1,179	16,309		16,309	
	Union APEC Balanced A	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	267	10,979		10,979	
	Union Global ETF Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	994	4,892		4,892	
	Union Asian High Yield Bond A	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	1,697	22,826		22,826	
Union Finance International (HK) Limited	Bond							
	HBOS Capital Funding LP	-	Financial assets at fair value through profit or loss	900 unit	US$ 896		US$ 896	
	Stock							
	Apple Computer Inc.	-	Financial assets at fair value through profit or loss	7	US$ 1,168		US$ 1,168	
	Obsidian	-	Financial assets at fair value through profit or loss	90	US$ 36		US$ 36	
	Obsidian	-	Financial assets at fair value through other comprehensive income	29	US$ 17		US$ 17	
	Mr.Cooper Group Inc.	-	Financial assets at fair value through other comprehensive income	1	US$ 17		US$ 17	
	Nvidia Corp.	-	Financial assets at fair value through other comprehensive income	10	US$ 1,335		US$ 1,335	
New Asian Ventures Ltd.	Stock							
	Grace T.H.W. Holding Limited	-	Financial assets at fair value through other comprehensive income	1,667	69,007	0.81	69,007	

(Concluded)

TABLE 3

UNION BANK OF TAIWAN

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
Union Bank of Taiwan	Stock Line Biz+ Taiwan, Ltd. (Line Pay)	Investments accounted for using the equity method	Line Biz+ Taiwan, Ltd. (Line Pay)	-	-	$ -	5,471	$ 1,579,977	-	$ -	$ -	$ -	5,471	$ 1,570,630

Note 1: The securities referred to in this table refer to stocks bonds, beneficiary certificates and securities derived from the above projects.

Note 2: Securities accounted for using the equity method must fill in the two columns, and the remainder is exempt.

Note 3: The accumulated acquired and disposal costs or prices should be calculated separately to reach at least NT$300 million or 20% of the paid-capital.

UNION BANK OF TAIWAN

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$300 MILLION OR 10% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(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	$ 1,798,878 (JPY 5,639,163) (US$ 7,453)	-	$ -	-	$ -	$ -
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Subsidiary	731,364 (JPY 2,627,225)	-	-	-	-	-
	Uflc Capital (Singapore) Holding Pte. Ltd.	Subsidiary	1,539,126 (JPY 5,523,808) (US$ 46)	-	-	-	-	-
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	408,066 (JPY 1,465,865)	-	-	-	-	-
Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	794,912 (JPY 2,855,504)	-	-	-	-	-

TABLE 5

UNION BANK OF TAIWAN

ASSET QUALITY - NONPERFORMING LOANS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2018					December 31, 2017				
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		$ 156,712	$ 95,065,830	0.16%	$ 1,453,468	773.71%	$ 126,078	$ 82,684,315	0.15%	$ 1,331,768	884.88%
	Unsecured		31,144	40,811,740	0.08%			24,424	70,604,009	0.03%		
Consumer banking	Housing mortgage (Note 4)		109,406	151,086,376	0.07%	1,896,091	1,733.08%	151,347	132,069,243	0.11%	1,654,526	1,093.20%
	Cash card		361	32,021	1.13%	615	170.36%	682	45,043	1.51%	2,153	315.69%
	Small-scale credit loans (Note 5)		77,149	23,240,769	0.33%	281,206	364.50%	61,359	17,032,760	0.36%	208,107	339.16%
	Other (Note 6)	Secured	26,303	18,025,996	0.15%	221,273	830.76%	18,868	16,886,175	0.11%	205,264	1,051.72%
		Unsecured	332	2,427,774	0.01%			649	2,704,621	0.02%		
Loan			401,407	330,690,506	0.12%	3,852,653	959.79%	383,407	322,026,166	0.12%	3,401,818	887.26%
			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			40,017	14,922,631	0.27%	156,828	391.90%	42,074	14,575,314	0.29%	91,701	217.95%
Accounts receivable factored without recourse			-	183,566	-	1,836	-	-	396,449	-	3,964	-

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)

<u>Not reported as nonperforming loans or nonperforming receivables</u>

Types \ Items	December 31, 2018		December 31, 2017	
	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)	$ 30,402	$ 133,133	$ 42,254	$ 178,460
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	95,253	740,983	77,446	768,034
Total	125,655	874,116	119,700	946,494

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 INVESTEES
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Invest company	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 (%)	
Union bank of Taiwan	Financial- related										
	Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00	$ 2,879,129	$ 135,315	130,000	-	130,000	100.00	Note 1
	Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99	69,721	(31,422)	30,000	-	30,000	99.99	Note 1
	Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00	132,313	(928)	10,500	-	10,500	35.00	Note 1
	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	21,170	3,274	1,000	-	1,000	99.99	Note 1
	Ipass Corporation	Kaohsiung	IC card	11.40	94,313	-	13,000	-	13,000	11.40	
	Taiwan Gin Lian Asset Management Corporation	Taipei	Purchase, sale and management of nonperforming loans from financial institutions	0.57	74,748	-	6,000	-	6,000	0.57	
	Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	47,788	-	5,000	-	5,000	2.94	
	Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53	18,000	-	2,103	-	2,103	0.53	
	Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44	3,993	-	386	-	386	6.44	
	Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	6,797	-	160	-	160	0.81	
	Financial Information Service Co., Ltd.	Taipei	Information service	2.47	267,269	-	12,875	-	12,875	2.47	
	Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25	56,680	-	922	-	922	0.25	
	Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04	424,908	-	6,807	-	6,807	2.04	
	Taiwan Mobile Payment Corporation	Taipei	International trade, data processing service	1.00	3,567	-	600	-	600	1.00	
	LINE BIZ+ Taiwan., Ltd	Taipei	Data processing, digital information supply and third party payment services	10.00	1,570,630	(9,347)	5,471	-	5,471	10.00	
	Nonfinancial - related							-			
	Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00	52,832	(289)	2,000	-	2,000	40.00	Note 1
	Fu Hua Venture Corporation	Taipei	Investments	5.00	4,825	-	743	-	743	5.00	
	Li Yu Venture Corporation	Taipei	Investment	4.76	3,955	-	558	-	558	4.76	
	Lian An Service Corporation	Taipei	Security service	5.00	1,527	-	125	-	125	5.00	
	Taiwan Power Corporation	Taipei	Electricity-related business	0.0012	3,070	-	395	-	395	0.0012	
Union Finance and Leasing International Corporation	Nonfinancial - related										
	Union Capital (Cayman) Corp	Cayman	Investments, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable	100.00	582,101	37,659	50	-	50	100.00	Note 1
	New Asian Ventures Ltd.	BVI	Investments, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable	100.00	91,303	964	-	-	-	100.00	Note 1
Union Capital (Cayman) Corp.	Nonfinancial - related										
	Union Capital (Singapore) Holding Pte. Ltd.	Singapore	Investments, overseas financing, equipment leasing, installment selling, acquisition of account receivable	100.00	30,898 (JPY 110,992)	14,243 (JPY 52,065)	-	-	-	100.00	Note 1
	Uflc Capital (Singapore) Holding Pte. Ltd.	Singapore	Investments, overseas financing, equipment leasing, installment selling, acquisition of account receivable	100.00	34,667 (JPY 124,532)	15,746 (JPY 57,557)	-	-	-	100.00	Note 1

(Continued)

Invest company	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 (%)	
Union Capital (Singapore) Holding Pte. Ltd.	Nonfinancial - related										
	Kabushiki Kaisha UCJ1	Japan	Buy, sell and lease real estate	30.55	131,725 (JPY 473,185)	$ 824 (JPY 3,012)	9	-	$ 9	30.55	Note 3
	Tokutei Mokuteki Kaisha SSG15	Japan	Real estate securitization	49.00	195,074 (JPY 700,750)	17,361 (JPY 63,459)	Note 6	-	Note 6	49.00	Note 3
Kabushiki Kaisha UCJ1	Nonfinancial - related										
	Tokutei Mokuteki Kaisha SSG15	Japan	Real estate securitization	51.00	203,022 (JPY 729,300)	18,069 (JPY 66,049)	Preferred stock 15	-	Preferred stock 15	51.00	Note 3
	Tokutei Mokuteki Kaisha SSG12	Japan	Real estate securitization	51.00	274,008 (JPY 984,300)	14,539 (JPY 53,144)	Note 5	-	Note 5	51.00	Note 3
	Tokutei Mokuteki Kaisha SSG16	Japan	Real estate securitization	51.00	184,565 (JPY 663,000)	9,582 (JPY 35,026)	Preferred stock 26	-	Preferred stock 26	51.00	Note 3
Uflc Capital (Singapore) Holding Pte. Ltd.	Nonfinancial - related										Note 3
	Kabushiki Kaisha UCJ1	Japan	Buy, sell and lease real estate	69.45	299,472 (JPY 1,075,770)	1,873 (JPY 6,847)	21	-	21	69.45	Note 3
	Tokutei Mokuteki Kaisha SSG12	Japan	Real estate securitization	49.00	263,277 (JPY 945,750)	13,968 (JPY 51,059)	Note 6	-	Note 6	49.00	Note 3
	Tokutei Mokuteki Kaisha SSG16	Japan	Real estate securitization	49.00	177,341 (JPY 637,050)	9,206 (JPY 33,652)	Note 4	-	Note 4	49.00	Note 3

Note 1: Expect for LINE BIZ+ Taiwan, Ltd, the investees' information shown above is based on audited financial reports as of December 31, 2018.

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.

Note 3: 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, 2018. Kabushiki Kaisha UCJ1 - unaudited statements of stockholders' equity as of September 30, 2018.

Note 4: Refers to 1 share of common stock and 13 thousand shares of preferred stock.

Note 5: Refers to 1 share of common stock and 14 thousand shares of preferred stock.

Note 6: Refers to 1 share of common stock and 19 thousand shares of preferred stock.

(Concluded)

UNION BANK OF TAIWAN

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

UNION BANK OF TAIWAN

STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Items	Amounts
Cash on hand (Note)	$ 5,138,330
Checks for clearing	3,926,902
Due from banks	3,612,487
	$ 12,677,719

Note: Including US$5,790 thousand @30.7330, JPY642,986 thousand @0.2784, HK$33,329 thousand @3.9240, EUR2,327 thousand @35.2047 and CNY22,917 thousand @4.4741.

UNION BANK OF TAIWAN

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Financial Instrument Name	Par Value	Shares	Rate (%)	Acquisition Cost	Fair Value Unit Price	Fair Value Total Amount	Credit Risk Due to Changes in Fair Value	Note
Domestic listed shares (Note 1)		10,140		$ 586,082	$12.15-$3,215.00	$ 578,929	$ -	
Beneficiary certificates		164,917		2,351,522	$6.89-$75.5	2,313,976	-	
Commercial paper (Note 1)	31,568,700		0.48-1.16	31,510,993		31,510,394	-	
Asset-based securities	369,262		6.03-7.00	56,004		60,415	-	Due before February 2024
Principal guaranteed notes	1,368,325		0.01-0.74	1,368,325		1,368,547	-	
Derivative instruments								
Foreign exchange forward contracts						406,099	-	
Currency swap contracts						79,147	-	
Option contracts						36,521	-	
Cross-currency swap contracts						1,667	-	
						523,434	-	
						$ 36,355,695	$ -	

Note 1: The amount of each individual item in others does not exceed 5% of the account balance.

Note 2: $12,453,108 thousand of financial instruments at fair value through profit or loss were sold under repurchase agreements.

UNION BANK OF TAIWAN

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Financial Instrument Name	Shares (In Thousands)	Par Value	Rate (%)	Acquisition Cost	Loss Allowance	Fair Value Total Amount	Fair Value Unit Price
Government bonds (Note 1)		$ 500,000	0.63-0.78	$ 499,459	$ -	$ 499,895	
Overseas government bonds (Note 1)		6,204,993	3.13-5.75	6,163,717	-	5,897,016	
Corporate bonds (Note 1)		4,150,000	0.80-1.71	4,169,993	(1,694)	4,190,917	
Overseas corporate bonds (Note 1)		9,289,787	2.30-5.99	9,330,276	(21,053)	9,019,959	
Overseas bond debentures (Note 1)		5,316,809	2.60-6.80	5,438,798	(40,810)	5,091,463	
Domestic listed shares (Note 1)	106,152	-	-	3,756,130	-	3,466,804	
Overseas listed shares							
VISA	939	-	-	331,343	-	3,811,075	$4,057.06
Overseas listed shares	49,674	-	-	511,651	-	1,011,440	
Real estate investment trusts (REITs)							
Cromwell European REIT	8,200	-		140,341	-	129,905	15.84
				$ 30,341,708	$ (63,557)	$ 33,118,474	

Note 1: The amount of each individual item in others does not exceed 5% of the account balance.

Note 2: $12,865,389 thousand of financial instruments at fair value through other comprehensive income were sold under repurchase agreements.

UNION BANK OF TAIWAN

STATEMENT OF INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Bond Name	Par Value	Loss Allowance	Unamortized Premiums (Discounts)	Rate (%)	Carrying Value	Collateral	Note
Government bonds	$ 9,507,700	$ -	$ 320,543	0.63-2.63	$ 9,828,243	None	
Asset-based securities (Note 2)	97,861,751	(265,902)	(62,996)	3.00-5.50	42,121,629	None	
Negotiable certificates of deposits (NCD)							
NCD issued by the CBC	42,200,000	-	-	0.59	42,200,000	None	
		$ (265,902)			$ 94,149,872		

Note 1: The par value of asset-based securities is its initial investment amount.

Note 2: The amount of each individual item in others does not exceed 5% of the account balance.

Note 3: $28,655,857 thousand of financial instruments at amortized cost were sold under repurchase agreements.

UNION BANK OF TAIWAN

STATEMENT OF SECURITIES PURCHASED UNDER RESALE AGREEMENTS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Items	Par Value	Book Value	Note
Commercial paper	$ 30,596,000	$ 30,533,909	
Government bonds	1,000,100	1,000,010	
Corporate bonds	32,911,030	32,933,199	
Negotiable certificates of deposits	4,000,000	4,000,247	
		$ 68,467,365	

Note: The amount of each individual item in others does not exceed 5% of the account balance.

STATEMENT 6

UNION BANK OF TAIWAN

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Company	Balance, January 1, 2018		Effect of Retrospective Application of IFRS 9		Balance, January 1, 2018 as Applied Retrospectively		Addition in Investment		Decrease in Investment		Increase (Decrease) in Using Equity Method	Balance, December 31, 2018			Market Value or Net Assets Value	Collateral
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		Shares	%	Amount		
Union Finance and Leasing International Corporation (UFLIC)	117,000	$ 2,664,239	-	$ -	117,000	$ 2,664,239	13,000	$ 81,718	-	$ 2,143	$ 135,315	130,000	100.00	$ 2,879,129	$ 2,879,129	
Union Securities Investment Trust Corporation (USITC)	10,500	144,248	-	(676)	10,500	143,572	-	-	-	10,331	(928)	10,500	35.00	132,313	132,313	
Union Finance Internation (HK) Limited	30,000	99,514	-	-	30,000	99,514	-	1,629	-	-	(31,422)	30,000	99.99	69,721	69,721	
Union Information Technology Corporation (UIT)	1,000	20,244	-	42	1,000	20,286	-	119	-	2,509	3,274	1,000	99.99	21,170	21,170	
Associates																
Union Real Estate Management Corporation	2,000	53,121	-	-	2,000	53,121	-	-	-	-	(289)	2,000	40.00	52,832	52,832	
LINE BIZ+ Taiwan, Ltd.	-	-	-	-	-	-	5,471	1,579,977	-	-	(9,347)	5,471	10.00	1,570,630	1,570,630	
		$ 2,981,366		$ (634)		$ 2,980,732		$ 1,663,443		$ 14,983	$ 96,603			$ 4,725,795		

Note: The amount of increase and decrease in the current period is due to recognition of the unrealized gains and losses of financial assets at fair value through other comprehensive income, the remeasurement of defined benefit plans and exchange the differences on translating foreign operations.

STATEMENT 7

UNION BANK OF TAIWAN

STATEMENT OF OTHER ASSETS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Items	Amount
Refundable deposits	$ 2,084,298
Prepaid expenses	405,938
Others (Note)	183
	$ 2,490,419

Note: The amount of each individual item in others does not exceed 5% of the account balance.

UNION BANK OF TAIWAN

STATEMENT OF DEPOSITS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Items	Amounts
Saving deposits	
Withdrawals of interest savings deposits	$ 126,802,368
Demand deposits	131,253,120
Round-amount savings deposits	42,869,582
Staff demand savings deposits	1,536,741
Regular deposits	325,648
	302,787,459
Time deposits	
General deposits	43,973,494
Policy-based deposits	21,304,920
Foreign-exchange time deposits	48,826,893
	114,105,307
Demand deposits	
General deposits	60,276,052
Foreign - exchange deposits	20,374,638
	80,650,690
Checking deposits	6,081,176
Negotiable certificates of deposits	10,477,200
Inward and outward remittances	284,968
	$ 514,386,800

STATEMENT 9

UNION BANK OF TAIWAN

STATEMENT OF SECURITIES SOLD UNDER REPURCHASE AGREEMENT
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Items	Amount	Note
Commercial paper	$ 12,462,948	
Assets-based securities	19,716,083	
Corporate bonds	7,389,338	
Government bonds	3,917,112	
Financial bonds	848,907	
	$ 44,334,388	

Note: The amount of each individual item in others does not exceed 5% of the account balance.

UNION BANK OF TAIWAN

STATEMENT OF BANK DEBENTURES
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Bonds Name	Trustee	Issuance Date	Interest Payment Date	Terms of Bank Debentures	Coupon Rate (%)	Total Amount	Balance, End of Year
First issue of subordinated bank debentures in 2012	-	2012/03/01	On 3/1 annually	Interest payable annually after the issue date, principal repayable on maturity	2.32	$ 1,500,000	$ 1,500,000
First issue of subordinated bank debentures in 2013	-	2013/12/19	On 12/19 annually	Interest payable annually after the issue date, principal repayable on maturity	2.10	3,000,000	3,000,000
First issue of subordinated bank debentures in 2015	-	2015/04/22	On 4/22 annually	Interest payable annually after the issue date, principal repayable on maturity	2.08	2,200,000	2,200,000
First issue of subordinated bank debentures in 2016	-	2016/03/29	On 7/1 annually	Redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years	4.20	2,500,000	2,500,000
First issue of subordinated bank debentures in 2017	-	2017/02/23	On 7/1 annually	Redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years	4.20	500,000	500,000
						$ 9,700,000	$ 9,700,000

UNION BANK OF TAIWAN

STATEMENT OF NET PROFIT OR LOSS OTHER THAN INTEREST
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Items	Amounts
Rental revenue	$ 13,235
Withdrawal of reversal litigation costs	2,347
Loss on disposal of collaterals	(2,657)
Bad debts written off	(6,031)
Other (Note)	20,343
	$ 27,237

Note: The amount of each individual item in others does not exceed 5% of the account balance.

UNION BANK OF TAIWAN

STATEMENT OF EMPLOYEE BENEFIT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Items	Amount: Personnel Expenses	Amount: Net Profits Other than Interest	Amount: Other Operating Expenses	Amount: Total	Note
Employee benefit expenses					
Salaries and wages	$ 2,826,908	$ -	$ -	$ 2,826,908	
Labor insurance and national health insurance	261,775	-	-	261,775	
Pension	140,541	-	-	140,541	
Directors remuneration	13,190	-	1,287	14,477	
Others	61,095	-	-	61,095	
	$ 3,303,509	$ -	$ 1,287	$ 3,304,796	

Note 1: In 2018 and 2017, the Bank had 3,767 and 3,640 employees on average, respectively; of which there are 9 and 10 non-employee directors in 2018 and 2017, respectively.

Note 2: The average employee benefit expenses for the year is $876 thousand.

Note 3: The average salaries and wages for the year is $752 thousand.

Union Bank of Taiwan

Securities Department Disclosure
Years Ended December 31, 2018 and 2017

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 5)	$ 200	-	$ 200	-
Financial assets at fair value through other comprehensive income - current (Notes 3, 4 and 6)	2,866,433	66	-	-
Available-for-sale financial assets - current (Notes 4 and 7)	-	-	3,466,515	69
Receivables, net (Notes 4 and 8)	461,406	10	506,839	10
Prepayments	6,294	-	5,815	-
Other financial assets, net (Notes 4 and 9)	-	-	100,000	2
Other current assets	925	-	7,981	-
Total current assets	3,335,258	76	4,087,350	81
NON-CURRENT ASSETS				
Financial assets at amortized cost (Notes 4 and 10)	724,298	17	-	-
Held-to-maturity financial assets - non-current (Notes 4 and 11)	-	-	728,869	15
Operating guaranty deposits (Note 12)	150,000	3	150,000	3
Settlement clearing deposits (Note 13)	24,818	1	22,861	-
Refundable deposits	35,975	1	35,975	1
Inter department debits (Note 18)	92,787	2	7,669	-
Total non-current assets	1,027,878	24	945,374	19
TOTAL	$ 4,363,136	100	$ 5,032,724	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Securities sold under repurchase agreements (Notes 4 and 14)	$ 3,036,045	70	$ 3,675,907	73
Accounts payable (Note 15)	442,068	10	478,966	10
Receipts under custody	1,086	-	7,941	-
Other payables	13,560	-	12,027	-
Total current liabilities	3,492,759	80	4,174,841	83
Total liabilities	3,492,759	80	4,174,841	83
EQUITY				
Registered operating capital	840,000	19	840,000	17
Retained earnings	23,337	1	6,751	-
Other equity				
Unrealized gain on financial assets at fair value through other comprehensive income	7,040	-	-	-
Unrealized gain on available for sale financial assets	-	-	11,132	-
Total equity	870,377	20	857,883	17
TOTAL	$ 4,363,136	100	$ 5,032,724	100

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

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
	Amount	**%**	**Amount**	**%**
REVENUES (Note 4)				
Brokerage fee revenue, net (Note 18)	$ 110,749	65	$ 80,998	55
Underwriting business revenue	246	-	287	-
Net profit from sale of operation securities - dealing	-	-	93	-
Interest revenue	36,222	21	40,880	28
Net gains on measurement at fair value through profit or loss for securities held for operations	361	-	1,940	1
Net gains on investments in debt instruments at fair value through other comprehensive income	530	-	-	-
Commission revenues	1,887	1	1,730	1
Other operating revenues	21,804	13	22,341	15
Expected credit loss (Note 4)	(267)	-	-	-
Total revenues	171,532	100	148,269	100
COST AND EXPENSES				
Brokerage fee expenses, net	7,616	4	5,593	4
Net loss from sale of operation securities dealer	181	-	-	-
Financial costs	3,318	2	1,623	1
Employee benefit expenses (Note 16)	97,489	57	91,421	62
Depreciation and amortization	11,063	6	10,863	7
Others (Note 17)	54,129	32	52,693	35
Total cost and expenses	173,796	101	162,193	109
NON-OPERATING INCOME AND EXPENSES				
Other gains and losses	31,348	18	24,410	16
PROFIT BEFORE INCOME TAX	29,084	17	10,486	7
INCOME TAX EXPENSE (Note 4)	5,747	3	3,735	2
NET INCOME	23,337	14	6,751	5

(Continued)

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
	Amount	**%**	**Amount**	**%**
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to profit or loss:				
Unrealized loss on available-for-sale financial assets	$ -	-	$ 1,687	1
Unrealized gain on investment in debt instruments at fair value through other comprehensive income	(4,707)	(3)	-	-
Other comprehensive loss for the year, net of income tax	(4,707)	(3)	1,687	1
TOTAL COMPREHENSIVE LOSS	$ 18,630	11	$ 8,438	6

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

1. ORGANIZATION AND OPERATIONS

The securities department of the Union Bank of Taiwan (the Department) was established on July 27, 1994 and obtained the securities dealer's license from the authorities on August 11, 2010. The Department is principally engaged in the provision of brokerage services and the bonds and securities business. The Department's working capital was both $840,000 thousand as of December 31, 2018 and 2017

The number of employees in the Department as of December 31, 2018 and 2017 were 120 and 121, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The board of directors of the Department approved and authorized the issue of the financial statements on March 13, 2019.

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

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

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Department's accounting policies.

- IFRS 9 "Financial Instruments" and related amendments

  IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

  Classification, measurement and impairment of financial assets

  On the basis of the facts and circumstances that existed as of January 1, 2018, the Bank has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Bank's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category IAS 39	Measurement Category IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9	Remark
Receivables, net	Amortized cost (loans and receivables)	Amortized cost	$ 506,839	$ 506,839	a.
Available-for-sale financial assets, net	Fair value through other comprehensive income	FVTOCI	3,466,515	3,466,515	b.
Held-to-maturity financial assets, net	Amortized cost	Amortized cost	728,869	728,869	c.

	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTOCI	$ -	$ -	$ -	$ -	$ -	$ -	
Add: From available-for-sale - debt investment (IAS 39)	3,466,515	-	-	3,466,515	(615)	615	b.
	3,466,515	-	-	3,466,515	(615)	615	
Financial instruments at amortized costs	728,869	-	-	728,869	-	-	c.
Balance of financial assets, reclassification and remeasurement	$ 4,195,384	$ -	$ -	$ 4,195,384	$ (615)	$ 615	

a. Accounts receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost under IFRS 9.

b. Debt investments of $3,466,515 thousand that were previously classified as available-for-sale financial assets under IAS 39 were classified as at FVTOCI under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held with a business model whose objective is achieved by both collecting cash flows and selling financial assets. As a result of retrospective application, the related adjustment comprised an increase in other equity - unrealized gain (loss) on financial assets at FVTOCI of $615 thousand and a decrease in retained earnings of $615 thousand on January 1, 2018.

c. Debt investments of $728,869 thousand previously classified as held-to-maturity financial assets and measured at amortized cost with an assessment of expected credit losses under IAS 39 were classified as at amortized cost under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior periods' closing impairment allowance measured in accordance with the impairment loss model under IAS 39 to the new impairment allowance measured using the expected loss model in accordance with the IFRS 9 at January 1, 2018.

Reclassification	Loss Allowance under IAS 39 Provision under IAS 37	Reclassifications	Remeasurements	Loss Allowance under IFRS 9
Available-for-sale financial assets (IAS 39)/FVTOIC financial assets (IFRS 9)				
Available-for-sale financial assets	$ -	$ -	$ 615	$ 615

For further and more detailed disclosure, please refer to Note 3 of the Bank's standalone financial statements.

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 Securities Firms.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

b. Assets expected to be realized within 12 months after the reporting period; and

c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

b. Liabilities due to be settled within 12 months after the reporting period; and

c. Liabilities for which the Department does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue 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.

<u>Financial assets</u>

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

a. Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, investments in debt instruments at FVTOCI and investments in equity instruments at FVTOCI.

1) Financial assets at FVTPL

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

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

Financial assets at FVTPL are subsequently measured at fair value, 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 48.

2) Financial assets at amortized cost

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

a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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.

3) Investments in debt instruments at FVTOCI

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

a) The debt instrument is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and

b) The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

4) Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets and loans and receivables.

1) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.
A financial asset may be designated as at FVTPL 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 a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis in accordance with the Department’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 FVTPL

Financial assets at FVTPL 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 48.

Investments in equity instruments under financial assets at FVTPL 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 instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented as 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) 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 FVTPL.

Commercial papers, listed shares, beneficiary certificates, corporate bonds, negotiable certificates of deposits and foreign government bonds, which have a quoted market price in an active market, are classified as available-for-sale financial assets which are subsequently measured at fair value at the end of each reporting period. Fair value is determined in the manner described in Note 48.

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 Department'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 as 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 of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

3) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market and other receivables) 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

2018

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

For financial instruments and contract assets, the Department recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Department measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

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

2017

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 were 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.

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.

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, they are 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 Department 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.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

Recognition of Revenue

Revenue is recognized when it is realized or realizable and also when it is earned. Revenue earned from service is recognized when the service is rendered.

Taxation

Income tax expense is the sum of tax currently payable and deferred income tax.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash in bank		
Cash on hand	$ 200	$ 200

6. **FINANCIAL ASSETS AT FVTOCI - 2018**

	December 31, 2018
Corporate bonds	$ 2,366,538
Government bond	499,895
	$ 2,866,433

The Department has sold all of its financial assets at FVTOCI assets under several repurchase agreements at December 31, 2018.

7. **AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT - 2017**

	December 31, 2017
Government bonds	$ 951,695
Corporate bonds	2,514,820
	$ 3,466,515

The Department has sold all of its investments in available-for-sale assets under several repurchase agreements at December 31, 2017.

8. **RECEIVABLES, NET**

	December 31	
	2018	2017
Investments receivable	$ 293,640	$ 398,156
Interest receivable	18,448	27,591
Reimbursed for settlement	149,318	77,788
Others	-	3,304
	$ 461,406	$ 506,839

9. **OTHER FINANCIAL ASSETS, NET**

	December 31	
	2018	2017
Due from banks - time deposits	$ -	$ 100,000

Due from bank are time deposits with terms over 3 months.

10. FINANCIAL ASSETS MEASURED AT COST - 2018

	December 31, 2018
Debt instruments	
Government bonds	$ 724,298

11. HELD-TO-MATURITY FINANCIAL ASSETS NON-CURRENT - 2017

	December 31, 2017
Government bonds	$ 728,869

Held-to-maturity financial assets have not been sold under repurchase agreements.

12. OPERATING GUARANTEE DEPOSITS

	December 31	
	2018	2017
Securities broker operating guarantee deposits	$ 90,000	$ 90,000
Futures broker operating guarantee deposits	50,000	50,000
Securities dealer operating guarantee deposits	10,000	10,000
	$ 150,000	$ 150,000

The Department placed $150 million in time deposits in designated banks as operating guarantee deposits as of December 31, 2018 and 2017 in accordance with the Securities and Exchange Act, Regulations Governing Securities Firms, Regulations Governing Offshore Funds, and Regulations Governing Futures Commission Merchants.

13. SETTLEMENT CLEARING DEPOSITS

	December 31	
	2018	2017
Taiwan Stock Exchange Corporation settlement clearing deposits	$ 12,923	$ 11,471
Taipei Exchange settlement clearing deposits	11,895	11,390
	$ 24,818	$ 22,861

The Department made deposits into the clearing and settlement fund in dedicated accounts for custody set up by the Taiwan Stock Exchange and the Taipei Exchange in accordance with the standards provided by the Taiwan Stock Exchange and the Taipei Exchange. With respect to interest accrued from utilization by the Taiwan Stock Exchange and Taipei Exchange of the clearing and settlement fund, the Taiwan Stock Exchange and Taipei Exchange settle accounts on a half-yearly basis and reimburse any remaining interest, after deducting applicable fees and taxes, to the securities firms in accordance with Securities and Exchange Act.

14. BONDS SOLD UNDER REPURCHASE AGREEMENTS

	December 31	
	2018	2017
Government bonds	$ 550,381	$ 1,048,921
Corporate bonds	2,485,664	2,626,986
	$ 3,036,045	$ 3,675,907
Maturity date	January to February 2019	January to May 2018
Repurchase price	$ 3,037,214	$ 3,676,904

15. PAYABLES

	December 31	
	2018	2017
Investments receivable	$ 420,237	$ 426,104
Reimbursed for settlement	21,170	51,771
Others	661	1,091
	$ 442,068	$ 478,966

16. EMPLOYEE BENEFIT EXPENSE

	For the Year Ended December 31	
	2018	2017
Employee benefit expense		
Salaries	$ 78,002	$ 73,533
Labor and health insurance	8,407	7,934
Pension	4,820	4,615
Others	6,260	5,339
	$ 97,489	$ 91,421

17. OTHER OPERATING EXPENSE

	For the Year Ended December 31	
	2018	2017
Rental	$ 11,380	$ 11,051
Computer operating	7,677	7,904
Postage/cable charge	4,315	4,021
Maintenance charge	4,450	3,164
Utilities	2,073	2,126
Others	24,234	24,427
	$ 54,129	$ 52,693

18. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Party	Relationship with the Department
Union Bank of Taiwan	Headquarter of the Department

b. Significant transactions between the Department and related parties

Related Party	Account	December 31 2018	December 31 2017
Union Bank of Taiwan	Inter-Department Debits	$ 92,787	$ 7,669

Brokerage handling fees changed to related parties were adjusted to the account "Inter-Department Debits" and the rate and collection term were not significantly different from those with other customers.

19. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments 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.

	December 31, 2018			
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets				
Held-to-maturity financial assets	$ -	$ -	$ 728,869	$ 731,695
Financial assets at amortized cost	724,298	726,932	-	-

Fair value hierarchy:

Item	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Financial asset				
Financial assets at amortized cost	$ 724,298	$ -	$ 726,932	$ -

Item	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Financial asset				
Held-to-maturity financial assets - non-current	$ 728,869	$ -	$ 731,695	$ -

b. The Department's methods and assumptions used to measure the fair value of financial assets and liabilities are as follows:

1) The carrying values of cash, cash equivalents, receivables, net, other financial assets, other current assets, inter-department debits, payables, collection payments, other payables (other than tax payable) and other current liabilities approximate the fair values due to their short maturities.

2) The carrying values of operating guarantee deposits, settlement clearing deposits and refundable deposits approximate their fair values due to the fact that interest payments are collected and cash discounts are immaterial.

3) The information on the fair value hierarchies of the Department's financial instruments as of December 31, 2018 and 2017 were as follows:

Item	**December 31, 2018**			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis nonderivative financial instruments				
Assets				
Financial assets at FVTOCI				
Bond investments	$ 2,866,433	$ -	$ 2,866,433	$ -

Item	**December 31, 2017**			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis nonderivative financial instruments				
Assets				
Financial assets at FVTOCI				
Bond investments	$ 3,466,515	$ -	$ 3,466,515	$ -

Please refer to Note 48 for further information regarding the definitions of the 3 levels of fair value measurement.

That was no material transfer between Level 1 and Level 2 for 2018 and 2017.

d. Information on financial risk management

1) Market risk

Transactions of the Department were all measured at fair value using reliable information, such as the market price, market interest rate and maturity date. Moreover, hedging strategies were also applied to mitigate risk exposure.

2) Credit risk

Credit risks refers to the Department's exposure to financial losses due to inability of customers, bonds issuers, or counterparties to meet the contractual obligations on financial instruments. Before entering transactions, the Department evaluates the counterparty's credit status with reference to external credit rating information. Furthermore, the Department assigns different transaction limits to counterparties of different credit ratings in order to mitigate default losses when extreme situations occur.

Investments in debt instruments made by the Department were composed of financial assets at FVTOCI and financial assets at amortized cost:

	FVTOCI	Amortized Cost	Total
Carrying value	$ 2,861,158	$ 724,298	$ 3,585,456
Loss allowance	(883)	-	(883)
Fair value	6,158	-	6,158
	$ 2,866,433	$ 724,298	$ 3,590,731

The Department continuously monitors the external credit rating information and price movements of the debt instruments invested in to assess whether credit risk has significantly increased since initial recognition of the investment.

The Department takes into consideration the multi-period default probability table for each rating of securities issued by credit rating agencies and the recovery rates of different types of bonds to assess the 12-month expected credit losses or lifetime expected credit losses for these investments.

Debt investments at FVTOCI and at amortized cost, sorted by credit ratings, are shown as follows:

Credit Risk Ratings	Definition	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Rate	Gains Carrying Amount at December 31, 2018
Low credit risk	The debtor has low credit risk	12-month ECL	0%-0.07%	$ 3,590,731
Significant increase in credit risk	Credit risk has increased significantly since initial recognition	12-month ECL	Note	-
Default	Evidence of credit impairment	Lifetime ECL	100%	-

Note: Credit rating of investment made in debt instruments at December 31, 2018 were normal.

The allowance for impairment loss of investments in debt instruments at FVTOCI and at amortized cost grouped by credit rating is reconciled as follows:

	Credit Ratings		
	Low Credit Risk	**Significant Increase in Credit Risk Since Initial Recognition**	**Evidence of Credit Impairment**
Balance at January 1, 2018 under IAS 39	$ -	$ -	$ -
Effect of retrospective application of IFRS 9	615	-	-
Balance at January 1, 2018 under IFRS 9	615	-	-
Changes in credit risk ratings			
Low credit risk to significant increase in credit risk	-	-	-
Significant increase in credit risk to default	-	-	-
New debt instruments purchased	268	-	-
Derecognition	(59)	-	-
Risk/model parameter change	-	-	-
Other changes	58	-	-
Balance at December 31, 2018	$ 882	$ -	$ -

3) Liquidity risk

The Department has low liquidity risk due to the fact that investments owned by the Department have relatively high liquidity. Besides, among those investments, the Department also set holding limits.

20. ADDITIONAL DISCLOSURES

Significant transactions and investees:

a. Financing provided: None.

b. Endorsement/guarantee provided: None.

c. Acquisition of individual real estate at a costs of at least NT$100 million or 20% of the paid-in capital: None.

d. Disposal of individual real estates at a prices of at least NT$100 million or 20% of the paid-in capital: None.

e. Allowance for service fees to related parties amounting to at least NT$5 million: None.

f. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None.

21. RELATED INFORMATION ON EQUITY INVESTMENTS IN INVESTEES: NONE

22. INVESTMENT IN MAINLAND CHINA: NONE

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

LIST OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - CURRENT
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Item	Maturity Date	Interest Rate %	Fair Value	Accumulated Impairment	Historical Cost		Fair Value	
					Unit Price	Total Price	Unit Price	Total Price
Government bonds								
A05113V	110/10/25	0.6300	$ 300,000	$ -	99.8197	$ 299,459	99.9260	$ 299,778
HB0701	112/10/16	0.7800	200,000	-	100.0000	200,000	100.0585	200,117
			500,000	-		499,459		499,895
Corporate bonds								
B644A7	110/06/07	0.8000	200,000	88	100.0000	200,000	100.1355	200,271
B71888	111/09/21	0.8900	200,000	38	100.0000	200,000	100.3650	200,730
B903UW	108/06/15	1.4300	200,000	46	100.0265	200,053	100.4020	200,804
B903V2	108/11/30	1.2700	300,000	95	100.5443	301,633	100.6213	301,864
B903V4	111/12/26	1.3900	400,000	130	102.1063	408,425	102.2868	409,147
B903WJ	111/12/15	0.8800	300,000	94	100.0000	300,000	100.3450	301,035
B95451	109/08/03	1.3500	200,000	138	100.0000	200,000	100.9265	201,853
Others (Note 2)			550,000	253		550,705		550,834
			2,350,000	882		2,360,816		2,366,538
			$ 2,850,000	$ 882		$ 2,860,275		$ 2,866,433

Note 1: Total amount under repurchase agreement is $2,866,433 thousand.

Note 2: Individual items have not exceeded 5% of the total amount.

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

LIST OF BONDS UNDER PURCHASE AGREEMENTS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

	Transaction Terms				
Item	**Issue Date**	**Maturity Date**	**Interest Rate %**	**Fair Value**	**Issue Price**
Government bonds					
HB0701	2018/11/21	2019/02/27	0.45	$ 200,000	$ 218,429
A05113V	2018/12/13	2019/01/07	0.43	300,000	331,952
				500,000	550,381
Corporate bonds					
B644A7	2018/11/20	2019/01/29	0.59	200,000	204,453
B71888	2018/10/23	2019/02/26	0.57	200,000	212,403
B903UW	2018/11/29	2019/01/31	0.54	200,000	212,122
B903V2	2018/12/03	2019/02/26	0.61	300,000	329,212
B903V4	2018/12/05	2019/02/20	0.58	400,000	425,877
B903WJ	2018/12/06	2019/01/18	0.58	300,000	317,920
B95451	2018/12/05	2019/01/25	0.58	200,000	206,022
Others (Note)				550,000	577,655
				2,350,000	2,485,664
				$ 2,850,000	$ 3,036,045

Note: Individual items have not exceeded 5% of the total amount.

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

LIST OF FINANCIAL ASSETS AT AMORTISED COST
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Total Amount	Maturity Date	Unamortized Gross Price	Interest Rate	Accumulated Impairment	Book Value	Provided as Guarantee or Pledged as Collateral
Government bonds							
A03106H	700,000	2024/03/03	$ 24,298	1.50%	$ -	$ 724,298	None

STATEMENT 4

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

ITEM STATEMENT (SORTED BY BUSINESS CATEGORY)
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Broker		Dealer			
	Amount	%	Amount	%	Total	%
Profit (loss)						
Operating revenue						
Brokerage fee revenue	$ 110,749	82	$ -	-	$ 110,749	65
Underwriting business revenue	246	-	-	-	246	-
Interest revenue	-	-	36,222	98	36,222	21
Net profit from operating securities at fair value through profit or loss	-	-	361	1	361	-
Net realized profit from debt investments at fair value through other comprehensive income	-	-	530	2	530	-
Commission revenue	1,887	2	-	-	1,887	1
Others operating revenue	21,804	16	-	-	21,804	13
Expected credit losses	-	-	(267)	(1)	(267)	-
	134,686	100	36,846	100	171,532	100
Operating expense						
Brokerage fee	7,616	6	-	-	7,616	4
Net loss from selling securities - dealer	-	-	181	-	181	-
Finance cost	3,318	2	-	-	3,318	2
Employee benefits expense	84,646	63	12,843	35	97,489	57
Depreciation and amortization expense	11,063	8	-	-	11,063	6
Other operating expense	39,632	29	14,497	39	54,129	32
	146,275	108	27,521	74	173,796	101
Profit (loss)	(11,589)	(8)	9,325	26	(2,264)	(1)
Other income and losses	31,348	23	-	-	31,348	18
Profit before tax	19,759	15	9,325	26	29,084	17
Income tax expense	3,952	3	1,795	5	5,747	3
Net profit (loss)	15,807	12	7,530	21	23,337	14
Other comprehensive income	-	-	(4,707)	(13)	(4,707)	(3)
Total comprehensive income	$ 15,807	12	$ 2,823	8	$ 18,630	11

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

LIST OF BROKERAGE FEE REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Securities Brokerage at Stock Exchange Market	Securities Brokerage at over the Counter Market	Total
January	$ 12,999	$ 4,141	$ 17,140
February	7,539	2,153	9,692
March	13,118	4,293	17,411
April	11,451	3,802	15,253
May	13,876	4,828	18,704
June	14,057	5,021	19,078
July	13,920	4,533	18,453
August	13,342	3,808	17,150
September	10,799	2,613	13,412
October	12,798	2,650	15,448
November	10,910	3,288	14,198
December	9,518	3,260	12,778
	$ 144,327	$ 44,390	$ 188,717

STATEMENT 6

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

LIST OF DISCOUNTS ON BROKERAGE FEE REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Month	Stock Exchange Market	Over-the-Counter	Total
January	$ 5,268	$ 1,729	$ 6,997
February	3,134	822	3,956
March	5,988	1,767	7,755
April	4,708	1,667	6,375
May	5,466	2,042	7,508
June	5,675	2,058	7,733
July	5,874	1,897	7,771
August	5,335	1,583	6,918
September	4,533	1,080	5,613
October	5,069	1,115	6,184
November	4,595	1,393	5,988
December	3,766	1,404	5,170
	$ 59,411	$ 18,557	$ 77,968

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

LIST OF SECURITIES SOLD
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Revenue from Sale of Securities	Cost of Securities Sold	Profit or Loss
Dealer			
Sold at the office			
Financial assets at FVTPL			
Government bonds	$ 5,285,034	$ 5,285,215	$ (181)
Financial assets at FVTOCI			
Government bonds	100,389	99,859	530
	$ 5,385,423	$ 5,385,074	$ 349

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

LIST OF INTEREST REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Items	Amounts
Interest revenue from bond investments	
Interest from financial assets at FVTPL	$ 28,029
Interest from financial assets at amortized cost	8,179
	36,208
Others	14
	$ 36,222

STATEMENT 9

UNION BANK OF TAIWAN
SECURITIES DEPARTMENT

LIST OF OPERATING EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Item	2018	2017
Employee benefit expense		
Salary expense	$ 78,002	$ 73,533
Insurance expense	8,407	7,934
Pension expense	4,820	4,615
Others (Note)	6,260	5,339
	97,489	91,421
Depreciation and amortization expense		
Depreciation expense	6,421	6,653
Amortization expense	4,642	4,210
	11,063	10,863
Other operating expense		
Rental expense	11,380	11,051
Computer operating expense	7,677	7,904
Postage/cable fee	4,315	4,021
Maintenance expense	4,450	3,164
Utilities	2,073	2,126
Others (Note)	24,234	24,427
	54,129	52,693
	$ 162,681	$ 154,977

Note 1: Total number of employees are 120 and 121 in 2018 and 2017, respectively.

Note 2: Individual items have not exceeded 5% of the total amount.

Union Bank of Taiwan and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 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, 2018 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:

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March 26, 2019

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, 2018 and 2017, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and 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, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, 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, 2018 are described as follows:

Accuracy of Interest Revenue from of Discounts and Loans

For the year ended December 31, 2018, the amount of interest revenue from discounts and loans was $6,987,828 thousand which, represented approximately 55% of total net revenue, and was considered material to the financial statements as a whole. Refer to Note 36 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, 2018.

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 interest revenue from commercial loans and discounts. Testing of operating effectiveness of relevant automated controls in the application system.

3. Select material loans to verify if the balance generated from the information system is the same with the carry amount.

4. Testing and assessment of the accuracy of interest revenue generated by information system. Verify if there is any difference between the interest revenue of the aforementioned loans derived from the information system and those recorded in the ledgers.

Assessment of the Impairment of Discounts and Loans

As of December 31, 2018, the net amount of discounts and loans of the Company was $325,015,686 thousand which, represented approximately 50% of total consolidated assets, and was considered material to the financial statements as a whole. Refer to Note 14 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, 2018.

The Company's management periodically performs loan impairment assessment through making judgements to measure the loss allowance at an amount equal to 12-month expected credit losses or the lifetime expected credit losses. Also, the allowance provision should comply with classification of credit assets and relevant regulations for the provision issued by the authorities.

For the accounting policies and relevant information on loan impairment assessment, refer to Notes 4, 5 and 14 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. Obtain an understanding of and perform test on the relevant internal controls in respect of the Bank’s loan impairment assessment.

2. Obtain an understanding of the assumptions and critical factors of the impairment assessment model, including the Probability of Default and the Loss Given Default, and testing whether those estimates reasonably reflected the actual status of each loan.

3. Perform test on reasonableness of calculation of expected credit losses for selected loans.

4. Test the classification of credit assets by length of overdue period for the respective loans and its collateral in order to assess whether the provision of allowances for possible losses complies with relevant regulations issued by 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, 2018 and 2017 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, 2018 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.

Cheng, Shiuh Ran Yang, Chen Hsiu

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2019

<u>*Notice to Readers*</u>

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	$ 14,014,731	2	$ 12,136,172	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Note 7)	29,262,634	5	19,180,985	4
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 3, 4 and 8)	36,709,925	6	12,136,325	2
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 3, 4, 5, 9 and 11)	33,393,507	5	-	-
INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST (Notes 3, 4, 5, 10 and 11)	94,149,872	15	-	-
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Note 12)	68,480,765	11	28,234,334	5
RECEIVABLES, NET (Notes 4, 5, 10 and 13)	18,131,482	3	17,751,420	3
CURRENT TAX ASSETS	81,020	-	52,134	-
DISCOUNTS AND LOANS, NET (Notes 4, 5, 14, and 47)	325,015,686	50	316,728,989	56
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 3, 4, 16 and 47)	-	-	35,489,633	6
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 3, 4 and 17)	-	-	51,285,957	9
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 19)	1,623,462	-	53,121	-
OTHER FINANCIAL ASSETS, NET (Notes 3, 4, 207 and 48)	2,301,648	-	48,267,839	9
PROPERTY AND EQUIPMENT, NET (Notes 4 and 21)	8,007,495	1	8,081,729	2
INVESTMENT PROPERTIES, NET (Notes 4, 22, 30 and 48)	5,398,908	1	5,284,434	1
INTANGIBLE ASSETS (Notes 4 and 23)				
Goodwill	1,985,307	-	1,985,307	-
Computer software	177,654	-	184,137	-
Total intangible assets	2,162,961	-	2,169,444	-
DEFERRED TAX ASSETS (Notes 4 and 45)	791,550	-	1,172,974	-
OTHER ASSETS, NET (Notes 24, 33, 30, 47 and 49)	8,060,448	1	7,590,797	1
TOTAL	$ 647,586,094	100	$ 565,616,287	100
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 25)	$ 12,111,895	2	$ 9,249,185	2
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	307,799	-	183,384	-
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Note 26)	44,334,388	7	30,273,976	5
ACCOUNTS PAYABLE (Note 27)	7,013,422	1	7,108,824	1
CURRENT TAX LIABILITIES	41,221	-	77,173	-
DEPOSITS AND REMITTANCES (Notes 28 and 47)	513,918,075	79	449,049,470	79
BANK DEBENTURES (Note 29)	9,700,000	2	11,700,000	2
BOND PAYABLE (Note 30)	1,480,976	-	1,409,598	-
OTHER FINANCIAL LIABILITIES (Note 31)	4,089,464	1	4,291,441	1
PROVISIONS (Notes 4, 5, 32 and 33)	262,482	-	182,262	-
DEFERRED TAX LIABILITIES (Notes 4 and 45)	1,269,570	-	937,196	-
OTHER LIABILITIES (Notes 34 and 49)	2,998,047	-	2,967,213	1
Total liabilities	597,527,339	92	517,429,722	91
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK				
Share capital				
Ordinary shares	26,900,129	4	26,051,524	5
Preference shares	2,000,000	1	2,000,000	-
Total share capital	28,900,129	5	28,051,524	5
Capital surplus	8,032,413	1	8,032,413	2
Retained earnings				
Legal reserve	5,988,776	1	5,165,280	1
Special reserve	612,656	-	585,206	-
Unappropriated earnings	4,619,232	1	4,503,995	1
Total retained earnings	11,220,664	2	10,254,481	2
Other equity	1,659,823	-	1,580,257	-
Total equity attributable to owners of the Bank	49,813,029	8	47,918,675	9
NON-CONTROLLING INTERESTS	245,726	-	267,890	-
Total equity	50,058,755	8	48,186,565	9
TOTAL	$ 647,586,094	100	$ 565,616,287	100

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
NET INTEREST (Notes 4, 36 and 47)					
Interest revenues	$ 10,987,708	86	$ 10,268,804	82	7
Interest expenses	4,285,920	33	3,677,756	29	17
Net interest	6,701,788	53	6,591,048	53	2
NET REVENUES OTHER THAN INTEREST					
Commissions and fee revenues, net (Notes 4, 37 and 47)	2,422,852	19	2,298,017	18	5
Gain on financial assets and liabilities at fair value through profit or loss, net (Notes 4 and 38)	223,068	2	356,479	3	(37)
Realized gain from available-for-sale financial assets, net (Notes 4, 39 and 47)	-	-	830,130	7	(100)
Realized gains on financial assets at fair value through other comprehensive income (Notes 4 and 40)	443,699	3	-	-	-
Share of loss of associates (Notes 4 and 19)	(9,636)	-	(326)	-	2,856
Foreign exchange gain (loss), net (Note 4)	464,241	4	(159,723)	(1)	391
Loss from asset impairment, net (Notes 4 and 41)	(33,589)	-	(799)	-	4,104
Gain on financial assets measured at cost, net (Note 4)	-	-	57,416	-	(100)
Securities brokerage fee revenues, net (Note 4)	208,334	1	203,732	2	2
Rental revenue (Note 4)	2,254,083	18	2,231,092	18	1
Other noninterest net gain	57,481	-	64,299	-	(11)
TOTAL NET REVENUES	12,732,321	100	12,471,365	100	2
PROVISIONS (Notes 4, 5, 13, 14, 15 and 32)					
Provision of allowance for doubtful accounts and provision for losses on commitments and guarantees	293,579	2	356,861	3	(18)

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
OPERATING EXPENSES					
Employee benefit expenses (Notes 33 and 42)	$ 3,531,027	28	$ 3,352,574	27	5
Depreciation and amortization (Notes 4 and 43)	1,987,560	16	1,937,510	15	3
Others (Notes 44 and 47)	3,443,571	27	3,437,849	28	-
Total operating expenses	8,962,158	71	8,727,933	70	3
INCOME BEFORE INCOME TAX	3,476,584	27	3,386,571	27	3
INCOME TAX EXPENSE (Notes 4 and 45)	521,583	4	620,536	5	(16)
CONSOLIDATED NET INCOME	2,955,001	23	2,766,035	22	7
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Note 30)	(13,977)	-	10,474	-	(233)
Unrealized gain on investments in equity instruments at fair value through other comprehensive income	412,817	3	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 45)	(197,735)	(1)	(1,781)	-	11,002
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	405,845	3	(890,651)	(7)	146
Unrealized gain on available-for-sale financial assets	-	-	1,214,673	10	(100)
Unrealized loss on investments in debt instruments at fair value through other comprehensive income	(1,006,753)	(8)	-	-	-

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
Reversal of impairment loss on investments in debt instruments at fair value through other comprehensive income	$ 40,778	-	$ -	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 45)	(53,925)	-	64,104	-	(184)
Other comprehensive income (loss) for the year, net of income tax	(412,950)	(3)	396,819	3	(204)
TOTAL COMPREHENSIVE INCOME	$ 2,542,051	20	$ 3,162,854	25	(20)
NET INCOME ATTRIBUTABLE TO:					
Owners of the Bank	$ 2,956,724	23	$ 2,744,987	22	8
Non-controlling interests	(1,723)	-	21,048	-	(108)
	$ 2,955,001	23	$ 2,766,035	22	7
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of the Bank	$ 2,544,240	20	$ 3,141,678	25	(19)
Non-controlling interests	(2,189)	-	21,176	-	(110)
	$ 2,542,051	20	$ 3,162,854	25	(20)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 46)					
Basic	$1.07		$1.02		
Diluted	$1.06		$1.02		

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable Owners of the Company														
									Other Equity (Notes 4 and 35)						
	Share Capital (Notes 35 and 42)				Retained Earnings (Notes 4 and 35)										
	Ordinary Shares	Preference Shares	Total	Share Capital (Note 32)	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations	Unrealized Gains (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	$ 26,051,524	$ -	$ 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	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	26,051,524	2,000,000	28,051,524	8,032,413	5,165,280	585,206	4,503,995	10,254,481	2,345,701	(765,444)	-	1,580,257	47,918,675	267,890	48,186,565
Effect of retrospective application of IFRS 9	-	-	-	-	-	-	(31,391)	(31,391)	(2,345,701)	-	2,797,843	452,142	420,751	(1,255)	419,496
RETROSPECTIVE RESTATEMENT BALANCE AT JANUARY 1, 2018	26,051,524	2,000,000	28,051,524	8,032,413	5,165,280	585,206	4,472,604	10,223,090	-	(765,444)	2,797,843	2,032,399	48,339,426	266,635	48,606,061
Appropriation of the 2017 earnings															
Legal reserve	-	-	-	-	823,496	-	(823,496)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	27,450	(27,450)	-	-	-	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	-	-	(1,042,061)	(1,042,061)	-	-	-	-	(1,042,061)	-	(1,042,061)
Stock dividends on common shares	781,546	-	781,546	-	-	-	(781,546)	(781,546)	-	-	-	-	-	-	-
Cash dividends on preference shares	-	-	-	-	-	-	(90,740)	(90,740)	-	-	-	-	(90,740)	-	(90,740)
Net income for the year ended December 31, 2018	-	-	-	-	-	-	2,956,724	2,956,724	-	-	-	-	2,956,724	(1,723)	2,955,001
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	-	(4,302)	(4,302)	-	351,920	(760,102)	(408,182)	(412,484)	(466)	(412,950)
Share-based payment	67,059	-	67,059	-	-	-	(4,895)	(4,895)	-	-	-	-	62,164	-	62,164
Cash dividends on subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(18,720)	(18,720)
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(35,606)	(35,606)	-	-	35,606	35,606	-	-	-
BALANCE AT DECEMBER 31, 2018	$ 26,900,129	$ 2,000,000	$ 28,900,129	$ 8,032,413	$ 5,988,776	$ 612,656	$ 4,619,232	$ 11,220,664	$ -	$ (413,524)	$ 2,073,347	$ 1,659,823	$ 49,813,029	$ 245,726	$ 50,058,755

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,476,584	$ 3,386,571
Adjustments for:		
Depreciation expenses	1,917,557	1,873,385
Amortization expenses	70,003	64,125
Expected credit losses/Provision of allowance for doubtful accounts	293,579	356,861
Gain on disposal of financial assets at fair value through profit or loss	(223,068)	(356,479)
Interest expenses	4,285,920	3,677,756
Interest revenues	(10,987,708)	(10,268,804)
Dividend income	(443,146)	(241,044)
Share of loss of associates	9,636	326
Gain on disposal of properties and equipment	(18,436)	(17,565)
Gain on disposal of investments	-	(645,405)
Impairment loss recognized on financial assets	39,935	799
Reversal of impairment losses on nonfinancial assets	(6,346)	-
Loss on disposal of collaterals	2,658	-
Changes in operating assets and liabilities		
Due from the Central Bank and call loans to banks	(4,081,105)	(3,641,413)
Financial assets at fair value through profit or loss	(23,154,778)	(1,823,629)
Financial assets at fair value through other comprehensive income	2,675,488	-
Investments in debt instruments at amortized cost	2,634,924	-
Accounts receivable	(482,042)	(224,260)
Discounts and loans	(8,524,972)	(34,455,640)
Available-for-sale financial assets	-	6,348,871
Held-to maturity financial assets	-	(44,498,510)
Other financial assets	(348,257)	9,694,362
Due to the Central Bank and other banks	2,862,710	859,873
Financial liabilities at fair value through profit or loss	(844,862)	(278,773)
Securities sold under repurchase agreements	14,060,412	1,399,839
Accounts payable	(138,654)	65,695
Deposits	64,868,605	17,430,555
Other financial liabilities	(9,895)	2,155
Provisions for employee benefits	(1,820)	(2,089)
Other liabilities	(499)	899
Cash generated from (used in) operations	47,932,423	(51,291,539)
Interest received	10,929,641	10,274,544
Dividends received	470,766	245,551
Interest paid	(4,180,504)	(3,615,966)
Income tax paid	(125,545)	(67,642)
Net cash generated from (used in) operating activities	55,026,781	(44,455,052)

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of associates	$ (1,579,977)	$ -
Payments for properties and equipment	(235,783)	(200,903)
Proceeds of the disposal of properties and equipment	1,092	21
Payments for investment properties	(30,571)	(15,077)
Increase in settlement fund	(1,957)	-
Decrease in settlement fund	-	161,568
Increase in refundable deposits	(381,659)	(96,985)
Payments for intangible assets	(52,532)	(66,476)
Proceeds of the disposal of collaterals	3,688	-
Increase in other assets	(1,647,545)	(1,574,695)
Net cash used in investing activities	(3,925,244)	(1,792,547)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in commercial paper	-	54,148
Decrease in commercial paper	(192,082)	-
Proceeds of the issue of bonds payable	-	317,955
Proceeds of the issue of bank debentures	-	500,000
Repayments of bank debentures	(2,000,000)	-
Increase in guarantee deposits received	-	2,312
Decrease in guarantee deposits received	(49,554)	-
Increase in other liabilities	62,668	64,401
Dividends paid to non-controlling interests	(18,720)	(22,426)
Cash dividends paid	(1,132,801)	(1,172,319)
Issuance of preference shares	-	10,000,000
Net cash generated from (used in) financing activities	(3,330,489)	9,744,071
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	354,486	(827,215)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,125,534	(37,330,743)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	40,695,617	78,026,360
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 88,821,151	$ 40,695,617

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(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, 2018 and 2017:

	December 31	
	2018	2017
Cash and cash equivalents in the consolidated balance sheets	$ 14,014,731	$ 12,136,172
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”	6,325,655	325,111
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	68,480,765	28,234,334
Cash and cash equivalents in consolidated statements of cash flows	$ 88,821,151	$ 40,695,617

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

1. GENERAL INFORMATION

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

The Bank is mainly engaged 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 Union Bills Finance Corporation (UBF) on August 16, 2010, with the Bank as the surviving entity.

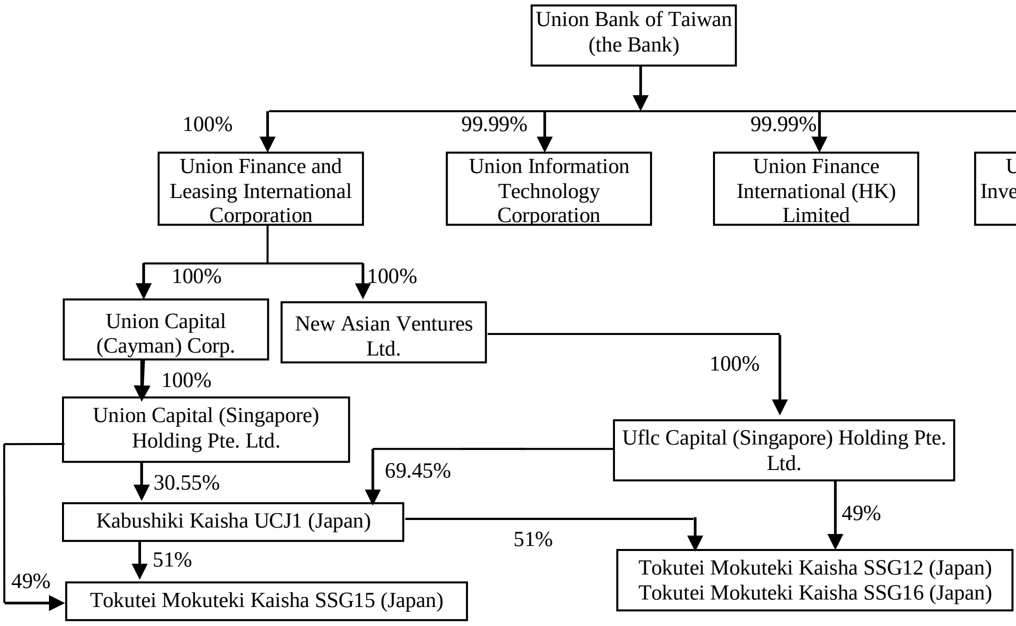
On August 26, 2015, the board of directors of the Bank resolved to merge UIB in order to integrate the resources, strengthen management and business synergy. The merger was approved by the Financial Supervisory Commission (FSC) under Rule No. 10502022990. The effective date of this merger was August 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 the 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, 2018:



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 13, 2019.

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:

- IFRS 9 "Financial Instruments" and related amendments

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

<u>Classification, measurement and impairment of financial assets</u>

On the basis of the facts and circumstances that existed as of January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Company's financial assets and financial liabilities as of January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Financial assets at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	$ 12,136,325	$ 12,136,325	
		Fair value through other comprehensive income	883,014	883,014	1)
Receivables, net	Amortized cost (loans and receivables)	Amortized cost	17,751,420	17,734,683	2)
Available-for-sale financial assets, net	Fair value through other comprehensive income	Fair value through profit or loss	1,071,716	1,071,092	3)
		Fair value through other comprehensive income	34,418,457	34,418,457	4)
Held-to-maturity financial assets, net	Amortized cost	Fair value through profit or loss	25,668	30,024	5)
		Amortized cost	50,960,289	50,960,289	6)
		Fair value through other comprehensive income	300,000	304,786	7)
Other financial assets, net	Amortized cost	Fair value through other comprehensive income	603,994	1,056,673	8)
	Amortized cost (debt instruments with no active market)	Amortized cost	45,701,827	45,701,827	9)
		Fair value through profit or loss	32,927	35,993	10)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ 12,136,325	$ -		$ 12,136,325			
Add: Reclassification from available-for-sale (IAS 39)		1,071,716	(84)	1,071,092	(11,382)	11,298	3)
Add: Reclassification from held-to-maturity (IAS 39)		25,668	4,356	30,024	4,356	-	5)
Add: Reclassification from investments in debt instruments with no active market		32,927	3,066	35,993	3,066	-	10)
Less: Reclassification to FVTOCI (IFRS 9)		(883,014)	-	(883,014)	8,831	(8,831)	1)
	12,136,325	246,757	7,338	12,390,420	4,871	2,467	
FVTOCI	-	-	-	-	-	-	
Debt instruments							
Add: Reclassification from available-for-sale (IAS 39)	27,469,522	-	-	27,469,522	(22,723)	22,723	4)
Add: Reclassification from held-to-maturity (IAS 39)	-	300,000	4,786	304,786	(57)	4,843	7)
Equity instruments							
Add: Reclassification from FVTOCI (IFRS 9)	-	883,014	-	883,014	-	-	1)
Add: Reclassification from available-for-sale (IAS 39)	6,948,935	-	-	6,948,935	-	-	4)
Reclassification from financial assets carried at cost	-	603,994	452,679	1,056,673	31,825	420,854	8)
Debt and equity instruments							
Less: Reclassification of Available-for-sale (IAS 39) to FVTPL (IFRS 9)	1,071,176	(1,071,176)	-	-	-	-	3)
	35,489,683	715,832	457,465	36,662,930	9,045	448,420	
Amortized cost	114,772,131	-	-	114,772,131	-	-	
Add: Reclassification from loans and receivables (IAS 39)	-	-	(16,737)	(16,737)	(16,737)	-	2)
Less: Reclassification to FVTOCI (IFRS 9)	-	(300,000)	-	(300,000)	-	-	7)
Reclassification to FVTPL (IFRS 9)	-	(58,595)	-	(58,595)	-	-	5) and 10)
	114,772,131	(358,595)	(16,737)	114,396,799	(16,737)	-	
Carried at cost	603,994	-	-	603,994	-	-	
Less: Reclassification to FVTOCI (IFRS 9)	-	(603,994)	-	(603,994)	-	-	8)
	603,994	(603,994)	-	-	-	-	
Balance of financial assets, reclassification and remeasurements	$ 163,002,083	$ -	$ 448,066	163,450,149	$ (2,821)	$ 450,887	

1) As stipulated by the "Accounting Treatments on the Holdings of Real Estate Investment Trusts" issued by the Accounting Research and Development Foundation, the Company classified all of its investments in Real Estate Investment Trusts (REITs) as equity instruments. As a result, beneficiary securities of $883,014 thousand that were previously classified as fair value through profit or loss are now classified as at FVTOCI under IFRS 9. As a result of retrospective application, the adjustments comprised a decrease in unrealized gain on financial assets at FVTOCI of $8,831 thousand and an increase in retained earnings of $8,831 thousand on January 1, 2018.

2) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9. As a result of retrospective application, the adjustments comprised an increase in the loss allowance of $16,737 thousand and a decrease in retained earnings of $16,737 thousand on January 1, 2018.

3) Beneficial certificates that were previously classified as available-for-sale financial assets under IAS 39 were classified as at FVTPL under IFRS 9, because the contractual cash flows were not solely payments of principal and interest on the principal outstanding. As a result of retrospective application, the related adjustments comprised a decrease in retained earnings of $11,914 thousand and an increase in other equity - unrealized gain on available-for-sale financial assets of $11,914 thousand on January 1, 2018.

   The Company elected to classify debt investments of $34,232 thousand previously classified as available-for-sale financial assets under IAS 39 as at FVTOCI under IFRS 9. As a result, the related adjustment comprised a decrease in the unrealized gain on financial assets at FVTOCI of $616 thousand and an increase in retained earnings of $532 thousand on January 1, 2018.

4) The Company elected to designate all its investments in equity securities of $6,948,935 thousand previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain on available-for-sale financial assets of $2,747,107 thousand was reclassified to other equity - unrealized gain on financial assets at FVTOCI.

Debt investments of $27,469,522 thousand previously classified as available-for-sale financial assets under IAS 39 were classified as at FVTOCI with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised an increase in other equity - unrealized gain (loss) on financial assets at FVTOCI of $22,723 thousand and a decrease in retained earnings of $22,723 thousand on January 1, 2018.

5) Debt investments of $25,668 thousand previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at FVTPL under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding, but the objective of the Company’s business model was not to collect contractual cash flows nor was it achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustment comprised both increase in retained earnings and deferred tax liability of $4,356 thousand and $741 thousand respectively on January 1, 2018.

6) Debt investments and negotiable certificates of deposit of $50,960,289 thousand previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.

7) Debt investments of $300,000 previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at FVTOCI with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised an increase in other equity - unrealized gain on financial assets at FVTOCI of $4,843 thousand and a decrease in retained earnings of $57 thousand on January 1, 2018.

8) Investments in unlisted shares of $603,994 thousand previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $452,679 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain on financial assets at FVTOCI on January 1, 2018.

   The Company recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of $31,825 thousand in other equity - unrealized loss on financial assets at FVTOCI and an increase of $31,825 thousand in retained earnings on January 1, 2018.

9) Debt investments of $45,701,827 thousand previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.

10) Debt investments of $32,927 thousand previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at FVTPL under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding, but the objective of the Company's business model was not to collect contractual cash flows nor was it achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustment comprised an increase in both retained earnings and deferred tax liabilities of $3,066 thousand and $520 thousand respectively on January 1, 2018.

The following table reconciles the prior period's closing impairment allowance measured in accordance with the impairment loss model under IAS 39 to the new impairment allowance measured in accordance with the expected loss model under IFRS 9 at January 1, 2018:

Measurement Category	Loss Allowance under IAS 39/ Provision under IAS 37	Reclassifi- cation	Remeasure- ment	Loss Allowance under IFRS 9
Loans and receivables (IAS 39)/ financial assets at amortized cost (IFRS 9)				
Loans	$ 3,401,818	$ -	$ -	$ 3,401,818
Accounts receivables	188,299	-	16,737	205,036
Available-for-sale financial assets (IAS 39)/financial assets at FVTOCI (IFRS 9)				
Available-for-sale financial assets	-	-	22,723	22,723
Held-to-maturity financial assets	-	-	57	57
Debt investments with no active market (IAS 39)/financial assets at amortized cost (IFRS 9)				
Bond investments with no active market	258,245	-	-	258,245
Loan commitments and financial guarantee contracts				
Loans (loan commitments)	-	-	1,862	1,862
Credit cards (loan commitments)	-	-	25,446	25,446
	$ 3,848,362	$ -	$ 66,825	$ 3,915,187

b. The Regulations Governing the Preparation of Financial Reports by Public Banks and the "IFRS" endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "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 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 "Leases"

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

Definition of a lease

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

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities.

Except for the leases of investment properties mentioned below, lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Except for the following practical expedients which are to be applied, the Company will apply IAS 36 to all right-of-use assets.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

The Company expects to apply the following practical expedients:

a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	$ -	$ 1,277,343	$ 1,277,343
Other assets	29,634	(29,634)	-
Total effect on assets	$ 29,634	$ 1,247,709	$ 1,277,343
Lease liabilities	$ -	$ 1,247,709	$ 1,247,709
Total effect on liabilities	$ -	$ 1,247,709	$ 1,247,709

The Company as lessor

Except for sublease transactions, the Company will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

2) 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.

3) 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 the 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 explain 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.

4) 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 Company will apply the above amendments prospectively.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Company continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Company financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

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

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 Company 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 Company's interest as an unrelated investor 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 Company's interest as an unrelated investor in the associate or joint venture, i.e. the Company's share of the gain or loss is eliminated.

2) Amendments to IFRS 3 "Definition of a Business"

   The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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 consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

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

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

b. Investments 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 Company.

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

Financial Instruments

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

a. Financial assets

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

1) Measurement categories

<u>2018</u>

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, investments in debt instruments at FVTOCI and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

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

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

Financial assets at FVTPL are subsequently measured at fair value, 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 48.

b) Financial assets at amortized cost

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

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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.

c) Investments in debt instruments at FVTOCI

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

i. The debt instrument is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and

ii. The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

d) Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets and loans and receivables.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

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

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

iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at FVTPL.

Financial assets at FVTPL 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 48.

Investments in equity instruments under financial assets at FVTPL 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 instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented as 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.

b) Held-to-maturity investments

Commercial paper, corporate bonds and foreign government bonds, which have credit ratings above a specific credit rating and which the Company has a positive intent and ability to hold to maturity, are classified as 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.

c) 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 FVTPL.

Commercial papers, listed shares, beneficiary certificates, corporate bonds, negotiable certificates of deposits and foreign government bonds, which have a quoted market price in an active market, are classified as available-for-sale financial assets which are subsequently measured at fair value at the end of each reporting period. Fair value is determined in the manner described in Note 48.

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 as 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 of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

d) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market and other receivables) 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.

2) Impairment of financial assets

2018

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

For financial instruments and contract assets, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

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 credit assets into these five classes: normal, special mention, substandard, doubtful and losses; the minimum loan loss provision and guarantee reserve for the unsound credit assets (those other than normal) should be 2%, 10%, 50% and 100%, respectively, of the outstanding credit balance.

The MOF issued a guideline stating that from January 1, 2014, the minimum loan loss provision and guarantee should be the sum of 1% of the outstanding balance of the normal credit asset's claim, 2% of the balance of special mention credit assets, 10% of the balance of substandard credit assets, 50% of the balance of doubtful credit assets, and the full balance of losses credit assets (excluding assets that represent claims against the central and local government in Taiwan). Also, in accordance with Rule No. 10300329440 issued by FSC, the minimum allowance for mortgage loans should be 1.5%.

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.

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

2017

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.

3) 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.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and any associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Equity instruments

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

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

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.

c. Financial liabilities

1) Subsequent measurement

A financial liability may be designated as at FVTPL 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 group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or

c) The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at FVTPL.

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

Fair value is determined in the manner described in Note 51.

Before (and including) 2017, financial liabilities at FVTPL, which are obligations to deliver unquoted equity instruments borrowed by a short seller whose fair value cannot be reliably measured, and derivatives, which are linked to and must be settled by 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 as a separate line item as financial liabilities measured at cost. If, in a subsequent period, the fair value of the financial liabilities can be reliably measured, the financial liabilities are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

Financial guarantee contracts

2018

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

a) The amount of the loss allowance reflecting expected credit losses; and

b) The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the revenue recognition policies.

2017

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

2) Derecognition of financial liabilities

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.

d. Derivative financial instruments

Derivatives are initially recognized at fair value at the date on which 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 a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

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 credit assets into these five classes: normal, special mention, substandard, doubtful and losses; the minimum loan loss provision and guarantee reserve for the unsound credit assets (those other than normal) should be 2%, 10%, 50% and 100%, respectively, of the outstanding credit balance.

The MOF issued a guideline stating that from January 1, 2014, the minimum loan loss provision and guarantee should be the sum of 1% of the outstanding balance of the normal credit asset's claim, 2% of the balance of special mention credit assets, 10% of the balance of substandard credit assets, 50% of the balance of doubtful credit assets, and the full balance of losses credit assets (excluding assets that represent claims against the central and local government in Taiwan). Also, in accordance with Rule No. 10300329440 issued by FSC, the minimum allowance for mortgage loans should be 1.5%.

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 Resale Transactions

Securities purchased under resale agreements and securities sold under repurchase agreements 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 the lease term of an item of property and equipment is shorter than its useful life, such asset is depreciated over its 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 groups of cash-generating units (referred to as "cash-generating units") that are 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

Intangible assets acquired separately

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 (Excluding 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. Bank as lessee

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

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

Provisions

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

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

d. Termination benefits

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

Income Tax

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

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are measured at the amounts expected to be paid to (recovered from) taxation authorities, using the rates or laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets should reflect the tax consequences of how the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the period

For transactions recognized in profit or loss, current and deferred taxes are also recognized in profit or loss; for transactions recognized outside profit or loss, i.e., in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Interest Revenue and Service Fees

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Company that are classified as nonperforming loans. The interest revenue on these loans/credits is recognized upon collection. Under the regulations of the Ministry of Finance, 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 financial assets - 2018

The provision for impairment of loan, receivables, investments in debt instruments, and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company’s historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 49. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of loans and receivables - 2017

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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash on hand	$ 5,138,540	$ 5,775,662
Checks for clearing	3,926,902	4,042,078
Due from banks	4,949,289	2,318,432
	$ 14,014,731	$ 12,136,172

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

	December 31	
	2018	**2017**
Deposit reserve - checking account	$ 10,140,387	$ 7,342,004
Required deposit reserve	12,719,759	11,439,250
Deposit reserve - foreign-currency deposits	76,833	74,620
Call loans to banks	6,325,655	325,111
	$ 29,262,634	$ 19,180,985

Under a directive issued by the Central Bank of the ROC, the Company determines monthly the 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 do not bear interest.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	**2017**
Financial assets held for trading		
Commercial paper	$ -	$ 10,389,618
Listed stocks	-	188,973
Mutual funds	-	1,020,400
	-	11,598,991
Derivative financial instruments		
Foreign exchange forward contracts	-	311,723
Currency swap contracts	-	177,358
Option contracts	-	48,253
	-	537,334
	-	12,136,325

(Continued)

	December 31	
	2018	2017
Financial assets designated as at fair value through profit or loss		
Commercial paper	$ 31,510,394	$ -
Overseas corporate bonds	27,247	-
Domestic listed stocks	578,929	-
Overseas listed stocks	92,667	-
Beneficiary certificates	2,555,622	-
Principal guaranteed notes	1,368,547	-
Asset-backed securities	60,415	-
	36,193,821	-
Derivative financial instrument		
Foreign exchange forward contracts	406,099	-
Currency swap contracts	71,817	-
Option contracts	36,521	-
Cross-currency swap contracts	1,667	-
	516,104	-
	$ 36,709,925	$ 12,136,325
Financial liabilities held for trading		
Derivative instrument		
Option contracts	$ 36,522	$ 48,259
Forward exchange contracts	43,633	14,246
Currency swap contracts	227,644	120,879
	$ 307,799	$ 183,384

(Concluded)

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, 2018 and 2017 were as follows:

	December 31	
	2018	2017
Currency swap contracts	$ 52,891,211	$ 31,633,669
Foreign exchange forward contracts	4,995,891	6,348,016
Cross-currency swap contracts	463,125	-
Option contracts		
Buy	899,831	2,465,312
Sell	899,831	2,465,312

As of December 31, 2018 and 2017, financial assets at fair value through profit and loss in the amounts of $12,453,108 thousand and $8,552,033 thousand were sold under repurchase agreements.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018
Investments in equity instruments at FVTOCI	
Domestic listed shares	$ 3,617,817
Overseas listed shares	3,811,961
Domestic unlisted shares	1,134,574
Overseas REITs	129,905
	8,694,257
Investments in debt instruments at FVTOCI	
Overseas corporate bonds	9,019,959
Overseas bond debentures	5,091,463
Overseas government bonds	5,897,016
Corporate bonds	4,190,917
Government bonds	499,895
	24,699,250
	$ 33,393,507

Details of the Company's investments in foreign and domestic unlisted shares are as follows:

	December 31, 2018
Taiwan Futures Exchange	$ 424,908
Financial Information Service Co., Ltd.	267,269
iPass Corporation	94,313
Taiwan Asset Management Corporation	74,748
Grace THW Holding Limited	69,007
Taiwan Depository & Clearing Corporation	56,680
Taiwan Financial Asset Service Corporation	47,788
Others	99,861
	$ 1,134,574

a. Investments in equity instruments at FVTOCI

These investments in equity instruments are not held for trading. Instead, they are held for long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI. These investments in equity instruments were classified as available-for-sale financial assets and other financial assets under IAS 39. Refer to Notes 3, 16 and 20 for information relating to their reclassification and comparative information for 2017.

b. Investments in debt instruments at FVTOCI

1) For detailed information on the reclassification of investments in debt instruments at FVTOCI that were previously classified as available-for-sale financial assets under IAS 39 as well as their comparative information for 2017, refer to Notes 3 and 16.

2) For detailed information on the reclassification of investments in debt instruments at FVTOCI that were previously classified as debt investments with no active market under IAS 39 as well as their comparative information for 2017, refer to Notes 3 and 20.

3) For further information regarding credit risk management and impairment assessment of financial assets at FVTOCI, refer to Note 11.

The Company has sold $12,865,389 thousand of its financial assets at FVTOCI under a repurchase agreement on December 31, 2018.

10. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Negotiable certificates of deposit	$ 42,200,000
Debt instruments	
Government bonds	9,828,243
Overseas asset-backed securities	42,121,629
	51,949,872
	$ 94,149,872

a. Negotiable certificates of deposit was previously classified as held-to-maturity financial assets under IAS 39. Refer to Notes 3 and 17 for further information relating to their reclassification and comparative information for 2017.

b. Government bonds were previously classified as held-to-maturity financial assets under IAS 39. Refer to Notes 3 and 17 for further information relating to their reclassification and comparative information for 2017.

c. Asset-backed securities were previously classified as debt instruments with no active market under IAS 39. Refer to Notes 3 and 20 for further information relating to their reclassification and comparative information for 2017.

d. For further information regarding credit risk management and impairment assessment on financial assets at amortized cost, refer to Note 11.

The Company has sold $28,655,857 thousand of financial assets at amortized cost under repurchase agreements on December 31, 2018.

11. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS - 2018

Debt instruments that the Company invested in have been further split into two categories, financial assets at FVTOCI and financial assets at amortized cost.

	December 31, 2018		
	Financial Assets at FVTOCI	Financial Assets at Amortized Cost	Total
Book value	$ 25,665,800	$ 52,215,774	$ 77,881,574
Loss allowance	(63,557)	(265,902)	(329,459)
Fair value adjustment	(902,993)	-	(902,993)
	$ 24,699,250	$ 51,949,872	$ 76,649,122

The Company continuously monitors the external credit rating information and price movements of the debt instruments invested in to assess whether their credit risks have significantly increased since initial recognition.

The Company takes into consideration the multi-period default probability table for each ratings of securities issued by credit rating agencies and the recovery rates of different types of bonds to assess the 12-month expected credit losses or lifetime expected credit losses.

The carrying values of financial assets at FVTOCI and at amortized cost sorted by credit rating are as follows:

Credit Ratings	Definition	ECL Recognition Basis	Expected Credit Loss Rate	Carrying Value (Including Premiums and Discounts) on December 31, 2018
Low credit risk	Low credit risk at the reporting date	12-month expected credit losses	0%-2.261%	$ 76,338,664
Significant increase in credit risk	Credit risk has increased significantly since initial recognition	Lifetime expected credit losses	4.208%	310,458
Default	Objective evidence of impairment at the reporting date	Lifetime expected credit losses	100%	-

The following table shows changes in balances of loss allowances of financial assets at FVTOCI and debt instruments at amortized cost, sorted by credit risk ratings resulting from the application of IFRS 9:

	Credit Risk Ratings		
	Low Credit Risk	Significant Increase in Credit Risk (Lifetime Expected Credit Losses with No Credit Impairment)	Default Evidence of Impairment (Lifetime Expected Credit Losses with Credit Impairment)
Balance as of January 1, 2018 (IAS 39)	$ 258,245	$ -	$ -
Retrospective application effect of IFRS 9	22,780	-	-
Balance as of January 1, 2018 (IFRS 9)	281,025	-	-
Changes in credit risk ratings			
Low credit risk to significant increase in credit risk	-	13,313	-
Significant increase in credit risk to default	-	-	-
New debt instruments purchased	1,294	-	-
Derecognition	(701)	-	-
Changes in risk or model parameters	26,029	-	-
Change in exchange rates	8,499	-	-
Loss allowance on December 31, 2018	$ 316,146	$ 13,313	$ -

12. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	December 31	
	2018	2017
Commercial paper	$ 30,533,909	$ 12,094,964
Government bonds	1,000,010	300,229
Corporate bonds	32,933,199	15,820,141
Bank debentures	13,400	19,000
Negotiable certificates of deposit	4,000,247	-
	$ 68,480,765	$ 28,234,334
Maturity date	2019.01-2017.02	2018.01-2017.02
Resale price	$ 69,504,991	$ 28,245,475

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

13. RECEIVABLES, NET

	December 31	
	2018	2017
Notes and accounts receivable	$ 15,502,406	$ 14,825,656
Interest receivable	910,676	834,890
Interbank clearing fund receivable	800,244	800,470
Accounts receivable factoring without recourse	183,566	396,449
Investment receivable	293,640	398,156
Acceptances receivable	188,102	186,974
Collections receivable	138,044	123,276
Others	384,950	373,848
	18,401,628	17,939,719
Less: Allowance for doubtful accounts	270,146	188,299
	$ 18,131,482	$ 17,751,420

Refer to Note 52 for the impairment loss analysis of receivables.

The changes in gross carrying amounts of receivables for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Total
Balance at January 1, 2018	$ 16,535,714	$ 89,565	$ 1,314,440	$ 17,939,719
Receivables assessed collectively	(249,705)	48,322	201,383	-
Receivables purchased or originated	7,245,214	40,042	110,348	7,395,604
Write-offs	(86,762)	(27,400)	(104,271)	(218,433)
Derecognition	(6,395,948)	(51,135)	(268,179)	(6,715,262)
Balance at December 31, 2018	$ 17,048,513	$ 99,394	$ 1,253,721	$ 18,401,628

The Company has accrued an allowance for doubtful accounts on receivables, the change in allowance for doubtful accounts on receivables for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-Credit Losses (Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Difference of Impairment Loss under (Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-accrual Loans)	Total
Balance at January 1, 2018	$ 45,116	$ 1,792	$ 150,236	$ 197,144	$ 7,892	$ 205,036
Changes of financial instruments recognized at the beginning of the current reporting period						
Transfers to						
Lifetime ECL	(429)	496	(67)	-	-	-
Credit-impaired financial assets	(1,092)	(504)	1,596	-	-	-
12-month ECL	122	(107)	(15)	-	-	-
Derecognition of financial assets in the current reporting period	(29,017)	(371)	(5,400)	(34,788)	-	(34,788)
New financial assets purchased or originated	95,779	43,907	115,267	254,953	-	254,953
Difference of impairment loss under regulations	-	-	-	-	62,774	62,774
Write-offs	(86,762)	(27,400)	(104,271)	(218,433)	-	(218,433)
Recovery of written-off receivables	-	-	269,494	269,494	-	269,494
Change in others	(14)	164	(269,040)	(268,890)	-	(268,890)
Balance at December 31, 2018	$ 23,703	$ 17,977	$ 157,800	$ 199,480	$ 70,666	$ 270,146

	December 31, 2017
Balance at January 1, 2017	$ 368,246
Provision of allowance for doubtful accounts	208,906
Write-offs	(665,750)
Recovery of written-off credits	299,327
Effects of exchange rate changes	(22,430)
Balance at December 31, 2018	$ 188,299

14. DISCOUNTS AND LOANS, NET

		December 31	
		2018	2017
Discounts and overdraft		$ 32,467	$ 212,176
Accounts receivable - financing		12,147	14,290
Loans			
Short-term	- unsecured	30,569,537	61,312,117
	- secured	65,977,057	59,564,827
Medium-term	- unsecured	23,347,445	18,561,250
	- secured	60,020,806	49,686,071
Long-term	- unsecured	6,440,964	5,682,256
	- secured	142,169,489	124,812,522
Import and export negotiations		84,667	37,962
Overdue loans		213,760	247,336
		328,868,339	320,130,807
Less: Allowance for doubtful accounts		3,852,653	3,401,818
		$ 325,015,686	$ 316,728,989

As of December 31, 2018 and 2017, the balances of nonaccrual loans were $213,760 thousand and $247,336 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $6,529 thousand in 2018 and $6,751 thousand in 2017.

In 2018 and 2017, the Company wrote off certain credits after completing the required legal procedures.

The Company had set up an allowance for doubtful accounts on discounts and loans. Refer to Note 52 for impairment loss analysis of discounts and loans.

The changes in gross carrying amounts on receivables for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Total
Balance at January 1, 2018	$ 316,319,157	$ 2,120,891	$ 1,690,759	$ 320,130,807
Discount and loans assessed collectively	(421,079)	(28,093)	449,172	-
Discount and loans purchased or originated	184,285,515	624,030	690,586	185,600,131
Write-offs	-	-	(78,905)	(78,905)
Derecognition	(174,886,040)	(917,941)	(979,713)	(176,783,694)
Balance at December 31, 2018	$ 325,297,553	$ 1,798,887	$ 1,771,899	$ 328,868,339

The Company has accrued an allowance for doubtful accounts on discount and loans, the changes in allowance for doubtful accounts on discount and loans for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Difference of Impairment Loss under (Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-accrual Loans)	Total
Balance at January 1, 2018	$ 500,131	$ 8,392	$ 245,124	$ 753,647	$ 2,648,171	$ 3,401,818
Changes of financial instruments recognized at the beginning of the current reporting period						
Transfers to					-	-
Lifetime ECL	(570)	1,582	(1,012)	-	-	-
Credit-impaired financial assets	(342)	(1,549)	1,891	-	-	-
12-month ECL	3,090	(3,090)	-	-	-	-
Derecognition of financial assets in the current reporting period	(461,939)	(1,894)	(19,599)	(483,432)	-	(483,432)
New financial assets purchased or originated	131,929	75,518	41,350	248,797	-	248,797
Difference of impairment loss under regulations	-	-	-	-	586,939	586,939
Write-offs	-	-	(78,905)	(78,905)	-	(78,905)
Recovery of written-off receivables	-	-	289,320	289,320	-	289,320
Change in others	(2,850)	83,477	(194,606)	(113,979)	-	(113,979)
Change in exchange rate	1,044	-	1,051	2,095	-	2,095
Balance at December 31, 2018	$ 170,493	$ 162,436	$ 284,614	$ 617,543	$ 3,235,110	$ 3,852,653

	December 31, 2017
Balance at January 1, 2018	$ 3,197,294
Provision of allowance for doubtful accounts	133,955
Write-offs	(296,290)
Recovery of written-off credits	363,071
Reclassification	9,500
Effects of exchange rate changes	(5,712)
Balance at December 31, 2018	$ 3,401,818

15. BAD-DEBT EXPENSES AND PROVISION FOR LOSSES ON COMMITMENTS AND GUARANTEES

	For the Year Ended December 31	
	2018	2017
Provision for doubtful accounts on receivables	$ 14,049	$ 208,906
Provision for doubtful accounts on discounts and loans	238,325	133,955
Provision for doubtful accounts on guarantees	26,367	14,000
Provision for doubtful accounts on loan commitments	14,838	-
	$ 293,579	$ 356,861

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	For the Year Ended December 31, 2017
Overseas corporate bonds	$ 10,132,247
Overseas financial bonds	6,302,487
Domestic corporate bonds	4,150,714
Overseas government bonds	5,966,611
Domestic listed stock	3,741,246
Mutual funds	1,036,944
Overseas listed stock	3,207,689
Domestic government bonds	951,695
	$ 35,489,633

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

17. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31, 2017
Convertible deposits	$ 42,300,000
Domestic government bonds	8,660,289
Domestic corporate bonds	300,000
Asset-based securities	25,668
	$ 51,285,957

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

18. SUBSIDIARIES

The investees included in the consolidated financial statements are as follows:

Investor	Investee	Main Businesses	Percentage of Ownership December 31 2018	Percentage of Ownership December 31 2017	
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: As the Company has control over the financial, operational and human resources policies of USITC, 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, 2018.

In order to actively support Financial Supervisory Commission Republic of China (Taiwan) adapt to nation's current overall development needs, corporate with national financial policies, promote the diversification of commercial banking industries and improve the efficiency of the use of banking industries funds, Union Bank of Taiwan will established Union Venture Capital which was approved by board of directors on September 30, 2018.The expected total investment amount is $1,200,000 thousand. The Company will control 100% shares. The case will progress further with implementations after being approved by the responsible authorities.

19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

	December 31	
	2018	**2017**
Not individually material		
Line BIZ+ Taiwan Limited	$ 1,570,630	$ -
Union Real-Estate Management Corporation	52,832	53,121
	$ 1,623,462	$ 53,121

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

	For the Year Ended December 31	
	2018	**2017**
Net loss	$ (9,636)	$ (326)

To promote innovative financial technology services and popularize mobile payment endorsed by the government, the board of directors of the Bank approved the investment in Line BIZ+ Taiwan Limited on July 25, 2018 and later acquired 5,451 thousand of their ordinary shares with a price of $1,579,977 thousand on September 21, 2018 resulting in a 10% shareholding and a seat on the board. The Company has significant influence over Line BIZ+ Taiwan Limited and thus uses the equity method to account for the investment.

The Company's share of profit and other comprehensive income recognized from investments in associates other than Line BIZ+ Taiwan Limited during the fiscal year 2018 and 2017 were based on financial statements audited by their respective auditors for the same reporting periods as those of the Company.

Management of the Company consider the fact that the numbers referenced from the non-audited financial statements of Line BIZ+ Taiwan Limited will not lead to material misstatements on the Company's financial statements.

20. OTHER FINANCIAL ASSETS, NET

	December 31	
	2018	2017
Debt instruments with no active markets, net	$ -	$ 45,734,754
Pledged assets (Note 44)	714,456	664,744
Due from banks - certificate of deposit	1,060,360	937,964
Financial assets carried at cost, net	-	603,994
Call loans to securities	522,461	298,480
Others	4,371	27,903
	$ 2,301,648	$ 48,267,839

a. Debt instruments with no active markets

Debt instruments with no active market are real estate mortgage secured bonds guaranteed for the American government.

As of December 31, 2017, debt instruments with no active market and amounting to $15,415,779 thousand were sold under repurchase agreements.

b. Financial assets carried at cost, net

	For the Year Ended December 31, 2017
Unlisted shares	
I Pass Corporation	$ 123,320
Financial Information Service Company	118,782
Taiwan Asset Management Corporation	75,000
Taiwan Future Exchange Corporation	71,250
Grace T.H.W. Holding Limited	64,320
Taiwan Financial Asset Service Corporation	50,000
Others	101,322
	$ 603,994

Financial assets carried at cost were unlisted common shares 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 - certificates 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.

21. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Cost							
Balance at January 1, 2018	$ 3,845,623	$ 5,154,708	$ 1,369,053	$ 297,163	$ 332,825	$ 53,781	$ 11,053,153
Additions	-	20,666	85,187	17,307	52,783	59,840	235,783
Disposals	(225)	-	(69,670)	(5,466)	(289)	-	(75,650)
Reclassification	-	382	12,018	758	15,663	(39,810)	(10,989)
Effect of foreign currency exchange differences	-	-	-	-	30	-	30
Balance at December 31, 2018	3,845,398	5,175,756	1,396,588	309,762	401,012	73,811	11,202,327
Accumulated depreciation							
Balance at January 1, 2018	-	1,532,529	1,034,083	254,011	150,801	-	2,971,424
Depreciation	-	125,527	107,695	13,022	49,349	-	295,593
Disposals	-	-	(67,123)	(5,092)	-	-	(72,215)
Effect of foreign currency exchange differences	-	-	-	-	30	-	30
Balance at December 31, 2018	-	1,658,056	1,074,655	261,941	200,180	-	3,194,832
Balance at December 31, 2018, net	$ 3,845,398	$ 3,517,700	$ 321,933	$ 47,821	$ 200,832	$ 73,811	$ 8,007,495
Cost							
Balance at January 1, 2017	$ 3,845,623	$ 5,139,058	$ 1,410,499	$ 286,084	$ 264,519	$ 46,961	$ 10,992,744
Additions	-	10,869	83,190	11,995	47,668	47,181	200,903
Disposals	-	(66)	(130,777)	(5,737)	(4,013)	-	(140,593)
Reclassification	-	4,847	6,475	4,821	24,855	(40,361)	637
Effect of foreign currency exchange differences	-	-	(334)	-	(204)	-	(538)
Balance at December 31, 2017	3,845,623	5,154,708	1,369,053	297,163	332,825	53,781	11,053,153
Accumulated depreciation							
Balance at January 1, 2017	-	1,408,792	1,065,016	248,880	113,751	-	2,836,439
Depreciation	-	123,755	96,302	10,404	41,100	-	271,561
Disposals	-	(18)	(126,901)	(5,273)	(3,846)	-	(136,038)
Effect of foreign currency exchange differences	-	-	(334)	-	(204)	-	(538)
Balance at December 31, 2017	-	1,532,529	1,034,083	254,011	150,801	-	2,971,424
Balance at December 31, 2017, net	$ 3,845,623	$ 3,622,179	$ 334,970	$ 43,152	$ 182,024	$ 53,781	$ 8,081,729

The above items of property and equipment are depreciated on a straight-line basis over their estimated useful lives 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.

On June 25, 2018, the board of directors of the Bank and UFLIC resolved respectively to rescind the cooperation contract in Tucheng District, New Taipei City. The Bank will afford the related costs and purchase the land which is going to reserved for the public facilities to the government in exchange for TDR. The Bank will contract third parties to construct on land owned. Estimated cost amounting to $887,240 thousand including the cost of purchasing land previously.

22. INVESTMENT PROPERTIES, NET

	Land	Buildings	Total
Cost			
Balance at January 1, 2017	$ 4,542,134	$ 975,438	$ 5,517,572
Additions	132	14,945	15,077
Net exchange difference	(74,994)	(28,951)	(103,945)
Balance at December 31, 2017	$ 4,467,272	$ 961,432	$ 5,428,704
Accumulated depreciation and impairment			
Balance at January 1, 2017	$ -	$ (102,196)	$ (102,196)
Depreciation	-	(38,342)	(38,342)
Net exchange differences	-	(3,732)	(3,732)
Balance at December 31, 2017	$ -	$ (144,270)	$ (144,270)
Balance at December 31, 2017, net	$ 4,467,272	$ 817,162	$ 5,284,434
Cost			
Balance at January 1, 2018	$ 4,467,272	$ 961,432	$ 5,428,704
Additions	-	30,571	30,571
Net exchange difference	93,704	36,931	130,635
Balance at December 31, 2018	$ 4,560,976	$ 1,028,934	$ 5,589,910
Accumulated depreciation and impairment			
Balance at January 1, 2018	$ -	$ (144,270)	$ (144,270)
Depreciation	-	(39,676)	(39,676)
Net exchange differences	-	(7,056)	(7,056)
Balance at December 31, 2018	$ -	$ (191,002)	$ (191,002)
Balance at December 31, 2018, net	$ 4,560,976	$ 837,932	$ 5,398,908

The Company acquired investment properties amounting to $986,055 thousand, $1,026,015 thousand and $668,984 thousand via SSG15, SSG12 and SSG16 in Japan on September 2014, February 2016 and April 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 over their estimated useful lives as follows:

Buildings	
Main buildings	15-50 years
Equipment installed in buildings	6-15 years

The fair values of investment properties were $6,626,218 thousand and $6,420,340 thousand as of December 31, 2018 and 2017. 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 prices of similar properties in the vicinity.

Refer to Note 30 for information relating to investment properties pledged as guarantee.

23. 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, 2018 and 2017, the balances of accumulated impairment were both $902,691 thousand.

24. OTHER ASSETS, NET

	December 31	
	2018	**2017**
Assets leased to others, net	$ 5,425,985	$ 5,334,078
Refundable deposits	2,091,810	1,708,194
Prepaid expenses	467,318	465,383
Prepaid pension	20,255	21,856
Others	55,080	61,286
	$ 8,060,448	$ 7,590,797

25. DUE TO THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS

	December 31	
	2018	2017
Call loans from banks	$ 6,222,054	$ 7,787,895
Due to Chunghwa Post Co., Ltd.	5,599,730	1,233,370
Due to the Central Bank and other banks	128,863	87,635
Overdraft	161,248	140,285
	$ 12,111,895	$ 9,249,185

26. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	December 31	
	2018	2017
Commercial paper	$ 12,462,948	$ 8,557,700
Asset-based securities	19,716,083	12,042,309
Corporate bonds	7,389,338	6,110,732
Government bonds	3,917,112	3,317,499
Financial bonds	848,907	245,736
	$ 44,334,388	$ 30,273,976
Maturity date	2019.01-2019.03	2018.01-2018.05
Repurchase price	$ 44,509,373	$ 30,311,830

27. ACCOUNTS PAYABLE

	December 31	
	2018	2017
Notes and checks in clearing	$ 3,926,902	$ 4,042,080
Accrued expenses	823,358	717,942
Interest payable	789,751	745,059
Investments payable	420,237	426,104
Collections payable	148,967	180,113
Bank acceptances payable	189,277	188,076
Tax payable	102,319	97,806
Others	612,611	711,644
	$ 7,013,422	$ 7,108,824

28. DEPOSITS AND REMITTANCES

	December 31	
	2018	2017
Checking deposits	$ 6,062,393	$ 5,384,983
Demand deposits	80,425,371	72,883,867
Savings deposits	302,787,459	290,040,825
Time deposits	113,880,684	80,374,452
Negotiable certificates of deposit	10,477,200	238,300
Inward and outward remittances	284,968	127,043
	$ 513,918,075	$ 449,049,470

29. BANK DEBENTURES

	December 31	
	2018	2017
First issue of subordinated bank debentures in 2011; fixed rate at 2.78%; maturity: June 2018	$ -	$ 2,000,000
First issue of subordinated bank debentures in 2012; fixed rate at 2.32%; maturity: March 2019	1,500,000	1,500,000
First issue of subordinated bank debentures in 2013; fixed rate at 2.10%; maturity: December 2020	3,000,000	3,000,000
First issue of subordinated bank debentures in 2015; fixed rate at 2.08%; maturity: April 2022	2,200,000	2,200,000
First issue of subordinated bank debentures in 2016; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	2,500,000	2,500,000
First issue of subordinated bank debentures in 2017; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	500,000	500,000
	$ 9,700,000	$ 11,700,000

30. BONDS PAYABLE

	December 31	
	2018	2017
Overseas corporate bonds - secured	$ 1,480,976	$ 1,409,598

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 (NT$612,433 thousand) secured by investment property as a guarantee. The book value of the investment property is JPY3,679,556 thousand (NT$1,024,311 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 (NT$534,488 thousand) secured by investment property as a guarantee. The book value of the investment property is JPY3,740,308 thousand (NT$1,041,223 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 (NT$334,055 thousand) secured by investment property as a guarantee. The book value of the investment property is JPY2,426,491 thousand (NT$675,484 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).

31. OTHER FINANCIAL LIABILITIES

	December 31 2018	December 31 2017
Commercial paper	$ 4,077,639	$ 4,269,721
Principal amounts of structured products	11,640	20,358
Funds obtained from the government - intended for specific types of loans	185	1,362
	$ 4,089,464	$ 4,291,441

32. PROVISIONS

	December 31 2018	December 31 2017
Reserve for losses on guarantees and loan commitment	$ 207,539	$ 138,975
Provisions for employee benefits	28,264	16,109
Others	26,679	27,178
	$ 262,482	$ 182,262

The Company has accrued an allowance for doubtful guarantees and loan commitments accounts on; the changes in allowance for doubtful accounts on guarantees and loan commitment for the year ended December 31, 2018 were as follows:

	12-month Expected-credit Losses	Lifetime Expected-credit Losses	Lifetime Expected-credit Losses (Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Difference of Impairment Loss under (Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-accrual Loans)	Total
Balance at January 1, 2018	$ 53,685	$ 304	$ 20	$ 54,009	$ 112,274	$ 166,283
Changes of financial instruments recognized at the beginning of the current reporting period						
Transfers to						
Lifetime ECL	(47)	47	-	-	-	-
Credit-impaired financial assets	(70)	(59)	129	-	-	-
12-month ECL	148	(147)	(1)	-	-	-
Derecognition of financial assets in the current reporting period	(45,622)	(135)	(78)	(45,835)	-	(45,835)
New financial assets purchased or originated	16,275	3,395	41	19,711	-	19,711
Difference of impairment loss under regulations	-	-	-	-	38,708	38,708
Change in others	-	-	28,621	28,621	-	28,621
Change in exchange rates	51	-	-	51	-	51
Balance at December 31, 2018	$ 24,420	$ 3,405	$ 28,732	$ 56,557	$ 150,982	$ 207,539

	For the Year Ended December 31, 2017
Balance at January 1, 2018	$ 134,621
Provision of allowance for doubtful accounts	14,000
Write-offs	-
Recovery of written-off credits	-
Reclassification	(9,500)
Effects of exchange rate changes	(146)
Balance at December 31, 2018	$ 138,975

33. 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), which is a state-managed defined contribution plan. Under the 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 2018 and 2017 of $133,656 thousand and $126,260 thousand, respectively, were contributions payable to these plans by the Company at rates specified in the pension plan rules.

b. Defined benefit plans

The Company (except for Union Finance International (HK) Limited) adopted the defined benefit plan under the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement.

The Company contributes a fixed proportion of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Company of Taiwan and in the Company's Business Department in the committee's name.

The fund is deposited in the Bank of Taiwan under management of Bureau of Labor Funds, Ministry of Labor. The Company has no right to influence the investment policy and strategy. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year.

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

	December 31	
	2018	2017
Present value of defined benefit obligation	$ (1,640,351)	$ (1,571,309)
Fair value of plan assets	1,632,342	1,577,056
Surplus (deficit)	(8,009)	5,747
Net defined benefit assets (liabilities)	$ (8,009)	$ 5,747
Provisions - accrued retirement liabilities	$ (28,264)	$ (16,109)
Other assets - prepaid retirement	$ 20,255	$ 21,856

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Total
Balance at January 1, 2017	$ (1,580,240)	$ 1,574,668	$ (5,572)
Service cost			
Current service cost	(16,956)	-	(16,956)
Net interest (expense)	(21,728)	21,653	(75)
Recognized in profit or loss	(38,684)	21,653	(17,031)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	9,620	9,620
Actuarial gain (loss) - changes in financial assumptions	(26,090)	-	(26,090)
Actuarial gain (loss) - experience adjustments	26,944	-	26,944
Recognized in other comprehensive income	854	9,620	10,474
Contributions from the employer	-	17,455	17,455
Benefits paid	46,761	(46,340)	421
Balance at December 31, 2017	$ (1,571,309)	$ 1,577,056	$ 5,747
Balance at January 1, 2018	$ (1,571,309)	$ 1,577,056	$ (5,747)
Service cost			
Current service cost	(16,354)	-	(16,354)
Net interest (expense)	(19,249)	19,319	70
Recognized in profit or loss	(35,603)	19,319	(16,284)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	38,121	38,121
Actuarial gain (loss) - changes in financial assumptions	44,912	-	44,912
Actuarial gain (loss) - experience adjustments	(97,010)	-	(97,010)
Recognized in other comprehensive income	(52,098)	38,121	(13,977)
Contributions from the employer	-	16,505	16,505
Benefits paid	18,659	(18,659)	-
Balance at December 31, 2018	$ (1,640,351)	$ 1,632,342	$ (8,009)

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

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

2) Interest risk: A decrease in the interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2018	**2017**
Discount rate	0.984%-1.008%	1.225%
Expected rates of future salary increase	1.50%-3.00%	1.50%-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	
	2018	**2017**
Discount rate(s)		
0.25% increase	$ (46,833)	$ (47,535)
0.25% decrease	$ 48,784	$ 49,605
Expected rate(s) of salary increase		
0.25% increase	$ 47,275	$ 47,972
0.25% decrease	$ (45,634)	$ (46,228)

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	
	2018	**2017**
The expected contributions to the plan for the next year	$ 16,919	$ 24,571
The average duration of the defined benefit obligation	10-15 years	12-16 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 $117 thousand in 2018 and $119 thousand in 2017.

34. OTHER LIABILITIES

	December 31	
	2018	2017
Guarantee deposits received	$ 2,313,368	$ 2,362,921
Advance receipts	558,431	486,850
Others	126,248	117,442
	$ 2,998,047	$ 2,967,213

35. EQUITY

a. Capital stock

Common stock

	December 31	
	2018	2017
Number of shares authorized (in thousands)	4,500,000	4,500,000
Amount of shares authorized	$ 45,000,000	$ 45,000,000
Number of shares issued and fully paid (in thousands)	2,690,013	2,605,152
Amount of shares issued	$ 26,900,129	$ 26,051,524

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

Preferred stock

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

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

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

1) Tenor: Perpetual.

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

3) Dividend payment: Whereas the Company makes profit in a fiscal year, the profit shall be first utilized for paying taxes, offset losses of previous years, and from the remaining profit set aside amount as legal reserve, and set aside or reverse special reserve in accordance with the laws and regulations, and distribute dividends to the preferred shareholders. The Bank has the sole discretion on the distribution of dividends of preferred stocks - A, which includes but not limited to the Bank’s discretion to resolve not to distribute dividends to the preferred shareholders if there is no surplus, or if earnings in the fiscal year are insufficient to fully pay off dividends to the shareholders of the preferred stocks, or if the distribution of dividends of preferred stocks may cause Total Capital Adequacy Ratio to be less than the authority’s minimum requirement, or if the Bank has other essential considerations. If the Bank resolves not to distribute dividends to the preferred shareholders, the shareholders of preferred stock - A shall raise no objection. The unpaid dividend will not be carried forward to years with earnings. The stock dividends of preferred stocks - A are distributed by cash in one payment annually. After the shareholders, in their meeting, approved the appropriation of the earnings of the fiscal year as proposed by the board of directors and resolved to distribute from the earnings cash dividends, the board of directors sets the record date of preferred stock - A for payment of dividends. Dividend is calculated based on the proportion of the number of days that the stocks are issued in a fiscal year, starting from the date of issuance to the record date (or redemption date) of dividend. The amount of dividends distributed should be listed on the Dividend Statements.

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

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

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

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

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

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

b. Capital surplus

	December 31	
	2018	**2017**
Issuance of preference shares	$ 8,000,000	$ 8,000,000
Treasury stock transactions	32,413	32,413
	$ 8,032,413	$ 8,032,413

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of ordinary 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	
	2018	**2017**
Balance at January 1, 2018	$ 585,206	$ 558,842
Special reserves appropriated	27,450	26,364
Balance at December 31, 2018	$ 612,656	$ 585,206

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 2017 and 2016 were approved in stockholders' meetings on June 8, 2018 and June 20, 2017, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2017	2016	2017	2016
Legal reserve	$ 823,496	$ 790,913		
Special reserve	24,750	26,364		
Cash dividends on ordinary shares	1,042,061	1,172,319	$0.40	$0.45
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.

The appropriations from the 2018 earnings were proposed by the board of directors on March 13, 2019. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 887,017	
Special reserve	14,784	
Stock dividends on ordinary shares	1,883,009	$ 0.7
Cash dividends on preference shares	480,000	2.4

About the appropriation of earnings of 2018 will be approved in stockholders' meetings in May 31, 2019.

f. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2018	2017
Balance at January 1	$ (765,444)	$ (80,177)
Exchange differences arising on translating the foreign operations	405,845	(890,651)
Income tax on related from translating the net assets of foreign operations	(53,925)	205,384
Balance at December 31	$ (413,524)	$ (765,444)

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

	For the Year Ended December 31, 2017
Balance, beginning of the year	$ 1,272,308
Unrealized gain from the revaluation of available-for-sale financial assets	1,825,935
Income tax on unrealized gain from the revaluation of available-for-sale financial assets	(141,280)
Cumulative loss (gain) reclassified to profit or loss on sale of available-for-sale financial assets	(611,262)
Balance, end of the year	$ 2,345,701

3) Unrealized gain (loss) on financial assets at FVTOCI

Balance at January 1 (IAS 39)	$ -
IFRS 9 retrospective application effect	2,797,843
Balance at January 1 (IFRS 9)	2,797,843
Generated this year	
Unrealized gain (loss)	
Debt instruments	(1,006,200)
Equity instruments	205,873
Adjustments to loss allowance for debt instruments	40,778
Disposal of debt instruments	(553)
Other comprehensive income for the year	(760,102)
Accumulated gain (loss) transferred retained earnings denied from disposal of equity instruments at FVTOCI	35,606
Balance at year-end	$ 2,073,347

g. Non-controlling interests

	For the Year Ended December 31	
	2018	2017
Balance at January 1	$ 267,890	$ 269,140
Retrospective application in IFRS 9	(1,255)	-
Retrospective restatement balance at January 1	266,635	269,140
Attributed to non-controlling interests		
Share of profit for the year	(1,723)	21,048
Actuarial gains (loss) on defined benefit plans	(207)	156
Income tax related to actuarial gains and losses	23	(28)
Unrealized gains (losses) on investments in equity instruments at fair value through gains or losses	(282)	-
Cash dividends distributed by subsidiaries	(18,720)	(22,426)
Balance at December 31	$ 245,726	$ 267,890

36. NET INTEREST

	For the Year Ended December 31	
	2018	2017
Interest revenue		
Discounts and loans	$ 6,987,828	$ 6,307,257
Debt instruments with no active market	-	1,722,890
Credit card	789,060	726,838
Due from the Central Bank and call loans to other banks	129,543	329,808
Available-for-sale financial assets	-	953,877
Securities purchased under resell agreements	144,854	115,813
Held-to-maturity financial assets	-	84,481
Investments in debt instruments at amortized cost	1,995,101	-
Financial assets at fair value through other comprehensive income	899,538	-
Others	41,784	27,840
	10,987,708	10,268,804
Interest expense		
Deposits	3,300,204	2,919,534
Bank debentures	294,889	331,824
Securities sold under repurchase agreements	568,090	322,024
Due to Chunghwa Post Co., Ltd.	16,362	12,115
Others	106,375	92,259
	4,285,920	3,677,756
	$ 6,701,788	$ 6,591,048

37. COMMISSIONS AND FEE REVENUES, NET

	For the Year Ended December 31	
	2018	2017
Commission and fee revenues		
Insurance commission	$ 903,812	$ 820,626
Credit cards and cash cards	1,085,186	1,084,651
Trust business	384,548	382,052
Loan business	285,365	235,023
Interbank service fee	101,957	162,258
Underwriting business	68,892	65,963
Guarantee business	107,355	85,012
Others	260,937	218,304
	3,198,052	3,053,889
Commission and fee expense		
Credit card	589,004	590,427
Verification of credit	37,960	33,462
Interbank service fee	20,571	22,653
Acquiring liquidation deal	14,540	14,259
Others	113,125	95,071
	775,200	755,872
	$ 2,422,852	$ 2,298,017

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

	For the Year Ended December 31	
	2018	2017
Realized gain or loss on financial assets at fair value through profit or loss		
Currency swap contracts	$ 504,342	$ 224,482
Foreign exchange forward contracts	(151,378)	(22,909)
Commercial papers	14,975	18,600
Beneficial securities and shares	(160,323)	18,604
Option contracts	5,167	6,535
Government bonds	(181)	(5,695)
Corporate bonds	6,278	-
Dividend revenue	27,620	4,507
Interest revenue	196,079	111,951
	442,579	356,075
Unrealized gain or loss on financial assets at fair value through profit or loss		
Derivative financial assets and liabilities	(139,551)	(49,801)
Beneficial securities and shares	(76,741)	44,164
Commercial paper	131	253
Government bonds and corporate bonds	(3,350)	5,788
	(219,511)	404
	$ 223,068	$ 356,479

39. REALIZED GAIN FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET

	For the Year Ended December 31, 2017
Net income on disposal - beneficial securities	$ 165,990
Net income on disposal - stocks	342,848
Net income on disposal - corporate bonds	48,445
Net income on disposal - government bonds	26,496
Net income on disposal - financial bonds	27,483
Dividend revenue	218,868
	$ 830,130

40. REALIZED GAIN FROM FINANCIAL ASSETS AT FVTOCI

	For the Year Ended December 31, 2018
Net income on disposal - debt instruments	$ 553
Dividends revenue	443,146
	$ 443,699

41. IMPAIRMENT LOSS ON ASSETS (REVERSAL)

	For the Year Ended December 31	
	2018	2017
Other financial assets	$ -	$ (799)
Investments in debt instruments at fair value through other comprehensive income	(39,935)	-
Foreclosed collateral	6,346	-
	$ (33,589)	$ (799)

42. EMPLOYEE BENEFIT EXPENSES

	For the Year Ended December 31	
	2018	2017
Salaries and wages	$ 2,281,806	$ 2,159,038
Bonus	752,477	707,164
Pension		
Defined contribution plans	133,773	126,379
Defined benefit plans	16,284	17,031
Labor insurance and national health insurance	280,204	267,888
Others	66,483	75,074
	$ 3,531,027	$ 3,352,574

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, 2018 and 2017 which have been approved by the Company's board of directors on March 13, 2019 and March 14, 2018, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2018	2017
Employees' compensation	1.84%	1.84%
Remuneration of directors	0.09%	0.09%

Amount

	For the Year Ended December 31			
	2018		2017	
	Cash	Share	Cash	Share
Employees' compensation	$ -	$ 64,486	$ -	$ 62,164
Remuneration of directors and supervisors	3,154	-	3,041	-

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.

The number of shares of the employees' compensation, which was determined by dividing the amount of the employees' compensation resolved for 2018 and 2017 by $10.5 and $9.27, respectively, which is the closing price per share on the day immediately preceding the meeting of the Company's board of directors was 6,142 thousand shares and 6,706 thousand shares for 2018 and 2017, respectively.

There was no difference between the actual amounts of employees' compensation and remuneration of directors in 2017 and 2016 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 Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

43. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2018	2017
Assets leased	$ 1,582,288	$ 1,563,482
Property and equipment	295,593	271,561
Investment properties	39,676	38,342
Intangible assets	70,003	64,125
	$ 1,987,560	$ 1,937,510

44. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2018	2017
Rental	$ 623,783	$ 658,321
Outsourcing service	297,055	295,866
Taxation and government fee	612,786	608,740
Postage/cable charge	263,449	247,713
Computer operating	171,658	165,376
Advertisement	433,126	492,702
Deposit insurance	135,088	131,783
Maintenance charge	126,645	123,993
Others	779,981	713,355
	$ 3,443,571	$ 3,437,849

45. 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	
	2018	2017
Current tax		
Current year	$ 71,273	$ 117,534
Additional 10% income tax on unappropriated earnings	-	63,776
Prior year's adjustments	(10,459)	4
	60,814	181,314
Deferred tax		
Current year	554,711	439,222
Change in tax rate	(93,942)	-
	460,769	439,222
Income tax expense recognized in profit or loss	$ 521,583	$ 620,536

A reconciliation of accounting profit and current income tax expenses for the years ended December 31, 2018 and 2017 is as follows:

	For the Year Ended December 31	
	2018	2017
Income before tax	$ 3,476,584	$ 3,386,571
Income tax expense at the 20% statutory rate	$ 682,343	$ 578,398
Nondeductible expenses in determining taxable income	33,802	32,648
Additional income tax under the Alternative Minimum Tax Act	24,379	70,709
Unrecognized deductible temporary differences	5,608	52,384
Additional 10% income tax on unappropriated earnings	-	63,776
Disposal loss from investments in equity instruments at fair value through other comprehensive income	(32,384)	-
Tax-exempt income	(149,283)	(232,793)
Other permanent differences	61,519	55,410
Adjustments for prior year's tax	(10,459)	4
Effect of change in tax rate	(93,942)	-
Income tax expense recognized in profit or loss	$ 521,583	$ 620,536

In 2017, the applicable tax rate used by the Company (expect for Union Finance International (HK) Limited) is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in Hong Kong is 16.5%; the applicable tax rate used by subsidiaries in Japan is 30% and the applicable tax rate used by subsidiaries in Singapore is 17%.

As the manner of the 2019 appropriation of the 2018 earnings is uncertain, the income tax consequences on the 2018 unappropriated earnings cannot be reliably determined.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Recognized in other comprehensive income:		
Exchange differences on the translation of financial statements of foreign operations	$ (53,925)	$ (205,384)
Unrealized gains on available-for-sale financial assets	-	141,280
Unrealized gain or loss from financial assets at fair value through other comprehensive income	(207,225)	-
Actuarial gains and losses on defined benefit plans	9,490	1,781
Total income tax expenses (profit) recognized in other comprehensive income	$ (251,660)	$ (62,323)

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, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Others	Closing Balance
Deferred tax assets						
Temporary differences						
Impairment loss of financial instruments	$ 46,454	$ 8,198	$ -	$ -	$ -	$ 54,652
Exchange difference on translation of foreign operations	154,384	-	(53,925)	-	-	100,459
Employee benefit plan	145,428	21,533	9,704	-	-	176,665
Allowance for possible losses and reserve for losses on guarantees	31,807	97,836	-	-	-	129,643
Investment properties	119,996	19,248	-	-	-	139,244
Others	27,137	15,986	-	-	-	43,123
	525,206	162,801	(44,221)	-	-	643,786
Loss carryforwards	647,768	(500,004)	-	-	-	147,764
	$ 1,172,974	$ (337,203)	$ (44,221)	$ -	$ -	$ 791,550
Deferred tax liabilities						
Temporary differences						
Financial assets at fair value through other comprehensive income	$ (488,721)	$ -	$ (207,225)	$ -	$ -	$ (695,946)
Amortization of goodwill impairment loss	(337,502)	(59,559)	-	-	-	(397,061)
Others	(110,973)	(64,007)	(214)	(108)	(1,261)	(176,563)
	$ (937,196)	$ (123,566)	$ (207,439)	$ (108)	$ (1,261)	$ (1,269,570)

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Impairment loss of financial instruments	$ 46,454	$ -	$ -	$ -	$ 46,454
Exchange difference on translation of foreign operations					
Employee benefit plan	6,939	(53,974)	201,419	-	154,384
Payable for annual leave	144,872	2,578	(2,022)	-	145,428
Allowance for possible losses and reserve for losses on guarantees	49,580	(17,773)	-	-	31,807
Investment properties	121,634	(1,638)	-	-	119,996
Others	26,182	955	-	-	27,137
	395,661	(69,852)	199,397	-	525,206
Loss carryforwards	1,051,378	(403,610)	-	-	647,768
	$ 1,447,039	$ (473,462)	$ 199,397	$ -	$ 1,172,974
Deferred tax liabilities					
Temporary differences					
Available-for-sale financial assets	$ (347,441)	$ -	$ (141,280)	$ -	$ (488,721)
Exchange difference on foreign operations	(3,965)	-	3,965	-	-
Amortization of goodwill impairment loss	(337,502)	-	-	-	(337,502)
Others	(145,502)	34,240	241	48	(110,973)
	$ (834,410)	$ 34,240	$ (137,074)	$ 48	$ (937,196)

d. Information on loss carryforwards

The Company's loss carryforwards as of December 31, 2018 were as follows:

Unused Amount	Expiry Year
$ 698,644	2019
40,176	2020
48,846	2023
$ 787,666	

The loss carryforward of Union Finance International (HK) Limited as of December 31, 2018 was $87,218 thousand.

e. Income tax assessments

	Examined and Cleared
Union Bank of Taiwan	Through 2016
Union Finance and Leasing International	Through 2016
Union Information Technology	Through 2016
Union Insurance Broker	Through 2016
Union Securities Investment Trust	Through 2016

46. EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	$ 1.07	$ 1.02
Diluted earnings per share	$ 1.06	$ 1.02

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

Net Profit for the Period

	For the Year Ended December 31	
	2018	2017
Net profit	$ 2,956,724	$ 2,744,987
Less: Dividends on preference shares	(90,740)	-
Earnings used in the computation of basic earnings per share	$ 2,865,984	$ 2,744,987
Earnings used in the computation of diluted earnings per share	$ 2,865,984	$ 2,744,987

The weighted average number of ordinary shares outstanding (in thousand shares) is as follows:

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	2,688,690	2,683,307
Effect of potentially dilutive ordinary shares		
Employees' compensation or bonuses issued to employees	8,047	8,135
Weighted average number of ordinary shares used in the computation of diluted earnings per share	2,696,737	2,691,442

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

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on August 18, 2018. The basic and diluted earnings per share was adjusted retrospectively from $1.05 to $1.02 for the year ended December 31, 2017.

47. 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
Line Biz+ Taiwan Limited	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
Hi-Life International Co., Ltd.	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, 2018

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2018	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	20	$ 21,669	$ 17,531	$ 17,531	$ -	Land, buildings and cars	None
Self-used housing mortgage loans	41	169,381	99,280	99,280	-	Real estate	None
Others	8	77,644	8,400	8,400	-	Land, plant, buildings, quoted stock and time deposits	None

December 31, 2017

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2018	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	13	$ 16,719	$ 13,679	$ 13,679	$ -	Land, buildings and cars	None
Self-used housing mortgage loans	18	162,034	117,965	117,965	-	Real estate	None
Others	9	1,108,800	62,850	62,850	-	Land, plant, buildings, quoted stock and time deposits	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2018	$ 125,211	0.04	1.06%-2.60%	$ 2,868	0.03
2017	194,494	0.06	1.06%-3.06%	8,746	0.09

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate (Note)	Amount	%
2018	$ 4,905,638	0.95	0%-4.80%	$ 40,741	0.95
2017	5,221,542	1.16	0%-4.80%	33,578	0.91

3) Guarantees and letters of credit

December 31, 2018

Name	Highest Balance in the Year Ended December 31, 2018	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 19,316	$ 19,316	$ -	0.50%	Time deposits
The Liberty Times Co., Ltd.	2,547	-	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.50%	Time deposits
Union Optronics Corporation	39,193	-	-	0.75%	Time deposits
Hi-Life International Co., Ltd.	318,374	318,374	-	0.40%	-

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	$ -	0.50%	Time deposits
The Liberty Times Co., Ltd.	2,524	2,483	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.50%	Time deposits
Union Optronics Corporation	76,709	76,709	-	0.75%	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	%
2018				
Yu-Pang	$ 459,983	21.99	$ 25,900	4.12
Hung-Kuo	219,465	10.49	104,361	16.59
Yong-Xuan	16,194	0.77	66,804	10.62
UECC	5,334	0.25	11,038	1.75

(Continued)

	Lease Deposit (Part of Other Assets)		Rental Expense (Part of Other Operating Expense)	
	Amount	%	Amount	%
2017				
Yu-Pang	$ 459,983	26.93	$ 25,900	3.93
Hung-Kuo	218,768	12.81	101,476	15.41
Yong-Xuan	15,953	0.93	65,714	9.98
UECC	5,334	0.31	10,962	1.67

(Concluded)

5) Financial assets at fair value through profit or loss and available-for-sale financial assets

As of December 31, 2018 and 2017, the UFLIC had both purchased 6,968 thousand units of beneficial certificates issued by USITC, which amounted to $114,056 thousand and $119,691 thousand, and gain of disposal of investment were $0 thousand and $110,576 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	
	2018	2017
Short-term employment benefits		
Salaries	$ 45,912	$ 43,095
Transportation expenses	1,400	1,308
Other	11	27
	47,323	44,430
Post-employment benefits	1,233	6,284
	$ 48,556	$ 50,714

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

48. PLEDGED ASSETS

a. As of December 31, 2018 and 2017, government bonds and bank debentures, which amounted to $310,905 thousand and $286,705 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.

b. As of December 31, 2018 and 2017, the Bank pledged a time deposit of $300,000 thousand (part of other financial assets) to Mega International Commercial Bank and Mizuho Bank to be part of the latter's online bank-to-bank payment system.

c. The following assets of the Company had been used as collaterals to apply for loans, issue commercial papers and apply for provisional seizure of certain assets:

	December 31	
	2018	2017
Other financial assets		
Pledge assets	$ 96,689	$ 70,718
Investment property	$ 2,741,018	$ 2,522,582

d. As of December 31, 2018 and 2017, notes receivable (not expired) amounting to $654,917 thousand and $658,908 thousand had been used as collaterals to apply for loans and issue commercial papers.

49. CONTINGENCIES AND COMMITMENTS

a. As of December 31, 2018 and 2017, the Company's commitments consisted of the following:

	December 31	
	2018	2017
Irrevocable standby loan commitment	$ 101,075,098	$ 85,654,457
Unused credit card commitment	265,545,183	257,495,390
Unused letters of credit	822,060	1,241,648
Other guarantees	14,698,974	13,804,083
Collections for customers	27,451,323	28,800,426
Travelers' checks consigned-in	82,702	116,832
Guarantee notes payable	594,900	570,700
Trust assets	71,598,436	68,285,472
Marketable securities under custody	6,989,899	5,180,415

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, 2018 and 2017, refundable deposits paid under operating leases were $810,558 thousand and $807,931 thousand, respectively (included in other assets - refundable deposits).

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

	December 31	
	2018	2017
Within 1 year	$ 392,644	$ 436,507
Over 1 year and up to 5 years	625,935	858,653
Over 5 years	299,087	352,242
	$ 1,317,666	$ 1,647,402

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, 2018 and 2017, refundable deposits paid under operating leases were $73,140 thousand and $81,313 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	
	2018	**2017**
Within 1 year	$ 127,000	$ 243,797
Over 1 year and up to 5 years	208,508	341,561
Over 5 years	128,166	71,422
	$ 463,674	$ 656,780

The duration of leasing cars (included in other assets) is about 1 to 3 years.

Minimum future annual rentals are as follows:

	December 31	
	2018	**2017**
Within 1 year	$ 1,821,811	$ 1,839,177
Over 1 year to 5 years	1,752,473	1,629,586
	$ 3,574,284	$ 3,468,763

d. Computer equipment purchase contracts

As of December 31, 2018 and 2017, the Company had contracts to buy computer equipment and software for $117,012 thousand and $89,925 thousand, respectively, of which $75,598 thousand and $53,380 thousand had been paid as of December 31, 2018 and 2017, 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.

The plaintiff has asked the US court to deliver the complaint to the Taiwan Taipei District Court through mutual legal assistance. In accordance with the provisions of Article 402, paragraph 1, paragraph 2 of the Code of Civil Procedure and the relevant practical opinions of the court, the legal documents have been legally delivered to USITC. In order to avoid the unfavorable judgment of the court, USITC appointed American lawyers to deal with the litigation. The plaintiff has asked the US court to deliver the complaint to the Taiwan Taipei District Court through mutual legal assistance. In accordance with the provisions of Article 402, paragraph 1, paragraph 2 of the Code of Civil Procedure and the relevant practical opinions of the court, the legal documents have been legally delivered to USITC. In order to avoid the unfavorable judgment of the court, USITC appointed American lawyers to deal with the litigation. The defendant in the same situation (that is, the non-US foreign investor who was allocated from the Fairfield series of funds) disputed the application of the US bankruptcy law and the jurisdiction of the US court. The US Court recognized the law does not apply to such defendants, therefore, rejected the plaintiff's request for the reason of international comity. At present, the plaintiff has appealed to the Federal Second Circuit Court of Appeal. The parties have also completed the preliminary pleading exchange according to the court's request and wait for the court to hear the case.

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.

f. Investment in internet-only banking

For the purposes of actively developing its digital finance business, the Bank participated in the establishment of the internet-only bank of LINE bank on November 7, 2018 after approval from the board of directors was obtained. The Bank expects to obtain 5% of the shareholdings of LINE bank at a total price of $500,000 thousand. The case has yet to be approved by the authorities, and as of March 2019, the Bank had been prepaid shares amounting to $109,790 thousand.

50. TRUST BUSINESS UNDER THE TRUST LAW

Balance Sheet of Trust Accounts
December 31, 2018

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 4,650,271	Management fee payable	$ 5
Investments		Income tax payable	566
Mutual funds	41,286,267	Marketable securities payable	10,501,272
Common stock	649,901	Trust capital	61,145,308
Short-term bills and securities purchased under resell agreements	203,097	Reserve and deficit	(48,715)
Accounts receivable	8,247		
Stock in custody	10,501,272		
Real estate - land and building	14,299,381		
Total	$ 71,598,436	Total	$ 71,598,436

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2018.

Balance Sheet of Trust Accounts
December 31, 2017

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

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

Income Statement of Trust Accounts
Year Ended December 31, 2018

	Amount
Trust income	
Interest revenue - demand accounts	$ 607
Interest revenue - time deposits	15,240
Interest revenue - short-term bills and securities purchased under resell agreements	292
Cash dividends - common stock	9,211
Service fee allowances - common stock	4
Other income from tax refund plus interest	3
Income from beneficial certificates	392
Realized capital gain - fund	944
Realized capital gain - common stock	143
Unrealized capital gain - fund	95
Unrealized capital gain - common stock at stock exchange market	15,428
Unrealized capital gain - common stock at over-the-counter market	5,214
Total trust income	47,573
Trust expense	
Management expense	12,451
Taxation	74,286
Business fees - attorney fees	100
Agency fees	7,088
Supervisor fee	80
Unrealized capital loss - common stock at stock exchange market	356
Realized capital loss - fund	560
Unrealized capital loss - fund	640
Others	125
Total trust expense	95,686
Loss before tax	(48,113)
Income tax expense	(981)
Net loss	$ (49,094)

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

Income Statement of Trust Accounts
Year Ended December 31, 2017

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

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

Trust Property and Equipment Accounts
December 31, 2018

Investment Portfolio	Amount
Bank deposits	$ 4,650,271
Investments	
Mutual funds	41,286,267
Common stock	649,901
Short-term bills and securities purchased under resell agreements	203,097
Accounts receivable	8,247
Stock in custody	10,501,272
Real estate - land and buildings	14,299,381
	$ 71,598,436

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2018.

Trust Property and Equipment Accounts
December 31, 2017

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

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

51. FINANCIAL INSTRUMENTS

a. Information on 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, 2018 and 2017 were as follows:

(In Thousands of New Taiwan Dollars)

	December 31, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Financial assets mandatorily classified as at FVTPL				
Stock	$ 671,596	$ 671,596	$ -	$ -
Debt instruments	27,247	-	27,247	-
Beneficial certificates	2,555,622	2,555,622	-	-
Commercial paper	31,510,394	-	31,510,394	-
Asset-based securities	60,415	-	60,415	-
Principal guaranteed notes	1,368,547	-	1,368,547	-
Financial assets at fair value through other comprehensive income				
Stock	8,564,352	7,429,778	-	1,134,574
Real estate investment trusts	129,905	129,905	-	-
Debt instruments	24,699,250	-	24,699,250	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	516,104	-	479,583	36,521
Liabilities				
Financial liabilities at FVTPL	307,799	-	271,277	36,522

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 188,973	$ 188,973	$ -	$ -
Beneficial certificates	1,020,400	1,020,400	-	-
Commercial paper	10,389,618	-	10,389,618	-
Available-for-sale financial assets				
Stock	6,948,935	6,948,935	-	-
Debt instruments	27,503,754	-	27,503,754	-
Beneficial certificates	1,036,944	1,036,944	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	537,334	-	489,081	48,253
Liabilities				
Financial liabilities at FVTPL	183,384	-	135,125	48,259

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, financial assets at fair value through other comprehensive income, available-for-sale financial assets and hedging derivative financial instruments with quoted price in an active market are based on their market prices; financial instruments with no quoted prices in an active market are estimated by valuation methods.

1) Marking to market

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

a) Ensure the consistency and integrity of market data.

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

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

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

2) Marking to model

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

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

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

3) Fair value adjustment

Credit risk assessment adjustment refers to the fair value of the over the counter (OTC) derivative financial commodity contracts, which also reflects the credit risk of both parties. It can be mainly divided into "credit evaluation adjustment" and "debit evaluation adjustment":

a) Credit value adjustments (CVA): A transaction in a non-concentrated trading market, that is, the adjustment of the derivatives contract evaluation in the OTC transaction, which reflects the possibility of the Company may not be able to collect the full market value or the counterparty may default on the repayment on the fair value.

b) Debit value adjustments (DVA): It refers to the transactions of the non-concentrated trading market, that is, the adjustment of the derivatives contract evaluation in the OTC transaction, which reflects the possibility that the Company may not be able to collect the full market value or the counterparty may default on the repayment of the fair value.

Both CVA and DVA are concepts of estimated loss, calculated as the probability of default (PD) multiplied by the default loss rate (LGD) and multiplied by the exposure at default (EAD).

For customers with external credit ratings, the default probability is based on the default probability corresponding to the external rating; for customers without external credit ratings, the impairment rate calculated according to the Company's loan and receivable impairment assessment and the average incidence of impairment is taken as the default probability.

The Company uses the fair value of OTC derivatives to calculate the amount of default risk (EAD).

The Company uses 60% as the default loss rate based on the recommendation of "IFRS 13 CVA and DVA Related Disclosure Guidelines" of the Stock Exchange.

The Company incorporates the credit risk assessment adjustment into the fair value calculation of financial instruments to reflect the counterparty's credit risk and the Company's credit quality.

4) Transfers between Level 1 and Level 2

There was no material transfer between Level 1 and Level 2 for 2018 and 2017.

5) Reconciliation of Level 3 items of financial instruments

a) Reconciliation of Level 3 items of financial assets

For the year ended December 31, 2018

(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	$ 48,253	$ (22,635)	$ -	$ 50,712	$ -	$ (39,809)	$ -	$ 36,521
Financial assets at fair value through other comprehensive income								
Stock instruments	1,056,673	-	61,241	34,620	-	(17,960)	-	1,134,574

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

b) Reconciliation of Level 3 items of financial liabilities

For the year ended December 31, 2018

(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	$ 48,259	$ 7,772	$ -	$ 25,396	$ -	$(44,905)	$ -	$ 36,522

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

6) Quantitative information of significant unobservable inputs - Level 3 fair value measurement

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	$ 36,521	Option pricing model	Ratio	AUD/USD 8.08%-8.60% EUR/USD 7.25%-7.30% NZD/USD 7.77% USD/TWD 4.20%-5.30% USD/ZAR 16.93-%-17.64%	The higher the ratio is, the higher fair value
Non-derivative financial instruments						
Financial assets at fair value through other comprehensive income	Investment in equity instruments	1,134,574	Assets value model	Ratio	10%-20%	The higher the ratio is, the lower fair value
Derivative financial instruments						
Financial liabilities at fair value through profit or loss	Foreign exchange options	36,522	Option pricing model	Ratio	AUD/USD 8.08%-8.60% EUR/USD 7.25%-7.30% NZD/USD 7.77% USD/TWD 4.20%-5.30% USD/ZAR 16.93-%-17.64%	The higher the ratio is, the higher fair value

7) The assessment process of Level 3 fair value measurement

To ensure that the product assessment results can be close to the market, the risk management department of the Bank is responsible for the verification of the independent fair value. For products assessed by the model, before daily assessment, the information required for the assessment will be verified as correct and consistent with each other and the department will calibrate the model to the market quotation and update the input value required for the assessment model. In addition to regular checking of the accuracy of the assessment model, the reasonableness of the prices provided by third parties will also be checked.

8) Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions were 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.

The fair value measurement of financial instrument is reasonable although the use of different valuation models or parameters may lead to different results. For financial instruments classified in Level 3, if the parameter changes by 10%, the effects on profit or loss or other comprehensive income for the current periods are as follows:

December 31, 2018

	Changes in Fair Value Are Reflected in Other Comprehensive Income for the Current Period	
	Favorable Changes	**Unfavorable Changes**
Financial assets at fair value through other comprehensive income		
Investments in equity instruments	$ 113,457	$ (113,457)

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

1) Information of 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.

	December 31			
	2018		2017	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets				
Financial assets measured at amortized cost	$ 94,149,872	$ 94,475,696	$ -	$ -
Held-to-maturity financial assets	-	-	51,285,957	51,388,334
Debt instruments with no active market	-	-	45,734,754	46,737,536
Financial liabilities				
Bank debentures	9,700,000	9,828,544	11,700,000	11,887,884

2) Fair value hierarchy

Items	December 31, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets measured at amortized cost	$ 94,475,696	$ -	$ 94,475,696	$ -
Financial liabilities				
Bank debentures	9,828,544	-	9,828,544	-

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

3) Maximum exposure to credit risk

	December 31, 2018
Financial assets at fair value through profit or loss	
Commercial papers	$ 31,510,394
Mutual funds and beneficiary	2,555,622
Equity investments	671,596
Derivative financial ass	516,104
Debt investments	27,247
Principal guaranteed notes	1,368,547
Asset-based securities	60,415
	36,709,925
Financial assets at fair value through other comprehensive income	
Investments in equity instruments	8,564,352
Real estate investment trusts	129,905
	8,694,257
	$ 45,404,182

52. FINANCIAL RISK MANAGEMENT

a. Overview

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

b. Risk management framework

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

c. Credit risk

1) Credit risk definitions and sources

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

2) Strategy/objectives/policies and processes

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

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

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

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

3) Credit risk management framework

a) The board of directors: The board of directors, the top risk supervisor of the Company, reviews risk management policies, operational risk limits and the design and change of credit risk management framework.

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

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

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

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

4) Credit risk measurement, control and reporting

a) The range of credit risk reporting:

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

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

b) Measurement system:

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

5) Mitigation of risks or hedging of credit risk

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

6) Maximum exposure to credit risk

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

Off-Balance Sheet Items	**The Maximum Credit Exposure**	
	December 31, 2018	**December 31, 2017**
Irrevocable standby loan commitment	$ 6,848,218	$ 2,199,776
Unused letters of credit	822,060	1,241,648
Other guarantees	14,698,974	13,804,083
Unused credit card commitments	265,545,183	257,495,390

December 31, 2018	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 283,365,539	$ -	$ -	$ 283,365,539

December 31, 2017	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 248,662,563	$ -	$ -	$ 248,662,563

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, 2018		December 31, 2017	
	Amount	%	Amount	%
Private enterprises	$ 92,655,902	26.80	$ 84,654,639	25.19
Public enterprises	-	-	5,000,000	1.49
Government organizations	16,652,952	4.81	42,032,219	12.51
Nonprofit organizations	726,667	0.21	694,719	0.21
Private organizations	234,658,365	67.87	202,610,903	60.30
Foreign enterprises	1,069,388	0.31	1,024,743	0.30
Total	$ 345,763,274	100.00	$ 336,017,223	100.00

b) By geographical area

The Company's operations are mainly in Taiwan.

c) By collaterals

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Unsecured	$ 52,407,081	15.16	$ 80,394,252	23.92
Secured				
Financial instruments	9,054,700	2.62	8,134,418	2.42
Stocks	9,725,963	2.81	9,397,235	2.80
Properties	248,043,713	71.74	213,097,461	63.42
Movables	18,583,172	5.37	16,925,126	5.04
Guarantees	7,041,228	2.04	6,288,007	1.87
Others	907,417	0.26	1,780,724	0.53
Total	$ 345,763,274	100.00	$ 336,017,223	100.00

8) Credit quality and impairment assessment - 2017

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

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

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 - 2017

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

10) Analysis of impairment for financial assets - 2017

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:

<u>Discounts and loans</u>

		December 31, 2017	
		Discounts and Loans	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Individually assessed for impairment	$ 1,271,517	$ 129,051
	Collectively assessed for impairment	406,929	104,599
With no objective evidence of impairment	Collectively assessed	318,452,361	3,168,168

Note: The loans are those originated by the Company and are not net of the allowance for credit losses and adjustments for discount (premium).

<u>Receivables</u>

		December 31, 2017	
		Receivables	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Individually assessed for impairment	$ 127,247	$ 88,419
	Collectively assessed for impairment	1,214,203	66,562
With no objective evidence of impairment	Collectively assessed	16,598,269	33,318

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 - 2018

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

The Company observes the value of collateral for financial instruments and takes into consideration the impairment loss that should be recognized for financial assets that are credit-impaired. The values of the credit-impaired financial assets and the values of collateral to mitigate potential losses are as follows:

Credit-impaired Financial Assets	**Carrying Amount**	**Allowance for Impairment Loss**	**Exposure Amount (Amortized Cost)**	**Fair Value of Collateral**
Receivables				
Credit cards	$ 1,135,862	$ 65,863	$ 1,069,999	$ -
Other	117,859	91,937	25,922	28,534
Discounts and loans	1,771,899	284,614	1,487,285	4,331,271
	$ 3,025,620	$ 442,414	$ 2,583,206	$ 4,359,805

12) Judgment that credit risk has increased significantly since the initial recognition - 2018

On each reporting date, the Bank assesses the change in the default risk of financial assets, as well as considers reasonable and corroborative information that shows the credit risk has increased significantly since initial recognition, to determine whether the credit risk has increased significantly. The main considerations include:

Quantitative indicators

a) The borrower pays the amount for contracts overdue for at least one month (more than or equal to 30 days for the credit card business), or the amounts for other contracts that are overdue for at least one month (more than or equal to 30 days for the credit card business).

b) Debt instruments whose prices on the reporting date have fallen more than 40% from the original price since the acquisition date.

c) Debt instruments that have non-investment grades based on the debt (priority), issuer, and guarantor’s credit rating and that have fallen by more than two grades and whose prices have fallen by more than 15% on the reporting date.

<u>Qualitative indicators</u>

a) The borrower’s check bounced due to insufficient funds in the Bank’s checking account, or announced as a rejected account.

b) The borrower’s collateral was seized.

c) The borrower’s debt has been recognized as a non-accrual loan or transferred to bad debt by other financial institutions.

d) The borrower has been reorganized.

e) An auditors’ report on the borrower has been released where it was stated that a material uncertainty exists that may cast significant doubt on the borrower’s ability to continue as a going concern.

f) The borrower has other bad debts that indicate that the borrower’s ability to perform its debt obligations is weak or has signs of impairment, which has been assessed to affect its operations or repayment ability.

13) Definition of default and credit impaired financial assets - 2018

The Company uses the same definitions for default and credit impairment of financial assets. If one or more of the conditions below are met, the Company determines that the financial assets have defaulted and are credit impaired. The main considerations include:

a) The borrower pays the amount for contracts overdue for at least 3 months (90 days and above for the credit card business).

b) The debtor has significant financial difficulties (e.g., the debtor has ceased operations, is bankrupt, or has liquidated).

c) Economic or legal considerations, concessions to borrowers with financial difficulties (such as debt negotiations).

If the financial assets no longer meet the definition of default and credit impairment, they are judged as regaining their status of meeting performance obligations and are no longer regarded as financial assets that have defaulted and are credit impaired.

14) Reversal Policy -2018

When the Company is unable to reasonably expect to recover all or part of the financial assets, the indicators that all or part of the financial assets that cannot be reasonably expected to be recovered include the following:

a) Recourse activities have stopped.

b) The borrower is assessed to have insufficient assets or sources of income to pay the outstanding amount.

The financial assets that have been written off by the Company may still have ongoing recourse activities in accordance with the relevant policies.

15) Contractual cash flow modification of financial assets

The Company may modify the contractual cash flow of financial assets due to the borrower's financial difficulties, increase in the recovery rate of the doubtful borrowers, or to maintain customer relationships. The modification of the contractual terms of the financial assets may include extending the contract period, modifying the interest payment time, and modifying The agreed interest rate or the exemption of some of the outstanding debts. The modification of contractual cash flows of financial assets may result in the delisting of existing financial assets in accordance with the Company's financial assets delisting policy and recognition of new financial assets at fair value.

If the contractual cash flow modification of a financial asset does not result in a derecognition, the Company assesses whether the credit risk of the financial asset has increased significantly by comparing the following:

a) Risk of default on the reporting date (based on modified contract terms).

b) The risk of default at the time of original recognition (based on the original unmodified contract terms).

The Company considers the borrower's subsequent payment in accordance with the revised terms and several relevant behavioral indicators to assess the probability of default of the revised financial assets and confirm whether the contract modification improves or restores the ability of the Company to recover the relevant contract payments. If the borrower pays the contract amount according to the revised terms and shows good payment behavior, it can be determined that the credit risk is reduced and the loss allowance will be measured by the 12-month expected credit loss.

The Company regularly reviews the changes in credit risk of the revised financial assets in accordance with relevant policies, and evaluates whether there is a significant increase in credit risk following the revised financial assets based on a specific model.

16) Measurement of expected credit losses - 2018

For the purpose of assessing expected credit losses, credit assets are classified into the following groups based on the credit risk characteristics of the borrower's industry, credit risk rating, collateral type and remaining maturity period:

Business	**Group**	**Definition**
Corporate banking	Corporate banking	Corporate banking business
Consumer banking	Mortgages	Mortgage business
	Financial loans	Financial loan business
	Credit card	Credit card business
	Others	Other business

The Company adopts the 12-month ECL model to evaluate the loss allowance of financial instruments whose credit risk have not increased significantly since initial recognition, and adopt the lifetime ECL model to evaluate the loss allowance of financial instruments whose credit risk has increased significantly since initial recognition or of that are credit-impaired.

The Company considers both the 12-month and lifetime probability of default ("PD") of the borrower with the loss given default ("LGD"), multiplied by the exposure at default ("EAD"), as well as the impact of time value, to calculate the 12-month ECLs and lifetime ECLs, respectively.

"PD" refers to the borrower's probability to default and "LGD" refers to losses caused by the default. The Company calculates the "PD" and "LGD" used in the impairment assessment of the credit business according to each group's historical information (such as credit loss experience) from internal statistical data, and after adjustment of the historical data based on current observable and forward-looking macroeconomic information.

	Account Receivable				
	December 31, 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (Credit-impaired Financial Assets)	Additional Impairment Loss Required under Regulations	Total
Gross carrying amount	$ 17,048,513	$ 99,394	$ 1,253,721	$ -	$ 18,401,628
Less: Allowance for impairment loss	23,703	17,977	157,800	-	199,480
Less: Additional impairment loss required under regulations	-	-	-	70,666	70,666
	$ 17,024,810	$ 81,417	$ 1,095,921	$ 70,666	$ 18,131,482

	Discounts and Loans				
	December 31, 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (Credit-impaired Financial Assets)	Additional Impairment Loss Required under Regulations	Total
Gross carrying amount	$ 325,297,553	$ 1,798,887	$ 1,771,899	$ -	$ 328,868,339
Less: Allowance for impairment loss	170,493	162,436	284,614	-	617,543
Less: Additional impairment loss required under regulations	-	-	-	3,235,110	3,235,110
	$ 325,127,060	$ 1,636,451	$ 1,487,285	$ 3,235,110	$ 325,015,686

When the Company estimates the 12-month and lifetime expected credit losses for its loan commitments, it will give different credit conversion factors according to the characteristics of each product. The Company will also take into consideration the amount that is expected to be utilized within 12 months from the reporting date and the expected lifetime of each commitment in determining the default risk amount that is used to calculate the expected credit loss.

The estimation techniques or material assumptions used to assess expected credit losses have not changed significantly during the current period.

17) Consideration of forward-looking information

The Company's credit (including credit card) segments are based on different loan properties, such as corporate banking, consumer finance, credit, car loans and credit cards, and forward-looking model estimates are carried out, based on actual default rates and overall economic variables of each segment in the past quarters. The default rate for the next year is estimated using the credit risk chain model, by estimating the relationship between the default rate and the overall economic variables. The investment function makes reference to external credit ratings in their consideration of forward-looking information.

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, 2018					
	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	$ 5,727,107	$ 112,912	$ 3,084,709	$ 2,515,000	$ 672,167	$ 12,111,895
Securities sold under agreements to repurchase	21,177,132	23,157,256	-	-	-	44,334,388
Accounts payables	5,392,065	945,378	447,999	208,441	19,539	7,013,422
Deposits and remittance	51,769,939	69,018,051	77,506,669	140,487,058	175,136,358	513,918,075
Bank debentures	-	1,500,000	-	-	8,200,000	9,700,000
Bonds payable	-		-	-	1,480,976	1,480,976
Other liabilities	1,765,555	2,578,607	156,715	327,081	1,574,874	6,402,832

	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

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

	December 31, 2018					
	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	$ 19,774,642	$ 15,840,034	$ 958,437	$ 1,963,020	$ -	$ 38,536,133
Cash inflow	19,613,925	15,779,547	924,443	1,945,498	-	38,263,413
	160,717	60,487	33,994	17,522	-	272,720
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 160,717	$ 60,487	$ 33,994	$ 17,522	$ -	$ 272,720

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

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

	December 31, 2018					
	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	$ 662	$ 891	$ 17,062	$ 4,661	$ -	$ 23,276

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

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 Company 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 Company’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 Company 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 Company'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 2018 and 2017, 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 $380,167 thousand and $393,900 thousand, respectively.

b) Exchange rate risk

The exchange rate risk of the Companying book refers to the business operation of the International Banking Department of the Company'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 Company'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 Companies' net worth.

7) Foreign currency rate risk information

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

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

	December 31, 2018		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,354,493	30.7330	$ 72,360,624
JPY	18,695,277	0.2784	5,204,373
GBP	137	38.8957	5,344
AUD	1,178	21.6760	25,539
HKD	91,629	3.9240	359,552
CAD	1,405	22.5912	31,750
CNY	872,097	4.4741	3,901,844
SGD	86	22.4854	1,923
ZAR	18,615	2.1291	39,632
CHF	60	31.2074	1,869
THB	430	0.9491	408
NZD	502	20.6249	10,350
EUR	10,666	35.2047	375,496
Financial liabilities			
USD	1,943,738	30.7330	59,736,913
JPY	13,072,151	0.2784	3,639,012
GBP	2,151	38.8957	83,677
AUD	1,220	21.6760	26,434
HKD	73,257	3.9240	287,459
CAD	1,396	22.5912	31,537
CNY	872,724	4.4741	3,904,647
SGD	80	22.4854	1,792
ZAR	18,568	2.1291	39,532
CHF	73	31.2074	2,279
NZD	529	20.6249	10,912
EUR	13,824	35.2047	486,670

	December 31, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,811,480	29.848	$ 83,917,068
JPY	19,119,596	0.2650	5,065,966
GBP	1,409	40.2053	56,652
AUD	128,377	23.2635	2,986,498
HKD	276,796	3.8189	1,057,063
CAD	15,168	23.7795	360,685
CNY	706,005	4.5790	3,232,822
SGD	1,507	22.3246	33,654
ZAR	853,238	2.4191	2,064,030
CHF	1,687	30.5507	51,529
THB	331	0.9153	303
NZD	26,935	21.2010	571,041
EUR	32,026	35.6773	1,142,605
Financial liabilities			
USD	2,367,764	29.848	70,673,019
JPY	12,988,826	0.2650	3,441,545
GBP	5,479	40.2053	220,266
AUD	131,390	23.2635	3,056,585
HKD	251,512	3.8189	960,507
CAD	15,163	23.7795	360,568
CNY	719,522	4.5790	3,294,719
SGD	1,445	22.3246	32,255
ZAR	853,645	2.4191	2,065,015
CHF	1,650	30.5507	50,402
THB	89	0.9153	81
NZD	26,955	21.2010	571,476
EUR	46,206	35.6773	1,648,507

f. Transfers of financial assets.

Most of the transferred financial assets of the Company 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 Company's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Company 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, 2018					
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	$ 12,453,108	$ 12,462,948	$ 12,453,108	$ 12,462,948	$ (9,840)
Financial assets at fair value through other comprehensive income Securities sold under repurchase agreements	12,865,389	11,155,357	12,865,389	11,155,357	1,710,032
Financial assets at amortized cost Securities sold under repurchase agreements	28,655,857	20,716,083	28,844,548	20,716,083	8,128,465

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

g. Offsetting financial assets and financial liabilities.

The Company 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, 2018						
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	$ 516,104	$ -	$ 516,104	$ 96,760	$ -	$ 419,344

December 31, 2018						
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	$ 307,799	$ -	$ 307,799	$ 12,320	$ -	$ 295,479

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

53. 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, 2018	
			Own Capital Adequacy Ratio	**Consolidated Capital Adequacy Ratio**
Eligible capital	Common equity Tier 1 Ratio		$ 33,172,535	$ 32,575,667
	Other Tier 1 capital		11,720,972	12,496,555
	Tier 2 capital		4,310,985	7,313,533
	Eligible capital		49,204,492	52,385,755
Risk-weighted assets	Credit risk	Standard	289,969,304	300,008,530
		Internal rating-based approach	-	-
		Asset securitization	2,343,167	2,343,167
	Operational risk	Basic indicator approach	18,656,113	22,156,450
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	32,534,371	33,506,790
		Internal model approach	-	-
	Total risk-weighted assets		343,502,955	358,014,937
Capital adequacy rate			14.32%	14.63%
Ratio of common stockholders' equity to risk-weighted assets			9.66%	9.10%
Ratio of Tier 1 capital to risk-weighted assets			13.07%	12.59%
Leverage ratio			6.48%	6.42%

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%

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 9.875%, the Tier 1 Capital Ratio at a minimum of 7.875% and the Common Equity Tier 1 Ratio at a minimum of 6.375%. 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.

54. 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 Note 52 and Table 5.

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2018			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Company B - other financial intermediation	$ 1,822,167	3.66
2	Group U - real estate development	1,458,700	2.93
3	Company H - retail of other food and beverages	1,434,000	2.88
4	Company T - real estate development	1,172,543	2.35
5	Company Z - real estate development	932,000	1.87
6	Company W - real estate development	930,000	1.87
7	Company K - other financial, insurance and real estate	815,000	1.64
8	Company C - instant food manufacturing	779,730	1.57
9	Company Q - telecommunications	759,566	1.52
10	Company M - sporting and athletic articles manufacturing	705,000	1.42

(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

b. Market risk

Interest Rate Sensitivity
December 31, 2018

(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	$ 457,294,541	$ 5,064,654	$ 9,732,667	$ 42,968,957	$ 515,060,819
Interest rate-sensitive liabilities	265,564,886	170,310,303	57,553,564	19,103,321	512,532,074
Interest rate-sensitive gap	191,729,655	(165,245,649)	(47,820,897)	23,865,636	2,528,745
Net worth					50,030,191
Ratio of interest rate-sensitive assets to liabilities					100.49%
Ratio of interest rate sensitivity gap to net worth					5.05%

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%

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, 2018

(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	$ 1,369,796	$ 91,924	$ 269,795	$ 1,754,345	$ 3,485,860
Interest rate-sensitive liabilities	1,560,799	387,164	407,730	334,579	2,690,272
Interest rate-sensitive gap	(191,003)	(295,240)	(137,935)	1,419,766	795,588
Net worth					26,474
Ratio of interest rate-sensitive assets to liabilities					129.57%
Ratio of interest rate sensitivity gap to net worth					3,005.17%

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%

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, 2018	Year Ended December 31, 2017
Return on total assets	Before income tax	0.57	0.62
	After income tax	0.49	0.50
Return on common equity	Before income tax	8.61	9.10
	After income tax	7.28	7.44
Net income ratio		23.21	22.18

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, 2018 and 2017.

2) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2018

(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	$ 576,751,774	$ 178,305,659	$ 42,949,727	$ 43,346,518	$ 73,322,794	$ 238,827,076
Main capital outflow on maturity	662,529,252	91,088,874	93,951,174	89,290,503	169,096,433	219,102,268
Gap	(85,777,478)	87,216,785	(51,001,447)	(45,943,985)	(95,773,639)	19,724,808

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)

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, 2018

(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	$ 3,704,232	$ 757,570	$ 775,038	$ 99,150	$ 270,012	$ 1,802,462
Main capital outflow on maturity	3,643,476	771,552	1,249,752	430,144	504,897	687,131
Gap	60,756	(13,982)	(474,714)	(330,994)	(234,885)	1,115,331

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

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).

55. 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 or disposed of at costs or prices of at least $300 million or 10% of the paid-in capital: Table 3 (attached)

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

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).

56. 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, 2018						
	Corporate Banking	**Consumer Banking**	**Wealth Management**	**Investing**	**Leasing**	**Others**	**Total**
Net interest (Note)	$ 1,350,810	$ 2,974,407	$ (530)	$ 1,156,591	$ (89,397)	$ 1,505,986	$ 6,897,867
Net commissions and fees revenues	148,310	955,896	1,007,183	117,382	(387)	194,468	2,422,852
Net revenues other than interest	120,617	(5,257)	2,666	219,223	2,336,574	737,779	3,411,602
Total net revenues	1,619,737	3,925,046	1,009,319	1,493,196	2,246,790	2,438,233	12,732,321
Provisions (reversal)	(108,483)	121,368	-	(22,610)	1,594	301,710	293,579
Operating expenses	757,403	2,585,579	550,824	187,601	2,069,110	2,811,641	8,962,158
Income before income tax	$ 970,817	$ 1,218,099	$ 458,495	$ 1,328,205	$ 176,086	$ (675,118)	$ 3,476,584

	For the Year Ended December 31, 2017						
	Corporate Banking	**Consumer Banking**	**Wealth Management**	**Investing**	**Leasing**	**Others**	**Total**
Net interest (Note)	$ 1,175,116	$ 2,644,847	$ (218)	$ 1,424,301	$ (94,859)	$ 1,553,813	$ 6,703,000
Net commissions and fees revenues	118,891	882,967	942,673	122,926	(666)	231,226	2,298,017
Net revenues other than interest	120,443	(1,024)	4,682	664,553	2,338,384	343,310	3,470,348
Total net revenues	1,414,450	3,526,790	947,137	2,211,780	2,242,859	2,128,349	12,471,365
Provisions (reversal)	(43,264)	105,598	-	220,737	-	73,790	356,861
Operating expenses	697,608	2,500,534	543,350	192,373	2,042,365	2,751,703	8,727,933
Income before income tax	$ 760,106	$ 920,658	$ 403,787	$ 1,798,670	$ 200,494	$ (697,144)	$ 3,386,571

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

TABLE 1

UNION BANK OF TAIWAN AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(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.	Receivables of affiliates	$ 2,227,032 (JPY 8,000,000)	$ 2,227,032 (JPY 8,000,000)	$ 1,798,878 (JPY 5,639,163) (US$ 7,453)	1.50	Business transaction	$ 2,227,032 (JPY 8,000,000)	-	$ -	-	$ -	$ 2,879,129	$ 2,879,129
2	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Receivables of affiliates	1,030,002 (JPY 3,700,000)	1,030,002 (JPY 3,700,000)	731,364 (JPY 2,627,225)	1.50	Business transaction	1,030,002 (JPY 3,700,000)	-	-	-	-	2,879,129	2,879,129
		Uflc Capital (Singapore) Holding Pte. Ltd.	Receivables of affiliates	1,809,464 (JPY 6,500,000)	1,809,464 (JPY 6,500,000)	1,539,126 (JPY 5,523,808) (US$ 46)	1.50	Business transaction	1,809,464 (JPY 6,500,000)	-	-	-	-	2,879,129	2,879,129
3	Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Receivables of affiliates	528,920 (JPY 1,900,000)	528,920 (JPY 1,900,000)	408,066 (JPY 1,465,865)	2.75	Business transaction	528,920 (JPY 1,900,000)	-	-	-	-	2,879,129	2,879,129
4	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Receivables of affiliates	918,651 (JPY 3,300,000)	918,651 (JPY 3,300,000)	794,912 (JPY 2,855,504)	2.75	Business transaction	918,651 (JPY 3,300,000)	-	-	-	-	2,879,129	2,879,129

UNION BANK OF TAIWAN AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(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, 2018				Note
				Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	Stock							
	Shin Kong Financial Holdings	-	Financial assets at fair value through other comprehensive income	921	$ 8,260	0.008	$ 8,260	
	China Chemical Corporation	-	Financial assets at fair value through other comprehensive income	356	6,451	0.12	6,451	
	Hey-Song Corporation	-	Financial assets at fair value through other comprehensive income	4,551	136,302	1.13	136,302	
	ERA Communications Co., Ltd.	-	Financial assets at fair value through other comprehensive income	425	1,415	0.33	1,415	
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	6,114	96,198		96,198	
	Union Golden Balance Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	854	17,858		17,858	
Union Information Technology Corporation	Stock							
	ELTA Technology Co., Ltd.	-	Financial assets at fair value through other comprehensive income	3,019	30,241	14.38	30,241	
	Greenway Technology Co., Ltd.		Financial assets at fair value through other comprehensive income	1,100	17,600	2.82	17,600	
Union Securities Investment Trust (USITC)	Stock							
	Fundrish Securities Co., Ltd.	-	Financial assets at fair value through other comprehensive income	566	4,871	0.94	4,871	
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	1,595	16,798		16,798	
	Union Emerging Asia Bond A	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	274	5,332		5,332	
	Union Money Market	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	693	16,221		16,221	
	Union Golden Balance Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	867	12,039		12,039	
	Union China	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	2,024	22,194		22,194	

(Continued)

Holding Company	Type and Issuer/ Name of Marketable Security	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Union Technology Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	1,179	$ 16,309		$ 16,309	
	Union APEC Balanced A	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	267	10,979		10,979	
	Union Global ETF Fund	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	994	4,892		4,892	
	Union Asian High Yield Bond A	Securities investment trust issued by USITC	Financial assets at fair value through profit or loss	1,697	22,826		22,826	
Union Finance International (HK) Limited	<u>Bond</u>							
	HBOS Capital Funding LP	-	Financial assets at fair value through profit or loss	900 unit	US$ 896		US$ 896	
	<u>Stock</u>							
	Apple Computer Inc.	-	Financial assets at fair value through profit or loss	7	US$ 1,168		US$ 1,168	
	Obsidian	-	Financial assets at fair value through profit or loss	90	US$ 36		US$ 36	
	Obsidian	-	Financial assets at fair value through other comprehensive income	29	US$ 17		US$ 17	
	Mr.Cooper Group Inc.	-	Financial assets at fair value through other comprehensive income	1	US$ 17		US$ 17	
	Nvidia Corp.	-	Financial assets at fair value through other comprehensive income	10	US$ 1,335		US$ 1,335	
New Asian Ventures Ltd.	<u>Stock</u>							
	Grace T.H.W. Holding Limited	-	Financial assets at fair value through other comprehensive income	1,667	69,007	0.81	69,007	

(Concluded)

UNION BANK OF TAIWAN

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
Union Bank of Taiwan	Stock Line Biz+ Taiwan, Ltd. (Line Pay)	Investments accounted for using the equity method	Line Biz+ Taiwan, Ltd. (Line Pay)	-	-	$ -	5,471	$ 1,579,977	-	$ -	$ -	$ -	5,471	$ 1,570,630

Note 1: The securities referred to in this table refer to stocks bonds, beneficiary certificates and securities derived from the above projects.

Note 2: Securities accounted for using the equity method must fill in the two columns, and the remainder is exempt.

Note 3: The accumulated acquired and disposal costs or prices should be calculated separately to reach at least NT$300 million or 20% of the paid-capital.

TABLE 4

UNION BANK OF TAIWAN AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$300 MILLION OR 10% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(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	$ 1,798,878 (JPY 5,639,163) (US$ 7,453)	-	$ -	-	$ -	$ -
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Subsidiary	731,364 (JPY 2,627,225)	-	-	-	-	-
	Uflc Capital (Singapore) Holding Pte. Ltd.	Subsidiary	1,539,126 (JPY 5,523,808) (US$ 46)	-	-	-	-	-
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	408,066 (JPY 1,465,865)	-	-	-	-	-
Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	794,912 (JPY 2,855,504)	-	-	-	-	-

TABLE 5

UNION BANK OF TAIWAN AND SUBSIDIARIES

ASSET QUALITY - NONPERFORMING LOANS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2018					December 31, 2017				
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		$ 156,712	$ 95,065,830	0.16%	$ 1,453,468	773.71%	$ 126,078	$ 82,684,315	0.15%	$ 1,331,768	884.88%
	Unsecured		31,144	40,811,740	0.08%			24,424	70,604,009	0.03%		
Consumer banking	Housing mortgage (Note 4)		109,406	151,086,376	0.07%	1,896,091	1,733.08%	151,347	132,069,243	0.11%	1,654,526	1,093.20%
	Cash card		361	32,021	1.13%	615	170.36%	682	45,043	1.51%	2,153	315.69%
	Small-scale credit loans (Note 5)		77,149	23,240,769	0.33%	281,206	364.50%	61,359	17,032,760	0.36%	208,107	339.16%
	Other (Note 6)	Secured	26,303	18,025,996	0.15%	221,273	830.76%	18,868	16,886,175	0.11%	205,264	1,051.72%
		Unsecured	332	2,427,774	0.01%			649	2,704,621	0.02%		
Loan			401,407	330,690,506	0.12%	3,852,653	959.79%	383,407	322,026,166	0.12%	3,401,818	887.26%
			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			40,017	14,922,631	0.27%	156,828	391.90%	42,074	14,575,314	0.29%	91,701	217.95%
Accounts receivable factored without recourse			-	183,566	-	1,836	-	-	396,449	-	3,964	-

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, 2018		December 31, 2017	
	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)	$ 30,402	$ 133,133	$ 42,254	$ 178,460
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	95,253	740,983	77,446	768,034
Total	125,655	874,116	119,700	946,494

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 INVESTEES
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Invest company	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 (%)	
Union bank of Taiwan	Financial - related										
	Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00	$ 2,879,129	$ 135,315	130,000	-	130,000	100.00	Note 1
	Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99	69,721	(31,422)	30,000	-	30,000	99.99	Note 1
	Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00	132,313	(928)	10,500	-	10,500	35.00	Note 1
	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	21,170	3,274	1,000	-	1,000	99.99	Note 1
	Ipass Corporation	Kaohsiung	IC card	11.40	94,313	-	13,000	-	13,000	11.40	
	Taiwan Gin Lian Asset Management Corporation	Taipei	Purchase, sale and management of nonperforming loans from financial institutions	0.57	74,748	-	6,000	-	6,000	0.57	
	Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	47,788	-	5,000	-	5,000	2.94	
	Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53	18,000	-	2,103	-	2,103	0.53	
	Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44	3,993	-	386	-	386	6.44	
	Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	6,797	-	160	-	160	0.81	
	Financial Information Service Co., Ltd.	Taipei	Information service	2.47	267,269	-	12,875	-	12,875	2.47	
	Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25	56,680	-	922	-	922	0.25	
	Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04	424,908	-	6,807	-	6,807	2.04	
	Taiwan Mobile Payment Corporation	Taipei	International trade, data processing service	1.00	3,567	-	600	-	600	1.00	
	LINE BIZ+ Taiwan., Ltd	Taipei	Data processing, digital information supply and third party payment services	10.00	1,570,630	(9,347)	5,471	-	5,471	10.00	
	Nonfinancial - related							-			
	Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00	52,832	(289)	2,000	-	2,000	40.00	Note 1
	Fu Hua Venture Corporation	Taipei	Investments	5.00	4,825	-	743	-	743	5.00	
	Li Yu Venture Corporation	Taipei	Investment	4.76	3,955	-	558	-	558	4.76	
	Lian An Service Corporation	Taipei	Security service	5.00	1,527	-	125	-	125	5.00	
	Taiwan Power Corporation	Taipei	Electricity-related business	0.0012	3,070	-	395	-	395	0.0012	
Union Finance and Leasing International Corporation	Nonfinancial - related										
	Union Capital (Cayman) Corp	Cayman	Investments, overseas financing, equipment leasing, installment selling, acquisition of account receivable	100.00	582,101	37,659	50	-	50	100.00	Note 1
	New Asian Ventures Ltd.	BVI	Investments, overseas financing, equipment leasing, installment selling, acquisition of account receivable	100.00	91,303	964	-	-	-	100.00	Note 1
Union Capital (Cayman) Corp.	Nonfinancial - related										
	Union Capital (Singapore) Holding Pte. Ltd.	Singapore	Investments, overseas financing, equipment leasing, installment selling, acquisition of account receivable	100.00	30,898 (JPY 110,992)	14,243 (JPY 52,065)	-	-	-	100.00	Note 1
	Uflc Capital (Singapore) Holding Pte. Ltd.	Singapore	Investments, overseas financing, equipment leasing, installment selling, acquisition of account receivable	100.00	34,667 (JPY 124,532)	15,746 (JPY 57,557)	-	-	-	100.00	Note 1

(Continued)

Invest company	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 (%)	
Union Capital (Singapore) Holding Pte. Ltd.	Nonfinancial - related										
	Kabushiki Kaisha UCJ1	Japan	Buy, sell and lease real estate	30.55	$ 131,725 (JPY 473,185)	$ 824 (JPY 3,012)	9		9	30.55	Note 3
	Tokutei Mokuteki Kaisha SSG15	Japan	Real estate securitization	49.00	195,074 (JPY 700,750)	17,361 (JPY 63,459)	Note 6		Note 6	49.00	Note 3
Kabushiki Kaisha UCJ1	Nonfinancial - related										
	Tokutei Mokuteki Kaisha SSG15	Japan	Real estate securitization	51.00	203,022 (JPY 729,300)	18,069 (JPY 66,049)	Preferred stock 15		Preferred stock 15	51.00	Note 3
	Tokutei Mokuteki Kaisha SSG12	Japan	Real estate securitization	51.00	274,008 (JPY 984,300)	14,539 (JPY 53,144)	Note 5		Note 5	51.00	Note 3
	Tokutei Mokuteki Kaisha SSG16	Japan	Real estate securitization	51.00	184,565 (JPY 663,000)	9,582 (JPY 35,026)	Preferred stock 26		Preferred stock 26	51.00	Note 3
Uflc Capital (Singapore) Holding Pte. Ltd.	Nonfinancial - related										
	Kabushiki Kaisha UCJ1	Japan	Buy, sell and lease real estate	69.45	299,472 (JPY 1,075,770)	1,873 (JPY 6,847)	21		21	69.45	Note 3
	Tokutei Mokuteki Kaisha SSG12	Japan	Real estate securitization	49.00	263,277 (JPY 945,750)	13,968 (JPY 51,059)	Note 6		Note 6	49.00	Note 3
	Tokutei Mokuteki Kaisha SSG16	Japan	Real estate securitization	49.00	177,341 (JPY 637,050)	9,206 (JPY 33,652)	Note 4		Note 4	49.00	Note 3

Note 1: Expect for LINE BIZ+ Taiwan., Ltd, the investees' information shown above is based on audited financial reports as of December 31, 2018.

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.

Note 3: 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, 2018.

Kabushiki Kaisha UCJ1 - unaudited statements of stockholders' equity as of September 30, 2017.

Note 4: Refers to 1 share of common stock and 13 thousand shares of preferred stock.

Note 5: Refers to 1 share of common stock and 14 thousand shares of preferred stock.

Note 6: Refers to 1 share of common stock and 19 thousand shares of preferred stock.

(Concluded)

UNION BANK OF TAIWAN AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS AMONG THE BANK AND SUBSIDIARIES
YEAR ENDED DECEMBER 31, 2018
(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	$ 216,518	Note 4	0.03
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - checking deposits	18,782	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Due from banks	235,300	Note 4	0.04
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - time deposits	26,324	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Other assets	4,316	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Other	22,008	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Interest receivables	1,959	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Interest payables	1,959	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Discounts and loans - short-term, secured	1,822,167	Note 4	0.28
1	UFLIC and its subsidiaries	The Bank	b	Call loans and due to other banks - call loans from banks	1,822,167	Note 4	0.28
0	The Bank	UFLIC and its subsidiaries	a	Other operating expenses	11,997	Note 4	0.09
1	UFLIC and its subsidiaries	The Bank	b	Rental revenue	11,997	Note 4	0.09
0	The Bank	UFLIC and its subsidiaries	a	Interest revenue	34,350	Note 4	0.27
1	UFLIC and its subsidiaries	The Bank	b	Interest expense	34,350	Note 4	0.27
0	The Bank	UFLIC and its subsidiaries	a	Rental revenue	2,477	Note 4	0.02
1	UFLIC and its subsidiaries	The Bank	b	Other operating expenses	2,477	Note 4	0.02
0	The Bank	UFLIC and its subsidiaries	a	Financial assets at fair value through profit or loss	7,331	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Financial liabilities at fair value through profit or loss	7,331	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Exchange loss	8,238	Note 4	0.06
1	UFLIC and its subsidiaries	The Bank	b	Exchange gain	8,238	Note 4	0.06
0	The Bank	Union Finance International (HK) Limited	a	Deposits and remittances - demand deposits	7,452	Note 4	-
2	UIT	The Bank	b	Due from banks	7,452	Note 4	-
0	The Bank	UIT	a	Other assets	31,143	Note 4	-
2	UIT	The Bank	b	Other liabilities	31,143	Note 4	-
0	The Bank	UIT	a	Other operating expenses	122,196	Note 4	0.96
2	UIT	The Bank	b	Net revenues other than interest	122,196	Note 4	0.96
0	The Bank	UIT	a	Accrued payables - expense	1,045	Note 4	-
2	UIT	The Bank	b	Receivables - accounts receivables	1,045	Note 4	-
0	The Bank	USITC	a	Deposits and remittances - demand deposits	977	Note 4	-
0	The Bank	USITC	a	Deposits and remittances - time deposits	29,700	Note 4	-
3	USITC	The Bank	b	Due from banks	30,677	Note 4	-
0	The Bank	USITC	a	Deposits and remittances - time deposits	168,600	Note 4	0.03
3	USITC	The Bank	b	Other financial assets	168,600	Note 4	0.03
0	The Bank	USITC	a	Interest expense	2,112	Note 4	0.02
3	USITC	The Bank	b	Interest revenue	2,112	Note 4	0.02
0	The Bank	USITC	a	Commissions and fee revenues	10,351	Note 4	0.08
3	UFLIC	The Bank	b	Commissions and fee expenses	10,351	Note 4	0.08

(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)
4	UFLIC	UIT	c	Amortization expense	$ 1,048	Note 4	-
4	UIT	UFLIC	c	Other operating expenses	706	Note 4	-
2	UIT	UFLIC	c	Net revenues other than interest	1,754	Note 4	-
4	UFLIC	Union Capital (Cayman) Corp.	c	Receivables - receivables from related parties	1,814,196	Note 4	0.28
5	Union Capital (Cayman) Corp.	UFLIC	c	Payables - payables to related parties	1,814,196	Note 4	0.28
4	UFLIC	Union Capital (Cayman) Corp.	c	Interest revenue	27,025	Note 4	0.21
5	Union Capital (Cayman) Corp.	UFLIC	c	Interest expense	27,025	Note 4	0.21
5	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding PTE. Ltd.	c	Receivables - receivables from related parties	732,506	Note 4	0.11
6	Union Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Payables - payables to related parties	732,506	Note 4	0.11
5	Union Capital (Cayman) Corp.	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Receivables - receivables from related parties	1,552,075	Note 4	0.24
7	Uflc Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Payables - payables to related parties	1,552,075	Note 4	0.24
5	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding PTE. Ltd.	c	Interest revenue	10,927	Note 4	0.09
6	Union Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Interest expense	10,927	Note 4	0.09
5	Union Capital (Cayman) Corp.	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Interest revenue	22,698	Note 4	0.18
6	Uflc Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Interest expense	22,698	Note 4	0.18
6	Union Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Receivables - receivables from related parties	408,435	Note 4	0.06
8	Kabushiki Kaisha UCJ1	Union Capital (Singapore) Holding PTE. Ltd.	c	Payables - payables to related parties	408,435	Note 4	0.06
7	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Receivables - receivables from related parties	801,616	Note 4	0.12
8	Kabushiki Kaisha UCJ1	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Payables - payables to related parties	801,616	Note 4	0.12
5	Union Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Interest revenue	11,028	Note 4	0.09
8	Kabushiki Kaisha UCJ1	Union Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	11,028	Note 4	0.09
7	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Interest revenue	18,514	Note 4	0.15
8	Kabushiki Kaisha UCJ1	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	18,514	Note 4	0.15

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)