联邦銀行
UNION BANK OF TAIWAN

Stock Code:2838

Date of Publication: Jun 2019
This Annual Report may be accessed on the Market Observation Post System (http://newmops.tse.com.tw) and on the Bank's Website (https://www.ubot.com.tw)

The English version of annual report is a brief translation and is not part of official document of the shareholder's meeting.
The Chinese version shall prevail if there is any difference between these two.

# 2018 Annual Report

Wan-Ling Chen
Authorized by Union Culture Foundation

## I. Spokesman

Name: Mr. Herman Tu / Title: Senior Executive Vice President
Tel.: 02-27180001
E-mail: herman_tu@ubot.com.tw

**Second Spokesman**

Name: Mr. Yanger Yang / Title: Department Manager
Tel.: 02-27180001
E-mail: yanger_yang@ubot.com.tw

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

**Please refer to page 165 ~178.**

## III. Stock Registration Office

Name: MasterLink Securities Corp.
Homepage: http://www.masterlink.com.tw
Address: B1, No.35, Ln. 11, Guangfu N. Rd., Taipei City
Tel: (02) 2768-6688

## IV. Credit Ratings Institution

Name: Taiwan Ratings Corp.
Homepage: http://www.taiwanratings.com.tw
Address: 49F, No.7, Hsin-Yi Rd., Sec. 5, Taipei, Taiwan
Tel.: (02) 8722-5800

## V. CPA for Financial Statement Auditing

Name: Mr. Vincent Cheng / Mr. Charles Yang
Company: Deloitte & Touche
Homepage: http://www.deloitte.com.tw
Address: 12F, No.156, Minsheng E. Rd., Sec. 3, Taipei, Taiwan
Tel.: (02) 2545-9988

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

## VII. Homepage: http://www.ubot.com.tw

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# Letter to Shareholders

## 1. Results of Operation for 2018

(1) Domestic and International Financial Environment

In 2018, global economic recovery continued and the interest rate spread driven by the interest raise of the USD kept expanding. Taiwan's New Southbound Policy and investments in US enterprises also drove the growth momentum of the Southeast Asian and US markets. The influence of the US government's progressive adjustment of the US trade policy and continuation of the tight monetary policy has spread from enterprises to the physical economy. While dramatic volatility of the global financial market is seen and the global oil price plunged drastically, market demand turned conservative, resulting in a big import/export recession in China, Japan, and South Korea. All these suggest that global economic growth is slowing down..

(2) Changes in Bank Organization

The number of domestic branches reached 90 in 2018.

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

Through the concerted effort of all employees, we made excellent performance in all key performance indicators (KPIs) in 2018. With regard to profitability, the Bank reported an after-tax net income of NT$ 2.957 billion for the year ended Dec. 31, 2018, earnings per share (EPS) was NT$ 1.07, return on assets (ROA) was 0.49%, and return on equity (ROE) was 7.33%. In terms of asset quality, the Bank was able to maintain sound asset quality, reporting an NPL ratio of 0.12% and bad debt coverage ratio of 959.79%.

Over the years, we have been promoting different types of business upon an operational strategy featuring steady growth and local cultivation. On January 18, 2019, Taiwan Ratings Corporation awarded our Bank its long- and short-term issuer credit rating for “twA” and “twA-1” respectively, and the outlook on the long-term rating is stable. According to the rating report of Taiwan Ratings Corporation, we have a prudent capital policy and appropriate risk controls, which will enable us to maintain a stable credit structure over the next one to two years. Taiwan Ratings Corporation expects that we can maintain a similar standard in market position, asset quality, capital sources and liquidity structure..

(4) Revenue/Expenditure and Profitability

In 2018, the net interest income was NT$6.792 billion, the non-interest income was NT$3.780 billion, and the net revenue was NT$10.572 billion. After deducting net bad debt expenses totaling NT$ 292 million and operating expenses totaling

NT$6.843 billion, the net income before and after tax was NT$3.437 billion and NT$2.957 billion respectively.

**2. Credit Rating**

| Rating Agency | Date of Rating | Rating Results | | Outlook |
|---|---|---|---|---|
| Taiwan Ratings Corporation | January. 18, 2019 | Long-Term: twA | Short-Term: twA-1 | Stable |

**3. 2019 Business Plan**

(1) Operating plan and important operating policy:

1. Deposit business: In response to the trend of digital payment, the Bank plans to strengthen the functions of VISA debit cards and accounts (introducing the services of EasyCard A/C LINK, and Apple Pay Debit Card and so on) to provide depositors with multi-dimensional payment tools. We will also expand the functions of ATMs (introducing the services of "ATM interbank deposit" and "iPASS deposit function") to provide customers with various services. Besides, we will further develop MIT enterprises in order to make their payment flow run in the Bank, and increase the absorption of the deposits from enterprises and legal persons. Our goal is to increase the growth of current deposits. We will hold promotional bonus campaigns for interest rate of time deposits and foreign currency time deposits to increase the market share of time deposits.

2. Corporate banking and foreign exchange business: (1) Active cultivation of corporate loans: We will prioritize self-liquidating loans and loans for manufacturing industries and increase obligation protection through the SME credit guarantee fund and the request for collateral. We will also constantly strengthen business cultivation to industries emphasizing MIT by increasing visits on existing loan clients to cultivate potential customers both upstream and downstream through their recommendation to increase the opportunity for business cultivation. We will further visit industrial zones and office buildings near a branch or the industrial zone administration to cultivate new customers. (2) Strengthening undertaking quality stock collateral loans. (3) Constant monitoring of the limit of various loan risks and concentration risks, such as industry concentration, real property collateral concentration, business group concentration, and related party loan control. (4) Develop the customer sources of foreign exchange businesses, expand imports, exports and foreign exchange business to increase the niche in foreign exchange business and market share.

3. Consumer banking: Spread related activity information via DM, eDM, and SMS, or utilize telemarketing to develop new mortgage customers and maintain existing mortgage customers. Constantly focus on further developing quality customers,

grasp customer's demands, and maintain existing customers. Provide customized programs for different customers in order to develop new customers. Recruit or train auto financing AOs and expand the auto financing centers in Taoyuan, Taichung, Kaohsiung and other metropolitan areas according to the situation to boost business.

4. Credit card business: Maintain multiple channel promotions, such as channels for co-branded cards and the Taiwan Traveler Card, employee promotion, and boosting the online application rate, to increase market share. Constantly maintaining and strengthening top card functions to attract big spenders to apply for UBOT cards to raise the card use rate. Organizing card use incentivization events for all channels (e.g. supermarket chains, convenience store chains, and netcom) and different consumption types (travel, insurance, etc.) to enhance customer loyalty. Mobile payment loading and promoting multiple emerging payment methods to merchants to enhance competitiveness in the order acquisition business.

5. Wealth management, insurance agencies, and trusts: Develop Internet ETF trading, increase the ratio of foreign bonds and ETF business, promote private funds in order to increase handling charge income, and provide various financial products for customers to meet the income performance expected by customers. Also, we introduce financial derivatives to satisfy the requirements of customers with a large amount of assets and expand our insurance product line such as overseas student insurance, major illness insurance, and one-year accident insurance to increase handling charge income.

6. Digital banking service: Constantly updating e-banking and digital banking system services to enhance service competitiveness. Providing new-version corporate e-banking service. Enhancing the efficiency of O2O services with e-banking to strengthen unconventional banking service locations, such as Hi Life convenience store chain, LINEPay and iPass marketing cooperation and O2O cash flow service linkage. Constantly providing personalized services bonded to message notification and marketing and promoting its uses over instant messenger LINE. Improving the EDM system service functions and transmission efficiency. Combining the Bank’s customer service system to assess the launch of the intelligent customer service core service. Planning the introduction of biometrics related applications, such as facial recognition technology and related applications for and integration with financial services.

7. Securities: Further develop and manage legal person customers to boost performance, promote the business of electronic trading to increase the ratio of

electronic trading.

8. Others: In investment business, cultivate financial trading talents, choose investment targets carefully and execute disciplinary financial operations in order to control the risk and increase the Bank's income, do our best to improve the profitability of all assets, strengthen risk management, and maintain good asset quality, plan the loan business guaranteed by USD time deposits to maintain self-insurance operation volume, and increase USD deposits in the Bank, and meanwhile, review the appropriateness of the bill and bond ratio to maintain better capital movement flexibility.

(2) Channel development:

1. Apart from 90 business locations in Taiwan, we will continue to proactively cultivate overseas territory and expand our operation basis to provide customers with internationalized financial services.

2. The Bank has expanded our ATM service network to offer customers more convenient services and through which we hope to enhance our corporate image and reputation. As of December 31, 2018, the Bank has installed a total 858 ATMs to service our clients.

(3) The Bank’s 2019 business goals

1. Deposits expected to reach NT$ 541.1 billion by year end.
2. Loans expected to reach NT$ 361.5 billon (excluding credit cards) by year end.
3. Foreign exchange turnover is forecasted to reach US$ 7.005 billion.
4. Improvement in business performance targets: including a suppressed NPL ratio or one that is lower than the industry average, improvement in capital level to meet the requirement of 2019 in accordance with IFRS and Basel III, and the maintenance of stable fund source and high-quality liquid assets in order to meet the standards of Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR).

**4. External Factors and Future Development Strategies**

In 2019, thanks to the policy concerning opening financial technology business for bank industries, encouraging important new venture financing, expanding overseas markets and so on, these are beneficial to open new markets and develop new customers. In addition, the bankers constantly adjust loan lending and business structure to improve profit margin and increase the competitiveness of domestic/foreign business and foreign market deployment. But, it is necessary to be careful of the economic fluctuation and risk exposure increase resulting from the China-United States trade war.

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

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

Yours sincerely,

董事長 李憲章

Chairman Shiang-Chang Lee

總經理 林鴻聯

President Jeff Lin

# BANK PROFILE

## 1. Date of Establishment and History

Union Bank of Taiwan was the third private bank approved for establishment by the government in the awakening of banking liberalization and globalization. Based on a common interest in sustainable development and a business philosophy featuring “enthusiasm,” “reliability,” efficiency” and “innovation,” founders of this Bank set up the preparatory office of the Bank on March 29, 1989, leading to the official operations starting on January 21, 1992. On September 19, 1995, this Bank was listed on what is today’s Taipei Exchange and then on Taiwan Stock Exchange on June 29, 1998, becoming a publicly offered company recognized and identified by the public.

In order to achieve the goal of internationalization, the Bank set up its Ho Chi Minh City Representative Office on Feb. 25, 1998 in Vietnam and Hong Kong Representative Office on Aug. 24, 1999 in Hong Kong respectively. The Bank also got permission from the Financial Supervisory Commission in Mar., 2019 to set up a branch in Da Nang, Vietnam, so the Bank has more branches and can provide a greater variety of convenient services for our customers.

To expand business channels and the scale of operations, we acquired Chung Shing Bank collectively on March 19, 2005 and completed merging it with Union Bills Finance Co., Ltd. On August 16, 2000.

To integrate overall resources, strengthen management, and demonstrate operating synergy, we merged with Union Insurance Broker Co., Ltd. on August 26, 2015 with BOD resolution and obtained the FSC approval on March 21, 2016. The merger was completed on August 1, 2016, in which Union Bank of Taiwan served as the surviving bank, which continue to provide service for the insured customers of the Union Insurance Broker.

By the end of March 2019, we have 90 domestic business locations, including 47 in Greater Taipei, 18 in Taoyuan and Hsinchu, 10 in Taichung and Changhua, 7 in Chiayi and Nantou, and 8 in Kaohsiung and Pingtung; 9 securities branches; and one overseas banking branch.

## 2. Merger, Acquisition, Reinvestment in Affiliated Enterprises and Corporate Restructure During 2018 and Current Year Up to the Printing Date of the Annual Report :

No mergers, acquisitions, or restructuring occurred during 2018 and the current year up to the publication date of the annual report. The number of new reinvestment affiliated enterprises is 1 in total, and its name is "LINE BIZ+ TAIWAN LIMITED", the Bank has a 10% shareholding.

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

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

## 4. Significant Transfers or Changes in Shareholding of Directors, Supervisors and Parties Required to Declare Ownership of Shares Under Paragraph 3, Article 25 of the Banking Act.

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

## BANK PROFILE

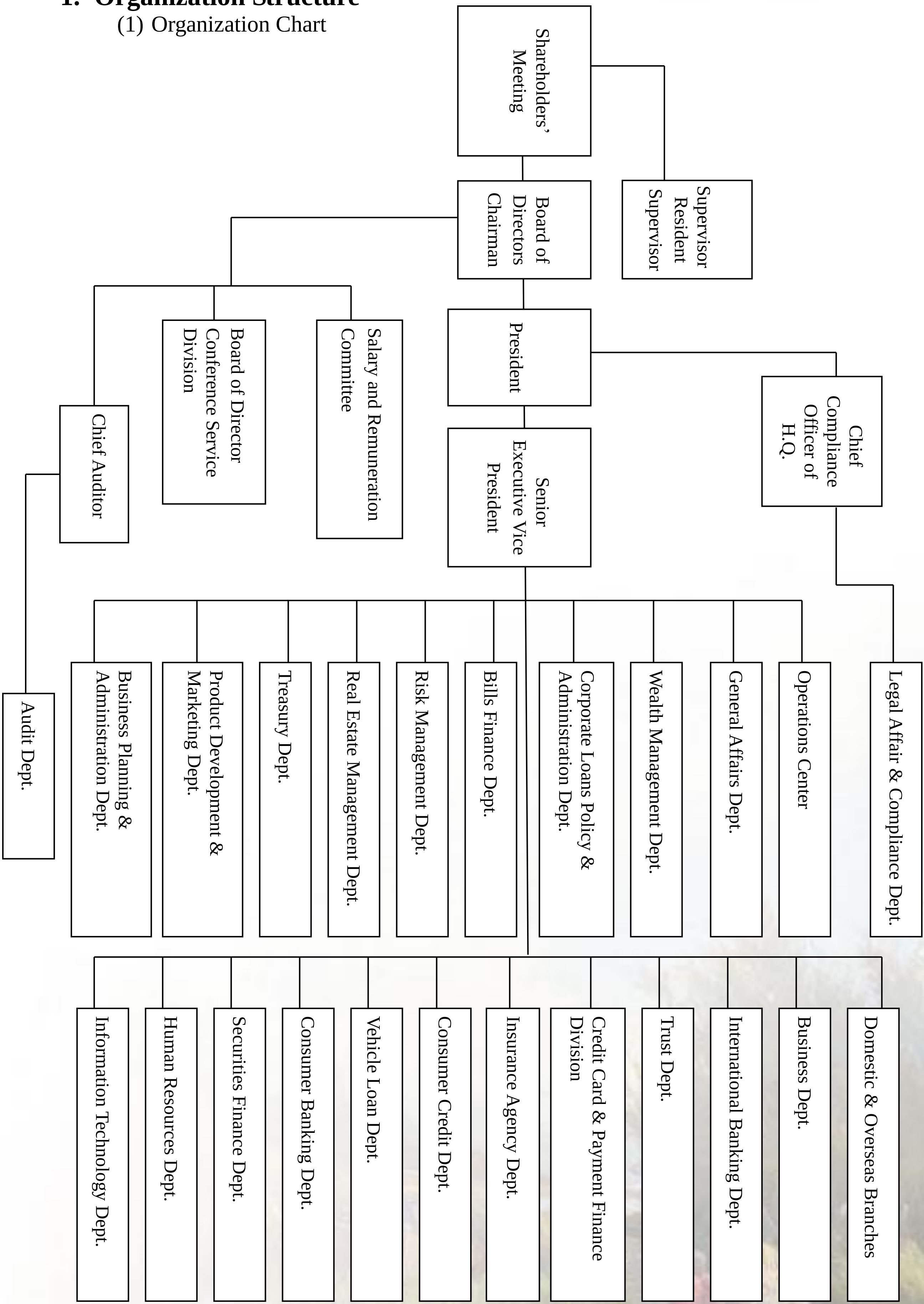
5. **Changes in Management Rights, Management Mode or Other Significant Business Changes During 2018 and Current Year Up to the Printing Date of the Annual Report:** None.

6. **Other matters of material significance that could affect shareholders' equity and how such matters will affect the Bank:** None

# Corporate Governance

## 1. Organization Structure

(1) Organization Chart



# Corporate Governance

(2) Responsibilities of each department**:**

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

Business Planning & Administration Department:
Responsible for the Bank's organizational system, execution of budgets, risk management and deposit-taking and remittance businesses.

Product Development & Marketing Department:
Responsible for the planning and promotion of e-Commerce businesses.

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

Real Estate Management Department:
Responsible for the appraisal of real estate collaterals and management of collateral received for loans.

Risk Management Department:
Responsible for managing the Bank's credit risks, market risks and operational risks.

Bills Finance Department:
Responsible for planning pursuing and managing the bills and bonds business.

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

Corporate Loan Policy & Administration Department:
Responsible for the promotion and management of corporate banking businesses.

Wealth Management Department:
Responsible for the promotion of wealth management businesses and administration of wealth management personnel.

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

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

Information Technology Department:
Responsible for the design, execution and maintenance of the Bank's computer system.

Human Resources Department:
Responsible for planning human resources.

## Corporate Governance

Securities Finance Department:
Responsible for entrusted trading, underwriting and purchase of marketable securities.

Consumer Banking Department:
Responsible for the promotion and management of consumer banking businesses.

Vehicle Loan Department:
Responsible for planning, promoting and managing the vehicle loan business.

Consumer Credit Department:
Responsible for the promotion and management of consumer credit businesses.

Credit Card & Payment Finance Division:
Responsible for the development of affairs related to credit cards and merchants, and processing of micro loans.

Trust Department:
Responsible for trust business, custodian banking and certification services.

International Banking Department:
Responsible for foreign exchange businesses and establishing and managing the overseas branches.

Insurance Agency Department:
Responsible for the promotion and management of insurance agency banking businesses.

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

## 2. Information on Directors, Supervisors, and Executive Officers

### (1) Directors and Supervisors

#### A. General Information

Recordation Date: March 31, 2019（Shares Holding Recordation Date: April 2, 2019）
Unit: Shares；%:

| Title | Name/Gender /Nationality T:Taiwan | Date of Elected | Term | Date of Initial Appointment | Shareholding at Appt. (Common Stock / Preferred Stock) Note2 | | Current Shareholding (Common Stock / Preferred Stock) | | Current Shareholding of Spouse & Minor Children (Common Stock / Preferred Stock) | | Shareholding Under Other's Title (Common Stock / Preferred Stock) | | Experience & Qualification | Current Positions in the Bank and Other Company | Other Executive Officers, Directors or Supervisors Are Spouse or Within Second-degree Relatives of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Shareholding Ratio | Shares | Shareholding Ratio | Shares | Shareholding Ratio | Shares | Shareholding Ratio | | | Title | Name | Relation |
| Chairman | Shiang-Chang Lee /M/T | 2018.06.08 | 3 Yrs | 1991.12.10 | 1,349,939 | 0.04% | 1,390,437 | 0.04% | 2,180,457 | 0.07% | - | - | National Taiwan University;<br>President of UBOT | Union Finance International (HK) Director －<br>Taiwan Futures Exchange supervisor | None | None | None |
| Independent Managing Director | Kao-Jing Wang /M/T | 2018.06.08 | 3 Yrs | 2009.06.19 | - | - | - | - | - | - | - | - | Master's Degree, University of North Dakota;<br>SEVP, Bank of Taiwan | Independent Director of Mechema Chemical International Corp. | None | None | None |
| Managing Director | Chen-Chern Investment Co., Representative: Zhen-Xong Jiang /M/T | 2018.06.08 | 3 Yrs | 2012.06.22 | 125,029,640/ 4,245,959 | 4.45%/0.14% | 128,780,529/ 4,245,959 | 4.45%/0.14% | 1,990,997 | 0.06% | - | - | National Defense Medical School;<br>Commissioner of International Rotary Club | . | None | None | None |
| Independent Director | Zen-Fa Lu /M/T | 2018.06.08 | 3 Yrs | 2009.06.19 | - | - | - | - | - | - | - | - | 4th Judicial Training Program, The Judges and Prosecutors Training Institute;<br>Prosecutor General of Supreme Prosecutors Office | | None | None | None |

# Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date of Elected | Term | Date of Initial Appointment | Shareholding at Appt. (Common Stock / Preferred Stock) Note2 | | Current Shareholding (Common Stock / Preferred Stock) | | Current Shareholding of Spouse & Minor Children (Common Stock / Preferred Stock) | | Shareholding Under Other's Title (Common Stock / Preferred Stock) | | Experience & Qualification | Current Positions in the Bank and Other Company | Other Executive Officers, Directors or Supervisors Are Spouse or Within Second-degree Relatives of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Shareholding Ratio | Shares | Shareholding Ratio | Shares | Shareholding Ratio | Shares | Shareholding Ratio | | | Title | Name | Relation |
| Independent Director | Guo-Zhang Li /M/T | 2018.06.08 | 3 Yrs | 2015.06.26 | | - | - | - | - | - | - | - | National Taiwan University, Chairman of Union Bills Finance Corp.. | | None | None | None |
| Director | Union Enterprise Construction Co., Ltd. Representative: Jeff Lin /M/T | 2018.06.08 | 3 Yrs | 1991.12.10 | 90,901,025 | 3.24% | 93,628,055 | 3.23% | 5,762,566 | 0.19% | - | - | Master's Degree, National Taiwan University; President of Union Bank of Taiwan | Director of Union Dyeing and Finishing Co., Ltd. Supervisor of Union Recreation Enterprise Co., Ltd.; Director of The Liberty Times. Managing Director of Kuosheng Investment Co.,Ltd. Director of Union Finance International (HK) | None | None | None |
| Director | Yu-Pang Co., Ltd. Representative: Sue-Feng Tsao /F/T | 2018.06.08 | 3 Yrs | 1994.06.01 | 37,972,999 | 1.35% | 39,112,188 | 1.35% | 3,641 | - | - | - | Taipei Commercial Academy Director of Tien-Sheng Investment Co., Ltd. | | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date of Elected | Term | Date of Initial Appointment | Shareholding at Appt. (Common Stock / Preferred Stock) Note2 | | Current Shareholding (Common Stock / Preferred Stock) | | Current Shareholding of Spouse & Minor Children (Common Stock / Preferred Stock) | | Shareholding Under Other's Title (Common Stock / Preferred Stock) | | Experience & Qualification | Current Positions in the Bank and Other Company | Other Executive Officers, Directors or Supervisors Are Spouse or Within Second-degree Relatives of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Shareholding Ratio | Shares | Shareholding Ratio | Shares | Shareholding Ratio | Shares | Shareholding Ratio | | | Title | Name | Relation |
| Supervisor | Pai-Sheng Investment Co., Ltd. Representative: Si-Yong Lin /M/T | 2018.06.08 | 3 Yrs | 2015.06.26 | 132,981,337/ 8,167,281 | 4.74%/ 0.29% | 136,970,777/ 8,167,281 | 4.73%/ 0.28% | 1,843,386 | 0.06% | - | - | National Taiwan Normal University Director of Hong-Bung Construction Enterprise Co., Ltd. | Director of Union Dyeing and Finishing Co., Ltd.; Director of Yeh-Shan Construction Co., Ltd.; Chairman of GreenIsland Hotel Co., Ltd.; Director of Jen-Yo Investment Co. Ltd.; Director of Sun-Che Investment Co., Ltd.; Supervisor of RSL Corporation.; Supervisor of Lung Shan Lin Realestate Management Corp.; Manager and Director of Hong-Bung Construction Enterprise Co., Ltd.; Director of Lung Shan Lin Construction Co., Ltd; Director of Kang-Hong investment Co., Ltd:Supervisor of Song-Mai investment; Director of Hi-Life International Co., Ltd.; Chairman of Kuo-sheng investment Co., Ltd;Director of Pai-Sheng Investment Co., Ltd.; Director of Chu-Pao Investment; Supervisor of Lung Shan Lin Enterprise Co., Ltd.;Director of Union Bank of Taiwan; Director of Union Realestate Management Corp.;Director of Union Optronics Corp. | None | None | None |

B. Major Institutional Shareholders

| Name of Shareholder | Major Shareholders of Institutional Shareholder |
|---|---|
| Yu-Pang Co., Ltd. | Hong-Bang Lin, Jeff Lin |
| Union Enterprise Construction Co., Ltd. | Lin Chang Su-O, Hong-Yao Lin |
| Chen-Chern Investment Co., Ltd. | Tsong-Yu Lee, Hong-Yao Lin |
| Pai-Sheng Investment Co., Ltd. | Si-Yong Lin, Hsiu-Ching Lee |

C. Major Shareholders of Institutional Shareholders

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

D. Professional Knowledge and Independence Information of Directors and Supervisors

| Qualification / Name | Over five years of experience in related fields and the following professional qualification (Note 1) | | | Independent Status (Note 2) | | | | | | | | | | Serving as an independent director of other public companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | |
| Shiang-Chang Lee | | | V | V | | V | V | V | | V | V | V | V | - |
| Kao-Jing Wang | | | V | V | V | V | V | V | V | V | V | V | V | 1 |
| Zhen-Xong Jiang | | | V | V | V | V | V | V | V | V | V | V | | - |

# Corporate Governance

| Qualification / Name | Over five years of experience in related fields and the following professional qualification (Note 1) | | | Independent Status (Note 2) | | | | | | | | | | Serving as an independent director of other public companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | |
| Zen-Fa Lu | | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | - |
| Guo-Zhang Li | | | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | ∨ | - |
| Jeff Lin | | | ∨ | | | ∨ | | ∨ | | ∨ | ∨ | ∨ | | - |
| Sue-Feng Tsao | | | ∨ | ∨ | ∨ | ∨ | ∨ | | | ∨ | ∨ | ∨ | | - |
| Si-Yong Lin | | | ∨ | ∨ | ∨ | ∨ | ∨ | | | ∨ | ∨ | ∨ | | - |

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

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

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

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

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

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

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

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

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

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

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

(7): Not an owner, partner, director, supervisor, manager or spouse of any sole proprietor business, partnership, company or institution which has provided the Bank and its affiliates with financial, business consulting, or legal services. Excluding members of the remuneration committee that exercise powers in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8): Not a spouse or within second-degree relation to other directors.

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

(10): Not a government agency, juristic person or its representative pursuant to Article 27 of the R.O.C. Company Act.

## Corporate Governance

E. Director and Supervisors' Training Records

| Title | Name | Date of Training | | Organizer | Course Name | Hours | Has the Director or Supervisor Met the Training Requirements Note |
|---|---|---|---|---|---|---|---|
| | | From | To | | | | |
| Chairman | Shiang-Chang Lee | 2018.03.16 | 2018.03.16 | Taiwan Academy of Banking and Finance | Trust industry supervisor in-service seminar (northern area) | 3 | Yes |
| Chairman | Shiang-Chang Lee | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of the whistleblower system ) | 3 | Yes |
| Chairman | Shiang-Chang Lee | 2018.11.26 | 2018.11.26 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk) | 3 | Yes |
| Independent Managing Director | Kao-Jing Wang | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of the whistleblower system ) | 3 | Yes |
| Independent Managing Director | Kao-Jing Wang | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk) | 3 | Yes |

## Corporate Governance

| Title | Name | Date of Training | | Organizer | Course Name | Hours | Has the Director or Supervisor Met the Training Requirements Note |
|---|---|---|---|---|---|---|---|
| | | From | To | | | | |
| Managing Director | Zhen-Xong Jiang | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of the whistleblower system ) | 3 | Yes |
| Managing Director | Zhen-Xong Jiang | 2018.11.26 | 2018.11.26 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk) | 3 | Yes |
| Independent Director | Guo-Zhang Li | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance. | Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of the whistleblower system ) | 3 | Yes |
| Independent Director | Guo-Zhang Li | 2018.11.26 | 2018.11.26 | Taiwan Academy of Banking and Finance. | Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk) | 3 | Yes |
| Director | Yu-Quan Lee | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance. | Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of the whistleblower system ) | 3 | Yes |
| Director | Yu-Quan Lee | 2018.11.26 | 2018.11.26 | Taiwan Academy of Banking and Finance. | Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk) | 3 | Yes |

## Corporate Governance

| Title | Name | Date of Training | | Organizer | Course Name | Hours | Has the Director or Supervisor Met the Training Requirements Note |
|---|---|---|---|---|---|---|---|
| | | From | To | | | | |
| Director | Jeff Lin | 2018.03.16 | 2018.03.16 | Taiwan Academy of Banking and Finance. | Trust industry supervisor in-service seminar (northern area) | 3 | Yes |
| Director | Jeff Lin | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance. | Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of the whistleblower system ) | 3 | Yes |
| Director | Jeff Lin | 2017.11.26 | 2018.11.26 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk) | 3 | Yes |
| Director | Sue-Feng Tsao | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance. | Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of the whistleblower system ) | 3 | Yes |
| Director | Sue-Feng Tsao | 2017.11.26 | 2018.11.26 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk) | 3 | Yes |
| Director | Si-Yong Lin | 2018.06.25 | 2018.06.25 | Taiwan Academy of Banking and Finance. | Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of the whistleblower system ) | 3 | Yes |
| Director | Si-Yong Lin | 2018.11.26 | 2018.11.26 | Taiwan Academy of Banking and Finance | Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk) | 3 | Yes |

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

Recordation Date: March 31, 2019（Shares Holding Recordation Date: April 2, 2019）
Unit: Shares；%

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| President | LIN, HONG-LIAN (Jeff Lin) /M/T | 2006.08.02 | 5,762,566 | 0.19% | 0 | 0 | 0 | 0 | Master's Degree, National Taiwan University; SEVP of UBOT | Supervisor of Union Recreation Enterprise Corp.; Director of The Liberty Times; Executive Director of Union Dyeing and Finishing Co., Ltd. Union Finance International (HK) Director | None | None | None |
| SEVP | CHAN, YING-PO (Yin-Bor Chan) /M/T | 2006.07.01 | 412,711/ 20,000 | 0.01%/ 0% | 0 | 0 | 0 | 0 | Tamkang University; EVP of UBOT | Supervisor of Union Finance & Leasing (Int'l) Co., Ltd., , | None | None | None |
| SEVP . | TU, HER-MAN (Herman Tu) /M/T | 2006.07.01 | 255,693 | 0 | 0 | 0 | 0 | 0 | Chinese Culture University; EVP of UBOT | Director of Union Securities Investment Trust Co., Ltd. Director of Union Finance & Leasing (Int'l) Co., Ltd. | None | None | None |
| SEVP | LIU, CHENG-YU (Cheng-Yu Liu)/M/T | 2010.07.01 | 55,570/ 20,000 | 0 | 0 | 0 | 0 | 0 | Takming College EVP of UBOT | Director of Union Information Technology Co., Ltd. Director of Union Finance International (HK) | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| SEVP | HSU, WEI-WEN /M/T | 2018.03.26 | 0 | 0 | 0 | 0 | 0 | 0 | Master's Degree, N National Chengchi University, Director General of Bureau of Agricultural Finance, | Director of Hi-Life International Co., Ltd. Director of Line Biz+ Taiwan Ltd. Director of Union Finance & Leasing (Int'l) Corporation, | None | None | None |
| Chief Auditor | KANG, KUO-PAO (Kuo-Pao Kang)/M/T | 2010.11.01 | 45,333/ 2,141 | 0 | 0 | 0 | 0 | 0 | National Chiao Tung University; VP & Branch Manager of E. Taipei Branch of UBOT | - | None | None | None |
| Chief Compliance Officer and VP & GM of Legal Affair and Compliance Dept. | CHEN, CHING-WEN /M/T | 2017.06.01 | 31,296/ 10,000 | 0 | 0 | 0 | 0 | 0 | Soochow University VP & Branch Manager of Nanking E.Branch of UBOT | - | None | None | None |
| EVP & GM of Consumer Banking Dept | HSIEH CHENG-JUH (Cheng-Juh Hsieh)/M/T | 2017.07.01 | 336,078/ 65,000 | 0.01%/ 0 | 0 | 0 | 0 | 0 | Graduate School, University of South Australia, EVP & GM of Vehicle Loan Department | Director of Union Finance & Leasing (Int'l) Corporation, Director of Union Capital (Cayman) Corp, Director of New Asian Ventures Ltd. | None | None | None |
| SVP | CHIEN, HUNG-MING (Peter Chien)/M/T | 2006.06.26 | 112,568/ 20,000 | 0 | 0 | 0 | 0 | 0 | Panchiao Senior High School; VP & Branch Manager of Hsinchung Branch of UBOT | - | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| SVP & GM of Business Planning & Admin. Dept. | YANG, CHU-CHANG (Yanger Yang)/M/T | 2006.06.22 | 42,715/ 28,930 | 0 | 0 | 0 | 0 | 0 | Master's Degree, Tunghai University; VP and Deputy GM of Business Planning & Admin. Dept. of UBOT | Director of Lian-An Service Co. Ltd. & I Pass Corporation.<br>Director of Euroc III Venture Capital. Corp.<br>Director of Hi-Life International Co., Ltd. | None | None | None |
| VP & GM of Consumer Credit Dept. | TANG, PI-CHIU (Joy Tang)/F/T | 2004.03.22 | 75,699 | 0 | 0 | 0 | 0 | 0 | Master's Degree, Memphis State University;<br>VP & Deputy GM of Consumer Banking Dept. | - | None | None | None |
| VP & GM of Trust Dept. | TSAI, HANN-TSAU (Hann-Tsau Tsai)/M/T | 2006.06.22 | 26,182/ 10,000 | 0 | 2,065 | 0 | 0 | 0 | Chung Yuan Christian University;<br>VP & GM of Business Planning & Admin. Dept of UBOT | - | None | None | None |
| VP & GM of Wealth Management Dept. | HSU, TING-YU (Sophie Hsu)/F/T | 2005.11.21 | 35,573/ 10,000 | 0 | 0 | 0 | 0 | 0 | Master's Degree, Canada Royal University;<br>Executive VP of Business Development Dept. of ING | Director of Union Securities Investment Trust Co., Ltd. | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & GM of Securities Finance Dept. | YANG, HUI-CHIN/F/T | 2013.03.20 | 2,518/ | 0 | 0 | 0 | 0 | 0 | Feng Jia University First Securities Fong Yuan Branch Manager | - | None | None | None |
| VP & GM of Bills Finance Dept. | LEE, YAO-HSIEN (Yao-Hsien Lee)/M/T | 2010.08.16 | 99,249/ 16,000 | 0 | 0 | 0 | 0 | 0 | Feng Jia University Manager of Union Bills Finance Corp. | - | None | None | None |
| VP & GM of Treasury Dept. | CHENG, WEN-CHIH /M/T | 2016.03.16 | 26,868 | 0 | 0 | 0 | 0 | 0 | Feng Jia University; AVP & Division Head of Treasury Dept | - | None | None | None |
| VP & GM of Corporate Loans Policy & Admin. Dept. | LIU, CHUEH-LING /F/T | 2014.4.01 | 39,550/ 10,000 | 0 | 0 | 0 | 0 | 0 | Master's degree, George Washington University Deputy GM of Corporate Loans Policy & Admin Dept. | | None | None | None |
| VP & GM of Vehicle Loans Dept. | TU, SHUM-CHEN/ M/T | 2017.07.01 | 16,735/ 12,000 | | 4,000 | | | | National Chung Hsing University,;AVP & Division of Vehicle Loans Dept. | | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & GM of Real Estate Management Dept. | LI, JUN-NAN (Michael Lee)/M/T | 2004.03.05 | 6,955 | 0 | 0 | 0 | 0 | 0 | Master's Degree, National Cheng Chi University;<br>VP & Branch Manager of Hueilong Branch | - | None | None | None |
| VP & GM of Product Development &Marketing Dept. | KAO, YI-CHUN (June Kao)/F/T | 2015.08.01 | 12,232/ 20,000 | 0 | 0 | 0 | 0 | 0 | National Cheng Chi University;<br>AVP & Division Head of Wealth Management Dept. | | None | None | None |
| VP & GM of Information Technology Dept. | YANG, FENG-JUNG (Luke Yang)/M/T | 2006.07.01 | 102,545 | 0 | 0 | 0 | 0 | 0 | Master's Degree, National Taiwan University;<br>Deputy GM of IT Dept. of UBOT | Director of Union Information Technology Co., Ltd. | None | None | None |
| VP & GM of Human Resources Dept. | LIN, HSIAO-CHEN (Michael Lin)/M/T | 1999.12.01 | 43,011 | 0 | 0 | 0 | 0 | 0 | National Chung Hsing University;<br>VP & Deputy GM of Human Resources Dept.Of UBOT | - | None | None | None |
| VP & GM of General Affairs Dept. | CHANG, YU-CHANG (Russell YC Chang)/M/T | 2003.10.01 | 148,851 | 0 | 0 | 0 | 0 | 0 | Taiwan Institute of Technology;<br>VP & Deputy GM of General Affairs Dept.of UBOT | - | None | None | None |

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & GM of Operations Center | HSUEH, SHU-FENG (Shu-Feng Hsueh)/F/T | 2005.09.06 | 28,797/ 10,000 | 0 | 2,213 | 0 | 0 | 0 | National Cheng Chi University; AVP of Hsintien Branch | - | None | None | None |
| VP &GM of International Banking Department | TSENG, MENG -YUN (Connie Tseng)/F/T | 2010.09.01 | 27,793 | 0 | 0 | 0 | 0 | 0 | Master's degree of National University, USA CA; VP of International Banking Dept. and OBU, Jih Sun Commercial Bank | Director of Union Finance International (HK) | None | None | None |
| VP & GM of Branch of OBU and Rep. of Hong Kong Rept. Office & Ho Chi Minh Rept. Office | LU, MEI-CHIH (Lisa Lu)/F/T | 2010.09.01 | 60,815/ 8,000 | 0 | 0 | 0 | 0 | 0 | MBA University of Birmingham, UK; AVP of OBU and representative of Hong Kong Representative Office & Ho Chi Minh Representative Office (FRM) | - | None | None | None |
| VP & GM of Credit Card & Payment Finance Division | HSIUNG, LING-JUNG/F /T | 2016.06.15 | 0 | 0 | 0 | 0 | 0 | 0 | Master's degree of New Jersey Institute of Technology; SVP of Citibank | Director of I Pass Corporation. Supervisor of Union Information Technology Co., Ltd | None | None | None |

# Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & GM of Risk Management Department | CHANG, HUEI-WEN /F/T | 2016.08.24 | 21,490/ 2,000 | 0 | 0/ 2,000 | 0 | 0 | 0 | Tamkang University; AVP & Division Head of Risk Management Dept. | | None | None | None |
| Insurance Agency Department | LEE, Kuan-Hong /M/T | 2017.12.01 | 17,393/ 5,700 | 0 | 0 | 0 | 0 | 0 | Tamkang University; VP & Branch Manager of Tenshin Branch | | None | None | None |
| VP & Branch Manager of Taipei Branch | Jane Lu /F/T | 2017.06.01 | 62,562 | 0 | 0 | 0 | 0 | 0 | Master's Degree, University of Illinois; VP & Branch Manager of Chunghsiao Branch | - | None | None | None |
| VP & GM of Business Dept | Jen-Chung Cheng/M/T | 2013.05.16 | 32,435/ 1,513 | 0 | 0 | 0 | 0 | 0 | National Cheng Chi University; VP & Branch Manager of Taoyuan Branch | - | None | None | None |
| EVP & Branch Manager of Taoyuan Branch | Ching-Shou Liu /M/T | 2013.05.16 | 56,580/ 45,663 | 0 | 0 | 0 | 0 | 0 | National Taipei College of Commerce-Open Junior College of Commerce<br>VP & Branch Manager of Taoying Branch | - | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Taichung Branch | Hung-Min Chen /M/T | 2017.12.01 | 41,089/ 16,114 | 0 | 251/ 26,000 | 0 | 0 | 0 | Feng Chia University; VP & Branch Manager of Wugu Branch | - | None | None | None |
| VP & Branch Manager of Nanking E. Road Branch | Jeffery Tsai /M/T | 2017.06.01 | 52,550/ 29,662 | 0 | 0 | 0 | 0 | 0 | Master's Degree, Fu Jen Catholic University; VP & Branch Manager of Hsinchuang Branch | - | None | None | None |
| VP & Branch Manager of Chungli Branch | Chang-Yung Chen/M/T | 2017.12.01 | 28,569/ 1,305 | 0 | 0 | 0 | 0 | 0 | Feng Chia University; VP & Branch Manager of Gaorong Branch | - | None | None | None |
| VP & Branch Manager of Sanchung Branch | Chia-Wei Lin/M/T | 2015.11.16 | 18,578/ 14,000 | 0 | 0 | 0 | 0 | 0 | Tung Hai University; VP & Branch Manager of Breeze Mini Branch | - | None | None | None |
| VP & Branch Manager of East Taipei Branch | Yeong-Jin Hwang/M/T | 2017.06.01 | 26,993 | 0 | 0 | 0 | 0 | 0 | Master's Degree, University of Dallas. VP & Branch Manager of Luchu Branch | - | None | None | None |

# Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Kaohsiung Branch | Feng-Li Lin /F/T | 2017.12.01 | 59,585 | 0 | 0 | 0 | 0 | 0 | Feng Chia University; VP & Branch Manager of Lingya Branch | Director of I Pass Corporation | None | None | None |
| VP & Branch Manager of Panchiao Branch | Jacky Liao /M/T | 2009.04.01 | 20,537/ 16,000 | 0 | 0 | 0 | 0 | 0 | Chungyu Institute of Technology; Deputy manager of Taipei Corporate Banking Center | - | None | None | None |
| VP & Branch Manager of Tainan Branch | Yu-Show Hsu/F/T | 2017.12.01 | 38,565 | 0 | 0/ 20,000 | 0 | 0 | 0 | Kun Shan University; VP & Branch Manager of South Tainan Branch | - | None | None | None |
| VP & Branch Manager of Yuanlin Branch | Wen-Jui Chou /M/T | 2013.04.01 | 21,582 | 0 | 0 | 0 | 0 | 0 | Master's Degree, Tamkang University; Branch manager of Minchuan Branch of Bill Finance Dept. | - | None | None | None |
| VP & Branch Manager of Jenai Branch | Wendy Chi /F/T | 2009.11.16 | 76,834 | 0 | 0 | 0 | 0 | 0 | Master's Degree, University of Texas; VP & Branch Manager of Kungkuan Branch | - | None | None | None |

## Corporate Governance

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Nankan Branch | Ru-Ji Cheng M/T | 2017.03.21 | 25,574/ 10,000 | 0 | 0 | 0 | 0 | 0 | Feng Chia University; VP & Branch Manager of Hueilong Branch | - | None | None | None |
| VP & Branch Manager of Hsinchu Branch | Cheng-Hsien Tseng /M/T | 2017.05.15 | 18,620/ 6,722 | 0 | 0 | 0 | 0 | 0 | Tamsui Oxford College; VP & Deputy Branch Manager of Hsinchu Branch | - | None | None | None |
| VP & Branch Manager of Luchou Branch | Fei-Kun Lin /M/T | 2017.06.01 | 27,647/ 21,329 | 0 | 0 | 0 | 0 | 0 | Tamkang University;. VP & Manager of Taipei Corporate Banking Center | - | None | None | None |
| VP & Branch Manager of Chiuju Branch | Ya-Yun Yang /F/T | 2017.03.27 | 11,448 | 0 | 0 | 0 | 0 | 0 | National Kaohsiung University of Applied Sciences; AVP & Division Head of Kaohsiung Branch | - | None | None | None |
| VP & Branch Manager of Shuanho Branch | Chang-Chen Lin/M/T | 2012.07.09 | 21,817/ 4,000 | 0 | 0 | 0 | 0 | 0 | National Taiwan University VP & Branch Manager of Hsintien Branch | - | None | None | None |

# Corporate Governance

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Hueilong Branch | Kuang-Yi Kuo /M/T | 2017.12.01 | 32,458/ 11,596 | 0 | 0/ 4,000 | 0 | 0 | 0 | Tamkang University; AVP & Division Head of Tenshin Branch | - | None | None | None |
| VP & Branch Manager of Chiayi Branch | Liang- Kuei Kuo/M/T | 2013.08.12 | 6,680 | 0 | 0 | 0 | 0 | 0 | Master of National Yunlin University of Science and Technology; Tainan Branch manager of J.P.Morgan Asset Management | - | None | None | None |
| VP & Branch Manager of Kungkuan Branch | Fang-Ni Wang/F/T | 2014.4.1 | 23,939/ 5,000 | 0 | 0 | 0 | 0 | 0 | Master's Degree, National Central University; AVP & Division Head of Corporate loans policy & Administration Dept. | - | None | None | None |
| VP & Branch Manager of Neili Branch | Shen-Yung Peng/M/T | 2013.04.01 | 5,857 | 0 | 11,246 | 0 | 0 | 0 | Ching Yun University; VP & Branch Manager of Tunhwa Branch | - | None | None | None |

# Corporate Governance

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Chunghsiao Branch | Zhi-Zhong Zhang/M/T | 2017.06.01 | 9,837/ 100,000 | 0 | 0 | 0 | 0 | 0 | National Chao Tung University; VP & Branch Manager of East Taipei Branch | - | None | None | None |
| VP & Branch Manager of Hsinchuang Branch | Wen-Shien Chu /M/T | 2017.06.01 | 29,321/ 20,000 | 0 | 0 | 0 | 0 | 0 | Fu Jen Catholic University;VP & Deputy Genaral Manager of the Law and Compliance Deprt. | - | None | None | None |
| VP & Branch Manager of Fengshan Branch | Miao-Hui Yeh /F/T | 2017.12.01 | 105,398 | 0 | 0 | 0 | 0 | 0 | Master's Degree, New York University; VP & Branch Manager of North Kaohsiung Branch | | None | None | None |
| VP & Branch Manager of Taoying Branch | Jyh-Chiang, Huang /M/T | 2013.05.16 | 37,740 | 0 | 16,422/ 5,008 | 0 | 0 | 0 | National Chiao Tung University VP & Branch Manager of Dajhu Branch | | None | None | None |
| VP & Branch Manager of Lungtan Branch | Lawrence Chen /M/T | 2009.12.01 | 48,415 | 0 | 0 | 0 | 0 | 0 | Master's Degree, National Central University; VP & Branch Manager of Neili Branch | - | None | None | None |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Hsintien Branch | Shih-Shien Chene /M/T | 2012.07.09 | 11,550 | 0 | 0 | 0 | 0 | 0 | National Taiwan University of Science and Technology; Sindian Branch Manager of Yuanta Bank | - | None | None | None |
| VP & Branch Manager of Tatze Branch | Tereasa Lin /F/T | 2009.01.01 | 27,850/ 7,262 | 0 | 0 | 0 | 0 | 0 | Chihlee Institute of Technology; Head of Jenai Consumer loan center, Consumer Banking Dept. | - | None | None | None |
| VP & Branch Manager of Chungshan Mini Branch | Ye-Yan Lin /F/T | 2013.11.25 | 20,593/ 8,981 | 0 | 0 | 0 | 0 | 0 | Shih Chien University, Manager of Business Dept. | - | None | None | None |
| VP & Branch Manager of Wenshin Branch | Ta-Yu Chin /M/T | 2017.12.01 | 53,322/ 12,846 | 0 | 0 | 0 | 0 | 0 | Tamkang University; VP & Branch Manager of Fongyuan Branch | - | None | None | None |
| VP & Branch Manager of Chienshin Branch | Tawei Shih /M/T | 2009.12.06 | 26,618/ 20,000 | 0 | 0 | 0 | 0 | 0 | Master's Degree, Tamkang University; VP & Branch Manager of Hsinchu Branch | - | None | None | None |

## Corporate Governance

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Chungho Branch | Wen-Hui Lin /M/T | 2017.12.01 | 58,372/ 19,192 | 0 | 0 | 0 | 0 | 0 | Tamkang University University; VP & Branch Manager of Yongchun Branch | - | None | None | None |
| VP & Branch Manager of Neihu Branch | CM Hwang /M/T | 2011.11.01 | 365,381/ 4,000 | 0.01% | 0 | 0 | 0 | 0 | Chung Yuan Christian University; VP & Branch Manager of Hoping Branch | - | None | None | None |
| VP & Branch Manager of Dayuan Branch | Chang-Yung Chen /M/T | 2017.12.01 | 186,757/ 10,738 | 0 | 0 | 0 | 0 | 0 | National Taipei College of Commerce- Open Junior College of Commerce; VP & Branch Manager of Chungli Branch | - | None | None | None |
| VP & Branch Manager of Yungho Branch | Chun-Hsien Chang /M/T | 2017.12.01 | 5,983/ 6,000 | 0 | 0 | 0 | 0 | 0 | National Chung-Shin University; Vice President & General Manager of Insurance Agency Dept. | - | None | None | None |
| VP & Branch Manager of Chungkung Mini Branch | Shu-Huey Huang /F/T | 2017.06.01 | 59,133 | 0 | 0 | 0 | 0 | 0 | Lunghwa University of Science and Technology; Head of Hueilong Consumer loan center, Consumer Banking Dept. | - | None | None | None |

## Corporate Governance

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Tonghwa Mini Branch | Liang-Wen Liu /M/T | 2017.05.15 | 4,869 | 0 | 0 | 0 | 0 | 0 | Yanping High School ; Junior Manager of Tonghwa Mini Branch . | - | None | None | None |
| VP & Branch Manager of Shihtung Branch | Hsiu-Yun Su /F/T | 2017.12.01 | 26,660/ 17,191 | 0 | 0 | 0 | 0 | 0 | Master's Degree, Dallas Baptist University; VP & Branch Manager of Yungho Branch | - | None | None | None |
| VP & Branch Manager of Breeze Center Mini Branch | Sheng-Hsiu Chou /M/T | 2015.11.16 | 14,438/ 14,000 | 0 | 0 | 0 | 0 | 0 | National Taipei College of Commerce; Head of Jenai Consumer loan center, Consumer Banking Dept | - | None | None | None |
| VP & Branch Manager of Changchun Branch | Ming-Tsan Hung /M/T | 2016.08.29 | 17,866/ 5,000 | 0 | 0 | 0 | 0 | 0 | Chinese Culture University; Junior Manager of Neihu Branch. | - | None | None | None |
| VP & Branch Manager of Sungchiang Branch | Chien-Lung Chen M/T | 2013.11.25 | 116,260/ 14,588 | 0 | 0 | 0 | 0 | 0 | Master's Degree, Aletheia University; VP & Branch Manager of Breeze Center Mini Branch | - | None | None | None |

# Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Taan Branch | Chien-Hui Li/M/T | 2011.11.01 | 19,768 | 0 | 0 | 0 | 0 | 0 | Soochow University; Head of Jenai Loan Center, Consumer Banking Department | - | None | None | None |
| VP & Branch Manager of Yungchi Branch | Candy Lin /F/T | 2011.07.16 | 43,906/ 5,000 | 0 | 0 | 0 | 0 | 0 | National Chung Hsing University; Head of Chunghsiao Loan Center, Consumer Banking Department | - | None | None | None |
| VP & Branch Manager of Wenlin Branch | Ju-Ling Kuo /F/T | 2008.11.01 | 79,010 | 0 | 0 | 0 | 0 | 0 | Takming College; VP & Deputy GM of Consumer Banking Dept. | - | None | None | None |
| VP & Branch Manager of Tungmen Branch | Cooper Kao /M/T | 2015.11.16 | 50,109/ 16,710 | 0 | 428 | 0 | 0 | 0 | Chinese Municipal Vocational School; Head of Chungho Loan Center Consumer Banking Dept | - | None | None | None |
| VP & Branch Manager of Tunhwa Branch | Gary Tsai /M/T | 2013.04.01 | 22,928/ 1,243 | 0 | 0/ 50,000 | 0 | 0 | 0 | Lunghwa University of Science &Technology; Head of Nanking E. Rd. Loan Center Consumer Banking Dept. | - | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Hsihu Branch | Anita Hung /F/T | 2016.03.21 | 21,707 | 0 | 0 | 0 | 0 | 0 | Soochow University; AVP & Division Head of Business Dept. | - | None | None | None |
| VP & Branch Manager of Beitou Mini Branch | Wen-Chi Chiang /M/T | 2014.11.17 | 15,497 | 0 | 7,166/ 10,000 | 0 | 0 | 0 | National Chiao-Tong University; Head of Jenai Loan Center Consumer Banking Dept. | - | None | None | None |
| VP & Branch Manager of North Sanchung Branch | Shis-Wen Lu /M/T | 2017.12.01 | 19,692 | 0 | 9,946 | 0 | 0 | 0 | Takming Junior College of Commerce; VP & Branch Manager of Fuguo Branch | - | None | None | None |
| VP & Branch Manager of Houpu Branch | Chuen-Chour Li /F/T | 2017.12.01 | 5,344/ 20,000 | 0 | 0 | 0 | 0 | 0 | National Chung Hsing University; AVP & Division Head of East Taipei Branch | - | None | None | None |
| VP & Branch Manager of North Chungho Mini Branch | Vickie Chou /F/T | 2016.03.21 | 4,981 | 0 | 0 | 0 | 0 | 0 | Cheng Chi University; Vice President & Deputy Branch Manage of Chungho Branch | - | None | None | None |

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Fuguo Branch | Su-Yean Lo /M/T | 2017.12.01 | 19,619 | 0 | 0 | 0 | 0 | 0 | National Changhua Senior School of Commerce; VP & Branch Manager of Houpu Branch | - | None | None | None |
| VP & Branch Manager of Shulin Branch | Chao-Chuen Chuang /M/T | 2016.05.17 | 16,925/ 10,793 | 0 | 0 | 0 | 0 | 0 | Master's degree, Fo Guang University; VP& Branch Manager of Wugu Branch | - | None | None | None |
| VP & Branch Manager of Hsichih Branch | Kun-Cheng Zhou /M/T | 2017.12.01. | 26,527/ 11,219 | 0 | 0/ 10,000 | 0 | 0 | 0 | National Chung Hsing University;V.P. & Branch Manager of Tucheng Branch | - | None | None | None |
| VP & Branch Manger of North Taoyuan Branch | Kuo-Kuang Chou /M/T | 2015.01.05 | 19,661/ 8,000 | 0 | 0/ 6,000 | 0 | 0 | 0 | National Taipei College of Commerce- Open Junior College of Commerce ; Head of Daye Loan Center Consumer Banking Dept. | - | None | None | None |
| VP & Branch Manager of North Chungli Branch | James Tsai /M/T | 2015.01.05 | 82,155 | 0 | 20,030 | 0 | 0 | 0 | Tamkang University; VP & Branch Manager of North Taoyuan Branch | - | None | None | None |

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| EVP & Branch Manager of North Taichung Branch | Jeng-Ping Liu /M/T | 2017.12.01 | 43,370 | 0 | 0 | 0 | 0 | 0 | Doctor's Degree of Tunghai University; Division Head of Minchuan Branch | - | None | None | None |
| VP & Branch Manager of Minchuan Branch | Hui-Fen Chao /F/T | 2017.12.01 | 112,706 | 0 | 0 | 0 | 0 | 0 | Graduate School of National Yunlin University of Science and Technology ; VP & Branch Manager of North Taichung Branch | - | None | None | None |
| VP & Branch Manager of Hsitun Branch | Meng-Hsia Wu /F/T | 2017.12.01 | 71,506 | 0 | 0 | 0 | 0 | 0 | National Tsao-Tun Commercial & Industrial Vocational Senior High School; VP & Branch Manager of Taichung Branch | - | None | None | None |
| VP & Branch Manager of Shingchung Branch | Chien-Tsung Wu /M/T | 2016.08.29 | 37,714 | 0 | 0 | 0 | 0 | 0 | The Overseas Chinese Institute of Technology; VP & Branch Manager of Beitun Branch | - | None | None | None |
| VP & Branch Manager of Beitun Branch | Chen-Jen Chang /M/T | 2017.06.01 | 24,771/ 3,000 | 0 | 0 | 0 | 0 | 0 | Tonghai University; AVP & Deputy Manager of Minchuan Branch, Wealth Management Dept. | - | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of S. Yuanlin Branch | Hsin-Yi Yang /F/T | 2019.01.16 | 8,585 | 0 | 0 | 0 | 0 | 0 | Chienkuo Junior College of Technology AVP & Division Head of Minchuan Branch | - | None | None | None |
| VP & Branch Manager of East Chiayi Branch | Shan-Chih Yen /M/T | 2005.03.19 | 67,886/ 17,766 | 0 | 3,648/ 6,217 | 0 | 0 | 0 | Master's Degree, Chiayi University; Senior AVP of National Cash Card Dept. | Supervisor of Zhong-Guan Foods Enterprise Co., Ltd. | None | None | None |
| VP & Branch Manager of Fucheng Branch | Ping-Hui Lin /M/T | 2017.12.01 | 30,584/ 20,000 | 0 | 0 | 0 | 0 | 0 | Aletheia University; VP & Branch Manager of Tainan Branch | - | None | None | None |
| VP & Branch Manager of Fongyuan Branch | Amy Chung /F/T | 2017.12.01 | 33,852/ 3,000 | 0 | 0 | 0 | 0 | 0 | National Cheng Kung University; VP & Branch Manager of Wenshin Branch | - | None | None | None |
| VP & Branch Manager of Fuchiang Branch | Roger Chang /M/T | 2017.12.01 | 4,615 | 0 | 0 | 0 | 0 | 0 | National Open University; VP & Branch Manager of Kaiyuan Branch | - | None | None | None |

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Kaiyuan Branch | Chien-Wen Tan /M/T | 2018.07.25 | 5,645 | 0 | 0 | 0 | 0 | 0 | Tunghai University; AVP & Division Head of Fengshan Branch. | - | None | None | None |
| VP & Branch Manager of South Tainan Branch | Huei-Jen Chiou /F/T | 2017.12.01 | 27,867/ 3,384 | 0 | 0 | 0 | 0 | 0 | National Kaohsiung Institute of Technology ;AVP & Division Head Of Law & Compliance Dept in South section. | - | None | None | None |
| VP & Branch Manager of Lingya Branch | Hsien-Ming Yen /M/T | 2017.12.01 | 62 | 0 | 0 | 0 | 0 | 0 | Feng Chia University; VP & Branch Manager of Fucheng Branch | | None | None | None |
| VP & Branch Manager of North Kaohsiung Branch | Wen-Chian Chang/M/T | 2017.12.01 | 10,300/ 614 | 0 | 10,000/ 614 | 0 | 0 | 0 | Soochow University; VP & Branch Manager of Kaohsiung Branch | - | None | None | None |
| VP & Branch Manager of Sanmin Branch | I-Wen Ho /M/T | 2017.12.01 | 12,835/ 16,000 | 0 | 0 | 0 | 0 | 0 | Master's Degree, National Chung Hsing University;VP & Branch Manager of Wuchia Branch | - | None | None | None |

## Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Wuchia Branch | Miranda Tsai /F/T | 2017.12.01 | 25,925 | 0 | 0 | 0 | 0 | 0 | Tamkang University University ; VP & Branch Manager of Sanmin Branch | - | None | None | None |
| VP & Branch Manager of Pingtung Branch | Chi-Fang Chu /F/T | 2014.03.19 | 16,214/ 8,000 | 0 | 0 | 0 | 0 | 0 | Master's Degree, National Kaohsiung First University of Science and Technology; Manager of Pingtung Branch | - | None | None | None |
| VP & Branch Manager of Hoping Branch | Tsai-Ling Liao /F/T | 2011.11.01 | 0 | 0 | 0 | 0 | 0 | 0 | Taipei College of Commerce; VP & Branch Manager of Taan Branch | | None | None | None |
| VP & Branch Manager of Yongchun Branch | Shiu-Lan Hsieh /F/T | 2017.12.01 | 42,655/ 12,211 | 0 | 0 | 0 | 0 | 0 | National Taipei College of Commerce- Open Junior College of Commerce; VP & Branch Manager of Linkou Branch | - | None | None | None |

# Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Tenshin Branch | Teh-Chin Tsai /M/T | 2017.12.01 | 136,925/ 21,851 | 0 | | 0 | 0 | 0 | Kai Nan High School of Commercial and Industry; VP & Branch Manager of North Sanchung Branch | - | None | None | None |
| VP & Branch Manager of Ankang Branch | Chan-Kwei Chen /M/T | 2009.12.01 | 81,303/ 8,523 | 0 | 0/ 4,000 | 0 | 0 | 0 | Feng Chia University; VP & Branch Manager of Shihtung Branch | - | None | None | None |
| VP & Branch Manager of Dajhu Branch | Mei-Ling Lee /F/T | 2013.05.16 | 35,134/ 8,000 | 0 | 0 | 0 | 0 | 0 | Hsin Wu Business College, Senior AVP, Dajhu Branch | - | None | None | None |
| VP & Branch Manager of Gueishan Branch | Kuo-Yi Lu /M/T | 2016.03.21 | 11,760/ 90,469 | 0 | 0/ 20,000 | 0 | 0 | 0 | Tamsui Oxford University College; VP & Deputy Branch Manager of Taoyuan Corporate Banking Center | - | None | None | None |
| VP & Branch Manager of Linkou Branch | Cheng-Fa Huang /M/T | 2017.12.01 | 18,587 | 0 | 0 | 0 | 0 | 0 | Tamkung University; Manager of Linkou Branch | - | None | None | None |

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of Wugu Branch | Yen-Jou Liu /M/T | 2017.12.01 | 34,610 | 0 | | 0 | 0 | 0 | Shih Hsin Senior high School; VP & Branch Manager of Hsichih Branch | - | None | None | None |
| VP & Branch Manager of Gaorong Branch | I-Ho Ou /M/T | 2017.12.01 | 17,760/ 14,000 | 0 | 23,857 | 0 | 0 | 0 | National Chung Hsing University; AVP & Division Head of Gaorong Branch | - | None | None | None |
| VP & Branch Manager of Daye Branch | Chien-Chou Chen /M/T | 2017.12.01 | 22,753/ 15,069 | 0 | 0 | 0 | 0 | 0 | Yuan Ze University; AVP & Division Head of Real Estate Management Dept , Taoyuan Center | - | None | None | None |
| VP & Branch Manager of Luzhu Branch | Chu-Shih Wei /M/T | 2017.12.01 | 22,602/ 7,029 | 0 | 0 | 0 | 0 | 0 | Feng Chia University ; VP & Branch Manager of Dayuan Branch | - | None | None | None |
| VP & Branch Manager of Tucheng Branch | Ching-Shyong Huang /M/T | 2017.12.01 | 20,515 | 0 | 0/ 6,000 | 0 | 0 | 0 | Fu Jen Catholic University; AVP of Hueilong Branch | - | None | None | None |

# Corporate Governance

| Title | Name/Gender /Nationality T:Taiwan | Date Appointed | Shareholding (Common Stock /Preferred stock) | | Shareholding of Spouse & Minor Children(Common Stock /Preferred stock) | | Shareholding Under Others' Title(Common Stock /Preferred stock) | | Education/Experience | Also Serve Concurrently As | Managers are Spouse or Within Second-degree of Consanguinity to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share | % | Share | % | Share | % | | | Title | Name | Relation |
| VP & Branch Manager of South Taoyuan Branch | Chang-Fu Tsai /M/T | 2010.03.30 | 22,855/ 1,044 | 0 | 0/ 20,000 | 0 | 0 | 0 | Feng Jia University; AVP, SME Banking and Risk Management Dept., Standard Chartered Bank | - | None | None | None |
| VP & Branch Manager of JiSian Branch | Shih-Fu Liu /M/T | 2015.08.01 | 30,976 | 0 | 4,383/ 14,000 | 0 | 0 | 0 | Master's degree, Fu Jen Catholic University VP & Deputy Branch Manager of JiSian Branch | | None | None | None |
| VP & Branch Manager of Sanxia Branch | Chia-Yu Chuo /F/T | 2013.08.05 | 22,929/ 6,000 | 0 | 0 | 0 | 0 | 0 | Master's degree, Yuan Ze University Head of Taoying Loan Center, Consumer Banking Department | | None | None | None |
| VP & Branch Manager of Donghu Branch | Chien-Chung Su /M/T | 2014.01.07 | 16,168/ 14,687 | 0 | 0/ 100,000 | 0 | 0 | 0 | Soochow University, VP & Deputy Branch Manager of Taipei Corporate Banking Center | | None | None | None |

Note 1: The Nationality of President, SEVP, EVP and VP are Taiwan.
Note 2: The shares of Preferred Stock shows while occurs.

(3) Retired Chairman and President of the Bank and its affiliates returned as consultants：Non

(4) Remuneration of Directors, Supervisors, President and SEVP for the Latest Fiscal Year

A. Director’s Remuneration

Unit: NT Dollar Thousand, December 31, 2018

| Title | Name | Directors’ Remuneration | | | | | | | | Total of (A,B,C and D) as a % of Net profit after tax | | Remuneration of Part-time Employees | | | | | | | | | | Total of (A, B,C,D, E,F & G) as a % of Net profit after tax | | Remuneration from Investee Companies Excluding Subsidiaries |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Remuneration (A) | | Earning Termination payment and pension costs (B) | | Earnings Distribution for Director’s Remuneration (C) | | Costs Incurred to Perform Duties(D) | | | | Salaries, Bonus and Special Allowance (E) | | Termination payment and pension costs (F) | | Earnings Distribution for Employees’ Bonus (G) | | | | Total No. of Shares Issued for Employee Stock Option (H) | | | | |
| | | The Bank | All Companies in the Consolidated Statement | The Bank | All Companies in the Consolidated Statement | The Bank | All Companies in the Consolidated Statement | The Bank | All Companies in the Consolidated Statement | The Bank | All Companies in the Consolidated Statement | The Bank | All Companies in the Consolidated Statement | The Bank | All Companies in the Consolidated Statement | The Bank | | All Companies in the Consolidated Statement | | The Bank | All Companies in the Consolidated Statement | The Bank | All Companies in the Consolidated Statement | |
| | | | | | | | | | | | | | | | | Cash Dividend | Stock Dividend | Cash Dividend | Stock Dividend | | | | | |
| Chairman | Shiang-Chang Lee | 8,726 | 8,726 | 0 | 0 | 3,154 | 3,154 | 2,597 | 2,597 | 0.49% | 0.49% | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.49% | 0.49% | 295 |
| Independent Managing Director | Kao-Jing Wang | | | | | | | | | | | | | | | | | | | | | | | Nil |
| Managing Director | Chen-Chern Investment Co., Representative: Zhen-Xong Jiang | | | | | | | | | | | | | | | | | | | | | | | Nil |
| Independent Director | Zen-Fa Lu | | | | | | | | | | | | | | | | | | | | | | | Nil |
| Director | Chi-Shun Investment Co., Representative: Jin-Fu Liu | | | | | | | | | | | | | | | | | | | | | | | Nil |
| Director | Yu-Quan Lee | | | | | | | | | | | | | | | | | | | | | | | Nil |
| Director | Union Enterprise Construction Co., Ltd. Representative: Jeff Lin | | | | | | | | | | | | | | | | | | | | | | | Nil |
| Director | Yu-Pang Investment Co., Representative: Sue-Feng Tsao | | | | | | | | | | | | | | | | | | | | | | | Nil |
| Director | Pai-Sheng Investment Co., Representative: Si-Yong Lin | | | | | | | | | | | | | | | | | | | | | | | Nil |
| Indepent Director | Guo-Zhang Li | | | | | | | | | | | | | | | | | | | | | | | Nil |

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

Note 2: Remuneration to the driver amounted to NT$534,000.

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

Remuneration Range

Unit: NT Dollar

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

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

Unit: NT Dollar Thousand, December 31, 2018

| Title | Name | Remuneration (A) | | Termination payment and pension costs (B) | | Bonus & Special Allowance (C) | | Employees' Bonus from Earnings (D) | | | | Total of (A+B+C+D) as a % of Net profit after tax | | Remuneration from Investee Companies Excluding Subsidiaries |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | The Bank | All Companies in the Financial Statement | The Bank | All Companies in the Financial Statement | The Bank | All Companies in the Financial Statement | The Bank | | All Companies in the Financial Statement | | The Bank | All Companies in the Financial Statement | |
| | | | | | | | | Cash Dividend | Stock Dividend | Cash Dividend | Stock Dividend | | | |
| President | Jeff Lin | 15,787 | 15,787 | 63 | 63 | 4,589 | 4,589 | 0 | 638 | 0 | 638 | 0.71 | 0.71 | Nil |
| SEVP | Yin-Bor Chan | | | | | | | | | | | | | |
| SEVP | Herman Tu | | | | | | | | | | | | | |
| SEVP | Cheng-Yu Liu | | | | | | | | | | | | | |
| SEVP | Wei-Wen Hsu | | | | | | | | | | | | | |
| Chief Auditor | Kuo-Pao Kang | | | | | | | | | | | | | |
| Chief Compliance Officer | Ching-Wen, Chen | | | | | | | | | | | | | |

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

projected amount based on the proportion of distribution last year)
Note2: Remuneration to the Company's three drivers totalled NT$ 2,330,000.

Unit: NT Dollar

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

C. Bonus to Managers :

Unit NT Dollar Thousand, Dec 31 2018

| Title | Name | Stock Dividend | Cash dividend | Total | Total as % of Net Profit after Tax |
|---|---|---|---|---|---|
| Please refer Page 18* to Page 42. | | 7,712 | 0 | 7,712 | 0.26 |

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

D. Analysis of Payments of Remuneration to Directors, Supervisors, President, Senior Executive Vice President and Chief Auditor, as a percentage of net profit after tax in the latest two years, Remuneration Policy, Standard and Combination, Procedure for determining remuneration and their relationship to operating results and future risk

a. The remuneration paid to Directors, Supervisors, President, Senior Executive Vice President and Chief Auditor in 2017 is NT$37,195,000 and its ratio to net profit after tax is 1.34%.
b. The remuneration paid to Directors, Supervisors, President, Senior Executive Vice President and Chief Auditor in 2018 is NT$35,554,000 and its ratio to net profit after tax is 1.20%.
c. Remuneration paid to directors and supervisors primarily include meeting attendance fees and salaries. All remuneration is paid on a fixed basis. The President did not receive any form of remuneration. Remuneration to SEVPs and Chief Auditor was made in accordance with their respective experience, degree of business involvement and contribution, and compare with the salary and remuneration standard of the Industry peers. The salary and remuneration schedule will be submitted to the Board of Directors for resolution after it is examined by Salary and Remuneration Committee.
d. The Board is authorized to determine remuneration which is granted to the management pursuant to the Bank's Articles of Incorporations. In addition to monthly basic salaries and allowances, executives may also be eligible for the annual and the performance bonuses and the employee bonuses depending on the Bank's annual results of operation and individual performance. As such, remuneration to SEVPs and Chief Auditor is closely related to the Bank's operating performance. The occurrence of major risk events that may impair

the Bank's goodwill, or incidents of deficiency in internal management, or employee fraud would vastly affect the amount of bonuses to SEVPs and the Chief Auditor. The Risk Management Dept. should report directly to the Board of Directors regarding the status of the Bank's risk control and risk exposure on a quarterly basis.

## 3. Execution of Corporate Governance

### (1) Board of Directors

The Board of Directors held 9 meetings in 2018. The status of attendance was as follows:

| Title | Name | Attendance in Person | By Proxy | Attendance Rate (%) | Note |
|---|---|---|---|---|---|
| Chairman | Shieng-Chang Li | 7 | 2 | 77.78% | |
| Independent managing directo | Kao-Jing Wang, | 9 | 0 | 100% | |
| Managing director | Chuan Cheng Investment Co., Representative: Chen-Hsiung Chiang | 7 | 1 | 77.78% | |
| Independent director | Jen-Fa Lu | 9 | 0 | 100% | |
| Independent director | Kuo-Chang Li | 9 | 0 | 100% | |
| Director | Yu-Chuan Li | 5 | 0 | 55.56% | |
| Director | Union Enterprise Construction Co., Ltd. Representative: Hung-Lien Lin | 9 | 0 | 100% | |
| Director | YU-BON LIMITED CO. Representative: Su-Feng Tsao | 8 | 0 | 88.89% | |
| Director | Baisheng Investment Co., Ltd. Representative: Tzu-Yung Lin | 7 | 0 | 77.78% | |
| Director | Chi-Shun Investment Co., Ltd Representative: Chin-Fu Liu | 2 | 0 | 50% | Retired on Jun. 8, 2018, attended 4 times |

Other matters that require reporting:

1. If the operation of the Board of the Directors refers to the following issue, the Company should specify the dates of meetings, terms, and contents of resolutions, all independent directors' opinions and the Company's response to the independent directors' opinions:
   (1) Matters listed in Article 14-3 of the Securities and Exchange Act: The company has set up the Audit Committee, matters listed in Article 14-3 of the Securities and Exchange Act are included in Article 14-5 of the Securities and Exchange Act. Please refer to the resolutions by the Audit Committee for the relevant content.
   (2) In addition to previous matters, other resolutions which were objected to or retained opinions and had a recorded or written statement by an independent director: The resolutions of the Board were adopted by all the attending directors

2. Execution situation of directors avoidance on motions with conflict of interests:

| Term | Content of the resolution | Director's name | Reasons for recusal | Situation of participation in voting |
|---|---|---|---|---|
| Jan. 31, 2018 The 18th meeting of the 9th term | Property rental | Chen-Hsiung Chiang, Hung-Lien Lin, Su-Feng Tsao, Chin-Fu Liu | Stakeholder | The stakeholders did not participate in discussion and voting in accordance with the laws. The other directors had no opinions and resolutions were adopted unanimously. |
| Apr. 25, 2018 The 20th meeting of the 9th term | Loans | Chin-Fu Liu | Stakeholder | The stakeholders did not participate in discussion and voting in accordance with the laws. The other directors had no opinions and resolutions were adopted unanimously. |
| May 9, 2018 The 21st meeting of the 9th term | Parking space lease agreement | Hung-Lien Lin, Su-Feng Tsao | Stakeholder | The stakeholders did not participate in discussion and voting in accordance with the laws. The other directors had no opinions and resolutions were adopted unanimously. |
| | Reinvestment project | Hung-Lien Lin, Yu-Chuan Li, Su-Feng Tsao, Chin-Fu Liu | Stakeholder | The stakeholders did not participate in discussion and voting in accordance with the laws. (The director Jin-Fu Liu took a leave and didn’t attend the meeting.) The other directors had no opinions and resolutions were adopted unanimously. |
| Jul. 25, 2018 The 1st meeting of the 10th term | Reinvestment project | Chen-Hsiung Chiang, Hung-Lien Lin, Yu-Chuan Li, Su-Feng Tsao | Stakeholder | The stakeholders did not participate in discussion and voting in accordance with the laws. (The directors Yu-Chuan Li, Su-Feng Tsao took a leave and didn’t attend the meeting.) The other directors had no opinions and resolutions were adopted unanimously. |
| | The appointment of the salary and remuneration adviser | Jen-Fa Lu, Kuo-Chang Li | Stakeholder | The stakeholders explained the important content of their conflict of interests in accordance |

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| | | | | with laws and avoided their conflict of interests. The other directors had no opinions and resolutions were adopted unanimously. |
| Aug. 22, 2018 The 2nd meeting of the 10th term | Lease amendment | Hung-Lien Lin, Su-Feng Tsao | Stakeholder | The stakeholders did not participate in discussion and voting in accordance with the laws. The other directors had no opinions and resolutions were adopted unanimously. |
| Sep. 26, 2018 The 3rd meeting of the 10th term | Property rental | Chen-Hsiung Chiang, Hung-Lien Lin, Su-Feng Tsao | Stakeholder | The stakeholders did not participate in discussion and voting in accordance with the laws. The other directors had no opinions and resolutions were adopted unanimously. |
| | Reinvestment project | Hung-Lien Lin, Yu-Chuan Li, Su-Feng Tsao | Stakeholder | The stakeholders did not participate in discussion and voting in accordance with the laws. The other directors had no opinions and resolutions were adopted unanimously. |

3. Execution situation assessment of measures taken to strengthen the functionality of the Board in the current year and recent years:
   (1) The Bank, in accordance with the regulations in Article 14-2 of the Securities and Exchange Act, created three seats for independent directors and enacted the “Guidelines of the Governing Responsibilities of Independent Directors in Union Bank of Taiwan Co., Ltd.”. In addition, in order to strengthen the Bank's governance and the functions of the Board of Directors, the Audit Committee was established in Jun., 2015. The Audit Committee is composed of all independent directors, and it formulates related organization regulations for adhering.
   (2) The Bank established the Compensation Committee under the Board of Directors and established the “Organization Regulations of the Compensation Committee in Union Bank of Taiwan Co., Ltd.” .The major responsibilities of the Committee is to set and regularly review the compensation policy, system, standard and structure, and conduct the performance evaluation of directors, and managers.
   (3) On Nov. 7, 2018, the Board of the bank adopted the “ Board Performance Evaluation Regulations”. Execution status of directors, avoidance on motions with conflict of interests. The names of directors, the content of the motion, the reasons of avoidance, and the voting participation status should be clearly stated:

(2) Audit Committee

The Audit Committee held 8 meetings in 2018. The status of attendance was as follows:

| Title | Name | Attendance in Person | By Proxy | Attendance Rate (%) | Note |
|---|---|---|---|---|---|
| Independent Director | Guo-Zhang Li | 8 | 0 | 100% | |
| Independent Director | Zen-Fa Lu | 8 | 0 | 100% | |
| Independent Managing Director | Kao-Jing Wang | 8 | 0 | 100% | |

Other supplementary notes:

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

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

| The Board of Directors | Content of the resolution | Resolution results and further handling |
|---|---|---|
| Jan. 31, 2018, the 9th term The 18th meeting The Board of Directors | 1. Proposed to rent an office located at Area A, 10F., No. 109, Sec. 3, Minsheng E. Rd., Taipei City (the door No. is 9F) from Hong Go Construction Co., Ltd., to serve as the law and compliance department office. | It was adopted unanimously by all the members of the Audit Committee.<br>The Independent directors had no opinions and it was adopted unanimously by all the attending directors. |
| Mar. 14, 2018, the 9th term The 19th meeting The Board of Directors | 1. Proposed to revise the "UNION BANK OF TAIWAN Internal management rules for using the competent authority's financial examination reports".<br>2. "The Bank's self-inspections of its internal control system, the overall assessment inspection report, and the audit results of the audit business for the whole year of 2017, the Bank declared that both the design and execution of its internal control system are effective".<br>3. "Renew the appointment of Deloitte Taiwan in 2018 to handle the Bank's financial statements and income tax settlement audit and declaration".<br>4. "The Bank's Business Report and Individual Financial Statements of 2017 audited by a CPA".<br>5. "The resolution of the Bank's earnings distribution in 2017".<br>6. Propose the resolution of capital increase via return earnings in 2017 and capitalizing employee compensation by issuing new shares . | The 1st- the 2nd resolutions:<br>Revised relevant character expression according to the auditor Kao-Chin Wang.<br>It was adopted unanimously by all the members of the Audit Committee.<br>The Independent directors had no opinions and it was adopted unanimously by all the attending directors.<br>The 3rd-6th resolutions:<br>It was adopted unanimously by all the members of the Audit Committee.<br>The Independent directors had no opinions and it was adopted unanimously by all the attending directors. |

## Corporate Governance

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| | May 9, 2018, the 9th term The 21st meeting The Board of Directors | 1. Proposed to rent an office located at No. 109, Sec. 3, Minsheng E. Rd., Taipei City from Hong Go Construction Co., Ltd. Underground parking spaces are reserved for head office official cars.<br>2. Proposed to make a takeover bid to the shareholders of Union Securities Investment Trust Co., Ltd., for acquiring their shares of Union Securities Investment Trust Co., Ltd. | It was adopted unanimously by all the members of the Audit Committee.<br>The Independent directors had no opinions and it was adopted unanimously by all the attending directors. | |
| | Jul. 25, 2018 The 10th term The 1st meeting The Board of Directors | 1. Revised the “internal control system of the Bank's concurrent operation of proprietary bond business of securities firms”.<br>2. Revised the “internal control system of the Bank’s concurrent operation of securities firms in the broker business introducing futures”.<br>3. Proposed to terminate the co-construction contract regarding land No. 68, Sec. Ming De, New Taipei City with Union Finance and Leasing International Corporation (UFLIC), and reported the land construction project and progress summary.<br>4. Submitted the “supplementary information requested by the Financial Supervisory Commission concerning making a takeover bid to the shareholders of Union Securities Investment Trust Co., Ltd., for acquiring their shares of Union Securities Investment Trust Co., Ltd”.<br>5. Proposed to participate in the capital increase of LINE BIZ+ TAIWAN LIMITED, acquire 10% equity of the company (about 5,470,647 shares), the estimated investment amount is NT$1.58 billion. | It was adopted unanimously by all the members of the Audit Committee.<br>The Independent directors had no opinions and it was adopted unanimously by all the attending directors. | |
| | Aug. 22, 2018, the 10th term The 2nd meeting The Board of Directors | 1. Revised the “internal control system of the Bank's concurrent operation of the securities firms”.<br>2. Revised the “internal control system of the Bank's concurrent operation of proprietary bond business of securities firms”.<br>3. Revised the “Procedures for engaging in derivatives trading and the guidelines of the product suitability of derivatives trading and KYC” and the “Guidelines of | It was adopted unanimously by all the members of the Audit Committee.<br>The Independent directors had no opinions and it was adopted unanimously by all the attending directors. | |

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| | | TMU customer interest protection”.<br>4. Revised the implementation rules of the legal compliance system in accordance with the implementation rules of the internal audit and internal control system of financial holding companies and banking industries revised and issued by the Financial Supervisory Commission.<br>5. Proposed to formulate implementation rules of the Bank's whistleblowing system.<br>6. Submitted the “consolidated financial report for the first half of 2018 audited by a CPA”. | |
| | Sep. 26, 2018<br>The 10th term<br>The 3rd meeting<br>The Board of Directors | 1. Revised the “internal control system of the Bank's concurrent operation of the securities firms”.<br>2. Proposed to formulate a “policy of anti-money laundering and combating terrorist financing of the Bank and its subsidiaries”.<br>3. Proposed to rent additional partial offices located at Rm. 1, 3F., No. 399, Ruiguang Rd., Neihu Dist., Taipei City from YUNG HSUAN CO., LTD.<br>4. Submitted the “supplementary information requested by the Financial Supervisory Commission concerning making a takeover bid to the shareholders of Union Securities Investment Trust Co., Ltd., for acquiring their shares of Union Securities Investment Trust Co., Ltd”.<br>5. Proposed to set up UNION VENTURE CAPITAL CO., LTD., with 100% shareholding by the Bank. | It was adopted unanimously by all the members of the Audit Committee.<br>The Independent directors had no opinions and it was adopted unanimously by all the attending directors. |
| | Nov. 7, 2018<br>The 10th term<br>The 4th meeting<br>The Board of Directors | 1. Proposed to formulate “the Bank's Board performance evaluation regulation”.<br>2. Proposed to formulate “the Bank's stewardship principles for institutional investors”, “principles of interest conflict management prevention for institutional investors”, and “voting principles for institutional investors”, and signed the “compliance statement on stewardship principles for institutional investors”.<br>3. Proposed to invest NT$0.5 billion to acquire 5% equity of LINE Bank. | The 1st-3rd resolutions:<br>It was adopted unanimously by all the members of the Audit Committee.<br>The 1st and 3rd resolutions:<br>The Independent directors had no opinions and it was adopted unanimously by all the attending directors.<br>The 2nd resolution:<br>The independent director, Jen-Fa Lu: Who is responsible for the profit or loss of trust properties investment entrusted by customers?<br>The deputy general |

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| | | manager, Wei-Wen Hsu: the profit or loss of trust properties investment entrusted by customers is their own responsibility. It was adopted unanimously by all the attending directors. |

(2) In addition to the preceding items, any resolution that has not been approved with the consent of the audit committee members but approved with the consent of two-thirds or more of all directors: None.

(3) The Audit Committee's annual main focus is explained as follows:

The Audit Committee of the Bank is composed of 3 independent directors. It aims to assist the Board of Directors with the execution of the supervision of quality and integrity of the Bank’s accounting, audit, financial reporting process and financial control.

The Audit committee held 8 meetings in 2018, and the main issues that were audited included:

A. Financial statement audit and accounting policy and procedure
B. The related policies and procedure of the internal control system
C. Major assets or derivatives trading
D. The investment situation of the derivatives and cash
E. Regulation compliance
F. Corruption avoidance plan and corruption investigation report
G. Company risk management
H. Appointment or remuneration of the financial statement auditor

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

3. Communication between independent directors and auditors:

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

| Date | Points of communication | Situation of implementation |
|---|---|---|
| Mar. 14, 2018 | Reviewed the deficiencies of the internal control system every half year and held seminars by the auditors and independent directors. | Followed up the implementation situation of the opinions of the independent directors in the seminars, and submitted the meeting minutes to the Board of Directors for reporting. |
| Aug. 22, 2018 | Audit department work report in the first half of 2018, the execution situation of the regular report of the audit operation. | 1. Allowed for future reference.<br>2. Submitted to the Board of Directors for future reference. |
| Aug. 22, 2018 | Reviewed the deficiencies of the internal control system every half year and held | Followed up the implementation situation of the opinions of the independent directors in |

| | | |
|---|---|---|
| | seminars by the auditors and independent directors. | the seminars, and submitted the meeting minutes to the Board of Directors for reporting. |
| Nov. 7, 2018 | Internal audit plan for 2019 | 1. The resolutions were adopted unanimously.<br>2. Submitted to the Board of Directors for resolution. |
| Jan. 16, 2019 | Audit department work report in the second half of 2018, the execution situation of the regular report of the audit operation. | 1. Allowed for future reference.<br>2. Submitted to the Board of Directors for future reference. |

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

| Date | Points of communication | Situation of implementation |
|---|---|---|
| Mar. 14, 2018 | The CPAs explained the audit results and adjustment items of the financial statements for the year of 2017, and engaged in two-way communication with the Bank on related preparation and regulation of the International Financial Reporting Standards 16, " lease". | The Bank invited the CPAs with the Bank's internal audit supervisor and independent directors to explain and engage in two-way communication on the Bank's finance and business at the 16th meeting of the 1st term of the Audit Committee, and completed the audit of the financial statements. |
| Aug. 22, 2018 | The CPAs explained the audit results and adjustment items of the financial statements for the first half of 2018, and engaged in two-way communication with the Bank on the implementation of the "Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions" announced by the Ministry of Finance in 2019 | The Bank invited the CPAs with the Bank's internal audit supervisor and independent directors to explain and engage in two-way communication on the Bank's finance and business at the 2nd meeting of the 2nd term of the Audit Committee, and completed the audit of the financial statements. |

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

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

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

## Corporate Governance

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo | |
| for member composition and implement them precisely? | V | | Practices of Banks" in 18th Meeting of 8th Board of Directors on March 18, 2015, in which diversifying guidelines were made in Chapter 4, "Strengthening the functions of the Board of Directors". The nomination and election of the board members are in accordance of the Bank's "Articles of Association", in which the system of candidate nomination is adopted. In addition to evaluating the education level, experience and other qualifications of each candidate, we also refer to the opinions of stakeholders and adhere to the "Procedures for electing directors" and "Principles Governing Corporate Governance Practices of Banks" to ensure board diversity and board independency.<br>B. In the member list of the 10th Board of Directors, in addition to one female member, the ones who are good at operation judgment and operation management are Kao-Jing Wang, Kuo-Chang Li, Chen-Hsiung Chiang, Hung-Lien Lin, the ones with rich financial industry experience, knowledge and global view are Shieng-Chang Li, Kao-Jing Wang and Kuo-Chang Li, the one who has deep understanding in laws and once served as the Prosecutor General in the Supreme Prosecutors Office is Jen-Fa Lu, and Su-Feng Tsao, Tzu-Yung Lin are good at leading and administrative management. Due to the great assistance of all the directors in corporate governance, the goal of diverse professions of the Board's members has been achieved.<br>C. The percentage of independent directors of the Bank are 37.5%, the percentage of female directors is 12.5%, the tenure of one of the independent directors is over 3 years, and the tenure of two of the independent directors is over 9 years. In order to strengthen the independent status of the Board of Directors, it is expected that starting from the 11th term of the Board of Directors, the independent directors cannot serve for more than 3 terms of continuous tenure.<br>D. The policy of board member diversification is disclosed on the | No material discrepancy |

# Corporate Governance

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo | |
| | | | Bank’s website and Market Observation Post System. | |
| (2) Whether the Bank, in addition to establishing the remuneration committee and audit committee pursuant to laws, is willing to establish any other functional committees voluntarily? | V | | (2)<br>A The Bank has set up a Remuneration Committee according to regulations and the Bank’s Article of Incorporation in 19th Meeting of 7th Board of Directors on August 24, 2011 and formulated “Regulations Governing the Organization of Remuneration Committee” for compliance.<br>2 The Audit Committee was assembled in accordance with law and the Company's Articles of Incorporation during the 1st extraordinary meeting of the 9th board of directors held on June 26, 2015. A set of “Audit Committee Foundation Rules” has been implemented for guidance.<br>3 Additionally, in order to strengthen management mechanism, the Bank has set up committees such as “Asset Liability Management Committee”, “Operation Automation Committee”, “Investment and Credit Examination Committee”, “Overdue Credit, Overdue Loan and Non-Performing Loan Handling Committee”, “Trust Property Examination Committee” and “Human Resource Arbitration Committee”, and their resolutions are all submitted to relevant level of authorities for approval according to Regulations governing separation of duties. | No material discrepancy |
| (3) Regular evaluation of external auditors’ independence. | V | | (3) The Bank evaluates the independence of the CPA each year in accordance with the CPA Standard of Professional Ethics and Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies, and submits the evaluation result to the Board of Directors for review.<br>A.The CPA never holds the position of director/supervisor or manager of the Bank, or thea position likely to | No material discrepancy |

# Corporate Governance

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo | |
| | | | render significant influence on the Bank.<br>B. The CPA does not have any direct or significantly indirect financial interest with the Bank.<br>C. The CPA never acts as the Bank's independent auditor for seven years.<br>D. The Statement of Independence has been issued by the CPA. Upon evaluation, the independent auditor retained by the Bank is held meeting the independence requirements under the corporate governance. | |
| 3. If the bank is a TWSE/TPEx listed company, has it set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors and supervisors, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings, etc.)? | V | | 1. The Bank has set up the Board of Director Conference Service Division, which belongs to the Board of Directors and take charge of board meetings.<br>2. The Bank's Business Planning & Administration Dept. is the responsible unit for business related to corporate governance. It is supervised by the senior executive vice president in the department, which has at least three years of management experience related to legal affairs, financial or shareholders service in public companies. The corporate governance affairs mentioned above include providing directors with the data needed in executing business, assisting directors in legal compliance, preparing for board meetings in accordance with regulations.<br><br>3. The execution process in 2018<br>(1) Company amendment registration<br>(2) Prepared the matters related to board meetings in accordance with the regulations.<br>(3) Registered the shareholders' meetings date in advance in accordance with the regulations, prepared meeting notices, meeting handbook and memorandum within the required time period.<br>(4) Assisted the Bank in adhering to laws related to the Board of Directors and shareholders' meetings.<br>(5) Provided directors with the data needed in executing business.<br>(6) The Bank's Board of Directors adopted "Board performance evaluation regulation" in Nov. 7, | No material discrepancy. |

# Corporate Governance

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status (Note 1)</th><th rowspan="2">Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Memo</th></tr>
<tr><td></td><td></td><td></td><td>2018, and it formulated that the Board should execute performance evaluation upon the Board, the members of the Board, the Compensation Committee and the Audit Committee at least once every year. The evaluation results of internal and external performance should be finished before the end of first quarter of next year.<br>4. Status of further studies for corporate governance managers:
<table>
<tr><th>Date of further studies</th><th>Orga nizer</th><th>Name of course</th><th>Further studies hours</th><th>Total hours</th></tr>
<tr><td>Jun. 25, 2018~ Jun. 25, 2018</td><td>Taiwan Academy Banking a Finance</td><td>Board of Directors, Supervisory Committee operational training and corporate governance class (the exploration of whistleblower system )</td><td>3.0</td><td rowspan="3">12.0</td></tr>
<tr><td>Nov 21, 2018~ Nov 21, 2018</td><td>Trust Associati n of R.O.C.</td><td>Trust dedicated office manager special class</td><td>6.0</td></tr>
<tr><td>Nov 26, 2018~ Nov 26, 2018</td><td>Taiwan Academy of Banking and Finance</td><td>Board of Directors, Supervisory Committee operational training and company management class (bank industries anti-money laundering framework based on risk)</td><td>3.0</td></tr>
</table></td><td></td></tr>
<tr><td>4. Establishment of communication channels with stakeholders</td><td>V</td><td></td><td>The Bank has created a stakeholders section on its website. In addition, related parties should also contact with the Bank through mail, telephone, fax and internet etc. All communication channels are easily accessible and smooth.</td><td>No material discrepancy</td></tr>
<tr><td>5. Information Disclosure<br>(1)Establishment of corporate website to disclose information regarding the Bank's financials, business and</td><td>V</td><td></td><td>(1) The Bank has regularly disclosed financial and corporate governance status in the Bank's website (Web address: http://www.ubot.com.tw), and will disclose related information following the relevant regulations of</td><td>No material discrepancy.</td></tr>
</table>

# Corporate Governance

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

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo | |
| | | | The Bank has put in place a Risk Management Policy, established necessary risk management system and standard to effectively manage risks. (Qualitative and quantitative information for assessing the various risks.).<br>6. The implementation of customer protection policies:<br>Customers may offer comments or lodge complaints on the website or via the hotline for complaints and suggestions. The Bank's responsible department will re-direct the issues to the relevant department for handling and follow-up. The Bank has also put in place the "Criteria and Operational Regulations Governing the Management of Suspected Illegal or Abnormal Deposit Account" and the "Organization of the Customer Dispute Processing Team & Procedures for Handling Customer Disputes" to protect the rights of customers. Take the initiative to care and effectively remind customers to prevent the suffering of loss from being cheated.<br>7. The status of the Bank taking out director liability insurance: The Bank has contacted MSIG Mintai Insurance Co., Ltd. in Nov., 2017 to buy director liability insurance for directors.<br>8. Donation to political parties, stakeholders, and charitable foundations:<br>(1) Donated to the Eden Social Welfare Foundation and participated in its "slow-flying angels early treatment plan" by introducing iPASS for charities, donated and sponsored the annual concert of Children Are Us Foundation and participated in and sponsored the "work training plan for kids with intellectual disabilities" .<br>(2) Donated and raised travel expense of participating in foreign competition for the Puzangalan Children's Choir<br>(3) Held a children's drawing contest "Let Me Draw My Mommy" and financed "Taoyuan City Government lunch fee donation account" based on the participant numbers.<br>(4) Held mother's day welfare carnivals. In the carnivals in Taipei and Kaohsiung, we invited charity organizations like Children Are Us | |

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Best Corporate Governance Practices of Banks and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo | |
| | | | Foundation, Down Syndrome Foundation, Down Syndrome Care Association, Eden Social Welfare Foundation, and so on for charity sales, and the revenues are all donated to charities.<br>(5) Sponsored the Taiwan Lantern Festival in Chiayi and Kaohsiung Spring Arts Festival.<br>(6) Cared for the Hualien earthquake situation, and donated to assist with post-quake reconstruction work. | |
| 7 Explain the status of the improvement for the corporate governance evaluation results issued by the Corporate Governance Center of Taiwan Stock Exchange Corporation for the latest year, and propose priority enhancement items and measures for those not have been improved. | V | | In accordance with the evaluation results and benchmarks of the corporate governance in 2018, the items that the Bank improved in the corporate governance are as follows:<br>I. Appointed corporate governance supervisor, and the operation and execution status was disclosed in the annual report and the website.<br>II. Formulated the Board performance evaluation regulations and disclosed them on the website.<br>III.Disclosed the director remuneration formulated in the company statutes in the annual report. The procedure of paying remuneration by the company has taken the evaluation results of director performance into consideration.<br>IV.Investor conferences were held twice in the middle of the year.<br>V.The human rights protection policy was formulated in 2018 and it was disclosed on the website. | No material discrepancy. |

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

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

A. Members of Salary and Remuneration Committee of the Bank

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Operations of Salary and Remuneration Committee of the Bank

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

b. The term of commissioner: 2018.06.08 to 2021.06.07 Salary and Remuneration Committee of the Bank held 2 meetings in 2018. The status of attendance was as follows:

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

Other Necessary Notes:

1 Board of director decline to adopt or require to modify recommendations of the remuneration committee: None.

2 Resolutions of the remuneration committee to which a member or members of the committee has or have expressed dissents or reservations which were recorded or made in writing: None.

# I. ( 6 ) Fulfillment of Corporate Social Responsibilities:

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

# Corporate Governance

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo (Note 2) | |
| dedicated unit (concurrently engaged in) to promote corporate social responsibility under supervision by the high-rank management authorized by the board of directors who shall be responsible for reporting the status thereof to the board of directors? | | | Social Responsibility Committee" established the Bank's "Corporate Social Responsibility Committee" responsible for consolidating the Bank's corporate social responsibility policy, management policy and specific boosting programs, and reporting the status thereof to the Board of Directors regularly to fulfill its corporate social responsibility. | |
| (4) Whether the Bank has defined some reasonable compensation policy, integrated corporate social responsibility with employees' performance evaluation, and established some clear and effective reward/disciplinary system? | V | | (4) The Bank's "guidelines for payroll under personnel management regulations" have defined the standards about granting of salary, allowance, compensation and bonuses. In addition to the fixed monthly salary, the Bank will grant employees the year-end bonus based on the entire operating results and personal performance (allocate 1%~5% of profit), and also defined a reasonable compensation policy by integrating the corporate social responsibility policy. The Bank enacted the "criteria for handling employee merit and disciplinary incidents" separately. | |
| 2. Fostering a Sustainable Environment:<br>(1) The Bank's endeavor to utilize all resources more efficiently and use renewable materials that have a low impact on the environment to improve sustainability of natural resources. | V | | (1) In purchasing equipment, the Bank gives priority to buying green energy products with energy saving, green building material, environmental protection and water saving certification logos. Besides recycling, we have set up a database of the various idle facility and equipment, which is to be checked prior to procurement of new office equipment to ensure that existing | No material discrepancy |

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo (Note 2) | |
| (2) Establishment of proper environment management systems based on the characteristics of its industry.<br><br>(3) Monitoring of the impact of climate change on the Bank's operations and execution of greenhouse gas inspection and establishment of company strategies for energy conservation and carbon reduction and greenhouse gas reduction. | V<br><br>V | | resources are used efficiently. Spare equipment is used repeatedly to increase the re-usage rate of office items.<br>(2) The Bank delegated the personnel dedicated to environmental management in the General Affairs Dept., and formulated the "energy and environment management policy" in order to establish the environmental management-related operation. In addition, the environmental inspection about the concentration of CO2 and lighting brightness in all the offices will be conducted once every half year to control the indoor air quality and maintain adequate brightness in the operational environment. The Bank has obtained the ISO50001 energy management system certification since 2015.<br>(3) The Bank has completed the greenhouse gases inventory for 2018, and disclosed it on the website of the Company. The greenhouse gas emission by the bank in 2018 was 5,263 tons/CO2e, which is 6.7% less than the previous year. | |
| 3. Preserving Public Welfare<br>(1) Whether the Bank has established the related management policies and procedures in accordance with the relevant laws and international human right conventions?<br><br>(2) Whether the Bank has established any employee complaining mechanism and channel, and taken care of the complaint adequately?<br><br>(3) Whether the Bank has provided safe and | V<br><br>V<br><br>V | | (1) The Bank has formulated a "human rights policy", fulfills corporate social responsibility, and guarantees the basic human rights of all the employees, customers, and stakeholders.<br>(2) The Bank has defined the "employee complaining system" and would take care of complaints adequately.<br>(3) The Bank provides employees with safe and healthy work environment and performs labor safety & health on-the-job education and training periodically. | No material discrepancy |

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

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

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

Note 1: The status of operation must be specified in the Memo section, irrelevant with whether the answer is "Yes" or "No".
Note 2: Where the Bank has prepared the CSR report, the memo section may specify the way to access the CSR report and be replaced by index pages.

# Corporate Governance

(7) Fulfillment of ethical Management and Adopted measures:

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

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

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo | |
| (5) Whether the Bank has organized internal/external educational and training programs for ethical corporate management periodically? | V | | financial reporting, and regulatory compliance. The audit team also uses the internal audit and self-audit systems to evaluate the internal control design and the effectiveness of its execution.<br>(5)<br>(i) According to the Bank's ethical corporate management best-practice principles, the Bank will organize the internal propagation activity to communicate the importance of ethics to directors, employees and appointees from time to time. The related staff will also attend the related workshops and educational training programs organized by external entities.<br>(ii) The Bank held internal and external trainings related to ethical management in 2017 (including compliance of ethical management regulations, accounting policy and internal control). There are 247 participants in total and 77 hours in total.. | |
| 3. Status of the Bank's complaint system<br>(1) Whether the Bank has defined a specific complaints and rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation?<br>(2) Whether the Bank has defined the standard operating procedure and non-disclosure mechanism toward the investigation on the complaints as accepted?<br>(3) Whether the Bank has adopted the measures for protecting complainants from inappropriate disciplinary actions due to their complaints? | V<br>V<br>V | | The Bank's ethical corporate management best-practice principles have defined the relevant complaint and handling procedures. The Bank also established an internal independent email box and hotline for complaints available to the Bank's internal and external personnel. The dedicated unit will designate competent dedicated personnel subject to the circumstances, declare in writing that it will keep confidential the complainant's ID and contents of the complaint and promise to protect complainants from unfair treatment due to the complaint.<br>(1) The Bank's whistleblowing system implementation rules were submitted to the Board and adopted on Aug. 22, 2018. The complaint types are defined in the rules, the complaint can be submitted via paperwork, hotline, e-mail or complaint platform. The complaint will be handled by different units according to different recipients of the complaints. In order to | No material discrepancy |

| Item | Implementation Status (Note 1) | | | Discrepancy, if any, with Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Memo | |
| | | | encourage the employees to file complaints, if the complaints are verified, after the recipient of the complaint is punished according to the Bank's rules, the internal complainant will be rewarded.<br>(2) The Bank's whistleblowing system implementation rules expressly states the handling and investigation procedures of complaints, and a clear division is established between the responsibilities of the handling unit and those of the investigation unit. It also expressly states the confidentiality obligations regarding the complainant ID, complaint letters or complaint record, and other related materials.<br>(3) The Bank's whistleblowing system expressly states that the complainant's ID is kept confidential and the complainant's right of work is guaranteed. The Bank cannot discharge, downgrade, cut wages, prejudice the interests guaranteed by the laws, contract, or practice, or enforce other punishments because of complaints. | |
| 4. Enhancing Information Disclosure<br>(1) Whether the Bank has disclosed the content and the status of implementation of its ethical corporate management best practice principles on its websites and the MOPS? | V | | The "Corporate Governance Area" is set up on the Bank's website to disclose the requirements about ethical corporate management best-practice principles and status of the implementation thereof. Further, for transparency of information, the related information has been also uploaded to the MOPS for access by investors. | No material discrepancy |
| 5. If the Bank has established corporate ethical management based on "Corporate Ethical Management Best Practice Principles for TWSE/GTSM-Listed Companies", please describe any discrepancy between the policies and their implementation: The Bank has established the "Union Bank of Taiwan Corporate Ethical Management Best Practice Principles" and "Work Rules" setting out that employees are required to carry out their duties ethically and dutifully and comply with regulatory requirements, policies, and service standards prescribed by the Bank. The company shall be managed in accordance with regulatory requirements and internal procedures to maximise investor benefits. There is no discrepancy between the Bank's operation of ethical management and said "Corporate Ethical Management Best Practice Principles for TWSE/GTSE-Listed Companies". | | | | |
| 6. None. | | | | |

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

**(8) Operating procedure for internal important information:**

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

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

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

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

(**11**) Execution of the Internal Controls System

A. Where an independent auditor is appointed to perform audit on the internal controls system, the auditor's report shall be disclosed: None.

B. Statement of Internal Control:

## Union Bank of Taiwan

## Statement of Internal Controls System

## March 13, 2019

To Financial Supervisory Commission:

On behalf of Union Bank of Taiwan, we hereby state that from January 1, 2018 to December 31, 2018, we have duly complied with the “Enforcement Regulations for Bank Internal Audit Control System” in establishing its internal system, implementing risk management, designating an independent and objective department to conduct audits, and regularly reporting to the Board of Directors and the Supervisors. With respect to the securities business, evaluation of the effectiveness of the design and implementation of its internal control systems described in the “Regulations Governing the Establishment of Internal Control Systems of Service Enterprises in Securities and Futures Markets”, promulgated by the Securities and Futures Bureau, Financial Supervisory Commission. After prudent evaluation, the internal control and regulatory compliance of the units for the year have been effectively implemented, except for matters set forth in the attached table. This Statement will be included as the main content of the Bank’s annual report and prospectus, and be published to the public. If there is any illegal activity such as fraud or concealment, liabilities under Article 20, 32, 171, and 174 of the Securities and Exchange Law will be involved.

Chairman: Shiang-Chang Lee

President: Jeff Lin

Chief Auditor: Kuo-Pao Kang

Compliance Officer of the Bank
Ching-Wen Chen

Attachment: Internal Control Deficiencies and Improvement Plan

**(Record Date: December 31, 2018)**

| Matters that should be improved | Improvement measures | Targeted completion date |
|---|---|---|
| I. A former employee of the Bank violated his authority and produced a fake seal, changed a signature card to conduct deposit, withdrawal and remittance transactions, and took the money of the loan clients. | We have conducted punishments in accordance with the Bank’s work rules after resolution by the Human Resource Arbitration Committee. To control the operational risks of credit granting, the management unit has announced and restated the amendments of the procedures of meeting loan clients in person before transferring the money, cancellation announcement of SMS billing, opening savings accounts and the guidelines of customer authorization transactions for the Bank's employee to strengthen the Bank's internal control mechanism. | This has been completed according to the improvement measures |
| II. If the Bank doesn't report currency transactions equal to or above the applicable designated threshold to the Investigation Bureau of the Ministry of Justice, it will violate Paragraph 1 of Article 7 of the Money Laundering Control Act and Article 4 of the Regulations Governing the Reporting of Transactions Above Certain Amounts and Suspected Money Laundering Transactions by Financial Institutions. | We announced and restated the report operation of currency transactions equal to or above the applicable designated threshold and operation rules of suspected money laundering transactions report verification record. | This has been completed according to the improvement measures |
| III. Deficiencies involved in customer investment risk evaluation operations and anti-money laundering operations are in violation of provisions included in Paragraph 1 of Article 61-1 of The Banking Act: | The Bank has improved and amended the “analysis table of customer risk tolerance degree of non-discretionary money trust business”, “management procedure of non-natural personal business relationship building” and other related | This has been completed according to the improvement measures |

| | | |
|---|---|---|
| (I) Conduct customer investment risk evaluation operations without the confirmation of investment risk evaluation results with customers by signature, seal(s) filed with the bank or other methods of bilateral agreement before accepting and handling the purchase of funds.<br>(II) Conducting anti-money laundering operations, in terms of ID verification of legal person savings account opening operations, without verifying the ID of the natural person who ultimately controls a customer in order to identify the ID of the beneficial owner of a customer according to the regulations, and for suspected money laundering transactions, without verifying the customer's transaction background and transaction rationality, keeping related verification records, and so on. | regulations, and strengthened the evaluation procedure in accordance with the management regulation. | |

## Union Bank of Taiwan

## Statement of Internal Controls System

## March 13, 2019

To Financial Supervisory Commission:

The following statement gives the results of a self-auditing of the internal control system of the Company, covering the period from Jan. 1, 2018 to Dec 31, 2018

1. The Company understands that establishing, implementing, and maintaining an internal control system is the responsibility of the Company's Board of Directors and management team. The Company has established such a system. The internal control system aims to provide reasonable assurance regarding the achievement of the objectives of the operational soundness, reliable financial reporting, and compliance with applicable laws and regulations.
2. The internal control system has its own limitations, and no matter how well it is designed, an effective internal control system can only provide reasonable assurance regarding the achievement of the three above-mentioned objectives. In addition, as the environment and circumstances of the company change, the effectiveness of its internal control system will change with it. However, the bond-operating department's internal control system is equipped with a self-monitoring mechanism, and as soon as a problem is identified, the company will take action to correct it immediately.
3. The Company evaluates the design and effectiveness of its internal control system based on the Regulations Governing the Implementation of the Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies (hereinafter referred to as the "Regulations") of the FSC. The system should consist of at least five components: (1) control environment (2) risk assessment (3) control activities (4) information and communication (5) monitoring.
4. The Company has adopted the five components as mentioned above to evaluate the design and effectiveness of the internal control system.
5. Based on the results of its evaluation as mentioned above, the Company believes that the design and execution of the internal control system during the aforementioned period was effective and was able to provide reasonable assurance regarding the achievement of the objectives of understanding operational soundness, financial reporting, and compliance with applicable laws and regulations.
6. This statement is a major part of the Company's annual report ad prospectus and will be made public. Under Articles 20, 32, 171 and 174 of the Securities and Exchange Act, any fraudulent statements or intentional failure to make the necessary disclosure will incur legal responsibility.
7. This statement was approved by the company's board of directors during its board meeting on March 13, 2019. Among the 8 directors who attended the meeting, none of them were opposed and all others agreed to the contents of this statement.

Chairman: Shiang-Chang Lee

President: Jeff Lin

Chief Auditor: Kuo-Pao Kang

Chief Compliance Officer of the Bank
Ching-Wen Chen

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

| Disclosed Matter | Major Deficiency | Status of Improvement |
|---|---|---|
| (1) Responsible person or employees of the Bank violated the law when conducting business and resulted in an indictment by a prosecutor. | An employee and previous manager of the Bank's branch was involved in a violation of the Money Laundering Control Act when conducting transactions of customer deposits, cash withdrawals and money laundering report procedures, which resulted in an indictment by a prosecutor. | Strengthened the supervision and management of legal compliance and anti-money laundering operation, executed training for bank employees, enhanced publicity of suspected money laundering transaction judgments, report management procedures, judgment of identifying suspicious customer indications, case studies and so on so that the anti-money laundering operation risk can be controlled, and regarded fulfillment of all the internal control tasks in the branch as the top priority in order to make the employees abide by financial laws and regulations completely and avoid corruption. |
| (2) A fine was levied on the Bank by the Financial Supervisory Commission for violations of laws and regulations. | 1. A former employee of the Bank violated his authority and produced fake seals, signatures, and deposit accounts. He subsequently applied for loans and withdrew the loans with the names of customers, which violates Paragraph 1 of Article 45-1 of the Banking Act. He was fined NT$ 6 million in accordance with Article 129-7 of the Banking Act. | The punishments have been conducted in accordance with the Bank’s work rules after resolution by the Human Resource Arbitration Committee. To strengthen the operational requirements of credit granting and loan lending, the management unit has announced and restated the amendments of operational control items for each operational unit. The Bank has also proposed concrete improving measures in terms of transferring the account, signature checking, meeting borrowers in person, contract delivery, and started up a prevention mechanism for credit granting risks to prevent the occurrence of fake loans. |
| | 2. The Bank didn't report currency transactions equal to or above the applicable designated threshold to the Investigation Bureau of the Ministry of Justice. It violated Paragraph 1 of Article 7 of Money laundering Control Act and Article 4 of Regulations Governing the Reporting of Transactions Above Certain Amounts and Suspected Money Laundering Transactions by Financial Institutions. The Bank was fined NT$ 200,000. | We announced and restated the report operation of currency transactions equal to or above the applicable designated threshold and operation rules of suspected money laundering transactions report verification record. |
| (3) Misconduct occurred and resulted in the Financial Supervisory Commission’s imposing strict corrective measures | When doing monetary trust business, the employee asked the customer to sign the statement of paying debt with the trusted asset before granting credit, which violates Article 22-1 of the Trust | 1. The Bank has suspended the related business.<br>2. The business management unit in the head office has issued a ruling to each operational unit in terms of the |

| Disclosed Matter | Major Deficiency | Status of Improvement |
|---|---|---|
| | Enterprise Act, and resulted in the Financial Supervisory Commission's imposing strict corrective measures in accordance with Article 44 of Trust Enterprise Act. | customers who have signed the statement of paying debt with the trusted asset before credit granting. The Bank won't claim terms and conditions of the statement, and won't use empty non-discretionary money trust transaction application forms requested beforehand in order to protect customers' interests. |
| (4) Punishment imposed by the Financial Supervisory Commission in accordance with Article 61-1 of the Banking Act. | 1. The following deficiencies resulting from conducting anti-money laundering and combating terrorist financing operation, without fulfilling anti-money laundering and combating terrorist financing-related regulations and internal outsourcing rules, the internal outsourcing rules and control system is not adequate, has disturbed sound operation, and resulted in the Financial Supervisory Commission imposing strict corrective measures in accordance with Paragraph 1 of Article 61-1 of The Banking Act:<br>(1) When conducting account opening operations, not identifying and confirming the ID of the beneficial owner of the shareholder who holds more than 25% in shares or capital.<br>(2) Not obtaining the approval of the senior management level when conducting accounting opening operations for high risk customers, and not taking rational measures to understand the source of wealth and money when conducting regular review operations.<br>(3) Not verifying the ID of customers who conducted currency transactions equal to or above the applicable designated threshold that were free from reporting to the Investigation Bureau of the | (1) In terms of identifying the beneficial owner, the Bank restated its materials request and identification procedure, and strengthened the branch's identification of the beneficial owner via education training.<br>(2) The bank has formulated the regulations to verify the customer's ID and risk level and amended the Bank's customer due diligence procedure.<br>(3) The bank has formulated the operation regulations regarding verifying the ID of customers in turn and keeping the relevant materials for inspection when handling currency transactions equal to or above the applicable designated threshold that is free from filing a report. |

| Disclosed Matter | Major Deficiency | Status of Improvement |
|---|---|---|
| | Ministry of Justice. | |
| | 2. Deficiencies involved in customer investment risk evaluation operations and anti-money laundering operations are in violation of the provisions included in Paragraph 1 of Article 61-1 of The Banking Act, and resulted in the Financial Supervisory Commission imposing strict corrective measures:<br>(1) Conducting customer investment risk evaluation operations without confirmation of the investment risk evaluation results with the customer by signature, seal(s) filed with the bank, or other methods of bilateral agreement, before accepting and handling the purchase of funds.<br>(2) Conducting anti-money laundering operations, in terms of ID verification of legal person savings account opening operations, without verifying the ID of the natural person who ultimately controls a customer in order to identify the ID of the beneficial owner of a customer according to the regulation, and for suspected money laundering transactions, without verifying the customer's transaction background and transaction rationality, and keeping related verification records and so on. | (1) The Bank has improved and amended its “analysis table of customer risk tolerance degree of non-discretionary money trust business”, and other related regulations, and strengthened its evaluation procedure in accordance with the management regulations.<br>(2) In terms of customer ID verification (including the identification of the beneficial owner) for savings account opening, the Bank has amended the “management procedure of non-natural person business relationship building” and other related regulations. To strengthen the familiarity of the bank's employees with the verification operations of suspected money laundering symptoms, the education training courses were held in the first and the second half of 2018 respectively, and the spot check of the operation situation of the operational unit was conducted for the deficient items. |
| | 3. An employee of the Bank's branch violated his authority and introduced the customer to a third party in order to apply for loans, which resulted in the Financial Supervisory Commission imposing strict corrective measures in accordance with Paragraph 1 of Article 61-1 of | The Bank has formulated a control mechanism of the customer authorization transaction for the Bank's employee in order to verify the rationality of transactions and prevented the Bank's employees from violating their authority to engage in inappropriate transactions or behaviors. |

| Disclosed Matter | Major Deficiency | Status of Improvement |
|---|---|---|
| | The Banking Act. | |
| (5)Accidents occurring as a result of a fraud, major non-recurring incidence or failure to comply with the Guidelines for Maintaining the Security of Financial Institutions, as a result of which individual or accumulated losses during the year amounted to NT$ 50 million or more and therefore the nature and amount of loss for which shall be disclosed. | The same with Item 2 (1),the Bank recorded in account "Other receivables – fake amount in other receivable consumer loans" for NT$96.78million. | The same with Item 2 (1). |
| (6)Other necessary disclosures prescribed by the Financial Supervisory Commission. | None | None |

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

1. Material resolutions of the shareholders' meeting during 2018 and the status of implementation
   (1) Ratification of the surplus earnings distribution for 2017: The resolution was adopted
   Status of implementation: In the shareholders' meeting, the Bank has resolved on the dividend distribution, the preferred stock dividends of (NT$ 0.45369863 per share), the common stock dividends of NT$ 0.7 per share, NT$ 0.4 in cash, NT$ 0.3 in stock. The distribution record date was determined to be Aug. 18, 2018 and dividends were paid on Sep. 13, 2018.
   (2) Ratification of the 2017 business report and financial statements: The resolution was adopted.
   (3) The Bank's new issuance of common shares from earnings: The resolution was adopted.
   Status of implementation: The Bank's proposal of capital increase via return earning and employee compensation was adopted by the Financial Supervisory Commission on Jul. 13, 2018, and also adopted by the Ministry of Finance on Aug. 30 and Letter No. 10701109740 was issued, and the shares were listed and traded on the stock market on Sep. 13, 2018
   (4) The election of directors (including independent directors) for the 10th term: The resolution was adopted.
   The list of persons elected as directors: Shieng-Chang Li, Yu-Chuan Li, the representative of Chuan Cheng Investment Co: Chen-Hsiung Chiang, the representative of Union Enterprise Construction Co., Ltd: Hung-Lien Lin, the representative of YU-BON LIMITED CO: Su-Feng Tsao, the representative of Baisheng Investment Co., Ltd: Tzu-Yung Lin
   The list of persons elected as independent directors: Kao-Jing Wang, Jen-Fa Lu, Kuo-Chang Li
   (5) Waiver of the new director's non-competition obligation: The resolution was adopted.
   Status of implementation: Has been implemented in accordance with the

resolution.

2. Material resolutions of the Board of Directors meeting during 2018 and during the current fiscal year up to the date of publication of the annual report.
   (1) On Jan. 31, 2018, the 18th meeting of the 9th Board of Directors resolved on the addition of “incorporation of total assets to net assets ratio of the Chinese bills and bonds into risk management indicators”, proposal of renting an office from Hong Go Construction Co., Ltd., amendment of “market risk management principle”, amendment of “principles governing corporate governance practices”, amendment of “business crisis management guidelines”, and amendment of “notices for anti-money laundering and combating terrorist financing”.
   (2) On Mar. 14, 2018, the 19th meeting of the 9th Board of Directors resolved on the election of directors (including independent directors) of the 10th term in the shareholders' meeting of 2018, the Bank’s self-inspections of its internal control system, the overall assessment inspection report, and the audit results of the audit business for the whole year of 2017, the Bank declared both design and execution of its internal control system are effective, amendment of “organization regulations”, amendment of “assessment of money laundering and terrorist financing risk and adoption of prevention programs”, submission for signing of “internal control system statements of anti-money laundering and combating terrorist financing”, proposal of renewal of the appointment of Deloitte Taiwan in 2018 to handle the relevant matters to the Bank’s financial statements and income tax settlement audits and declarations, submission of the distribution of compensation for employees and directors in 2017, submission of the Bank's 2017 business report and financial reports audited by a CPA, proposal of the Bank’s earnings distribution in 2017”, proposal of capital increase via return earning in 2017 and capitalizing employee compensation by issuing new shares, proposal of waivers of the new director's non-competition obligation, adoption of the candidate list of directors (including independent directors) nominated by the Board of Directors, and the proposal of the appointment of Mr. Wei-Wen Hsu as the deputy general manager of the Bank.
   (3) On Apr. 25, 2018, the 20th meeting of the 9th Board of Directors resolved on handling (including independent directors) candidates for directors of the 10th term nominated by shareholders and the review results, proposal of the subsequent planning for the Bank’s capital increase by issuing series-A preferred stock, test results of the 2017 “financial institution information security penetration testing program” and improvement program, and the overall execution situation of information security.
   (4) On May 9, 2018, the 21th meeting of the 9th Board of Directors resolved on the proposal of making a takeover bid to the shareholders of Union Securities Investment Trust Co., Ltd., for acquiring their shares of Union Securities Investment Trust Co., Ltd., and submission of the Bank’s consolidated financial reports for the first quarter of 2017 audited by a CPA.
   (5) On Jun. 8, 2018, the 1st extraordinary meeting of the 10th Board of Directors resolved on the election results of the Bank's directors for the 10th term, election of the managing director and chairman for the 10th term, and election of the convener and chairman for the 2nd term of the Audit Committee.
   (6) On Jul. 25, 2018, the 1st meeting of the 10th Board of Directors resolved on the amendment of “the internal control system of the Bank's concurrent operation of proprietary bond business of the securities firms”, amendment of “internal control system of the Bank’s concurrent operation of securities firms in the futures introducing broker business”, proposal of “anti-money laundering and combating

terrorist financing risks assessment report of the Bank's insurance agency operation", proposal of terminating the land co-construction contract with Union Finance and Leasing International Corporation (UFLIC), proposal of launching payment services via the connection of LINE Pay x iPASS with a bank savings account, amendment of the "notices for anti-money laundering and combating terrorist financing", "assessment risk of money laundering and terrorist financing and adoption of prevention programs", authorization of Deloitte Taiwan for handling the personal information protection assurance report for 2016 and the first half of 2017, proposal of participating in the capital increase of LINE BIZ+ TAIWAN LIMITED.

(7) On Aug. 22, 2018, the 2nd meeting of the 10th Board of Directors resolved on the amendment of the "internal control system of the Bank's concurrent operation of securities firms", "the internal control system of the Bank's concurrent operation of proprietary bond business of the securities firms", amendment of the "procedures for engaging in derivatives trading and the guidelines of the product suitability of derivatives trading and KYC", "the guidelines of TMU customer interest protection", amendment of "the Bank's investment credit on Ginnie, Freddie and Fannie CMO, risk control measure of market and liquidity risk improvement program", amendment of "the Bank's foreign currency security investment processing guideline", amendment of "implementation strategy for fair treatment of customers", amendment of the implementation rules of the legal compliance system in accordance with the implementation rules of the internal audits and internal control systems of financial holding companies and banking industries revised and issued by the Financial Supervisory Commission, amendment of the "notices on anti-money laundering and combating terrorist financing for the Bank's concurrent operation of an insurance agency", "assessment of money laundering and terrorist financing risk for the Bank's concurrent operation of an insurance agency and adoption of prevention programs", "suspected money laundering or terrorist financing transaction symptoms for insurance agency operations", and "suspected money laundering or terrorist financing transaction symptoms for securities operation", formulation of the implementation rules of the Bank's whistle-blowing system, amendment of "the Bank's anti-money laundering and combating terrorist financing risks assessment report and risk prevention program", the resolution of the Bank's consolidated financial report for the first half of 2018 audited by a CPA".

(8) On Sep. 26, 2018, the 3rd meeting of the 10th Board of Directors resolved on the amendment of the "internal control system of the Bank's concurrent operation of securities firms", formulation of "anti-money laundering and combating terrorist financing program for the Bank and its subsidiaries", proposal of renting additional offices from YUNG HSUAN CO., LTD., proposal of investment and setting up UNION VENTURE CAPITAL CO. LTD.

(9) On Nov. 7, 2018, the 4th meeting of the 10th Board of Directors resolved on the "2019 internal audit program and execution status declaration form of the Bank's concurrent operation of securities firms in the futures introducing broker business", "2019 internal audit program and execution status declaration form of the Bank's concurrent operation of proprietary bond business", formulation of "Board performance evaluation regulations", the internal audit plan for 2018, report on the test results of the "financial institution information security penetration testing program", formulation of "the Bank's stewardship principles for institutional investors", "prevention of interest conflict management principles for institutional investors", and "voting principles for institutional investors", and signing of the "compliance statement on stewardship principles for institutional investors", submission of the Bank's consolidated financial reports for the third quarter of 2017

audited by a CPA, proposal of the investment in LINE Bank for an application for a pure online banking license.

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

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

## 4. Information on CPA professional fees

(1)

| Name of CPA Firm | Name of CPA | | Audit Period | Note |
|---|---|---|---|---|
| Deloitte & Touche | Vincent Cheng | Charles Yang | January ~ Decmber 2018 | |

CPA Professional Fees Bracket

In NT$ thousand

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

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

In NT$ thousand

| NAME OF CPA FIRM | Name of CPA | Audit Fee | Non-audit fee | | | | | Period | Remark |
|---|---|---|---|---|---|---|---|---|---|
| | | | System Design | Business Register | H.R. | Others( ote1) | Total | | |
| Deloitte & Touch | Vincent Cheng<br>Charles Yang | 8,471 | 0 | 83 | 0 | 5,279 | 5,362 | Jan~Dec 2018 | |

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

(3) Change of audit engagement and that the audit fee for the year of change is less than that charged for the year prior to the change: None.

(4) Auditing fee is 15% or more below the fee charged for the previous year: None

5. **Information on change of CPA:** None.

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

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

(1) **Changes in shareholding (preferred stock shows with 〝P〞 while occurs)**

| Title | Name | 2018 | | April 2, 2019 | |
|---|---|---|---|---|---|
| | | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) |
| Chairman | Shiang-Chang Lee | 40,498 | 0 | 0 | 0 |
| Independent Managing Director | Kao-Jing Wang | 0 | 0 | 0 | 0 |
| Independent Director | Zen-Fa Lu | 0 | 0 | 0 | 0 |
| Independent Director | Guo-Zhang, Li | 0 | 0 | 0 | 0 |
| Director | Union Construction Enterprise Co., Ltd. | 2,727,030 | 0 | 0 | 0 |
| Managing Director | Chen-Chern Investment Co., Ltd. | 3,750,889(P) | 4,103,103(P) | 0 | 0 |
| Director | Yu-Pang Co., Ltd. | 1,139,189 | 0 | 0 | 0 |
| Director | Pai-Sheng Investment Co., Ltd. | 3,989,440 | 8,167,281(P) | 0 | 0 |
| President | Jeff Lin | 167,841 | 0 | 0 | 0 |
| SEVP | Yin-Bor Chan | 26,958 | 0 | 0 | 0 |
| SEVP | Herman Tu | 22,187 | 0 | 0 | 0 |
| SEVP | Cheng-Yu Liu | 12,821 | 0 | 0 | 0 |
| SEVP | Wei-Wen Hsu | 0 | 0 | 0 | 0 |
| Chief Auditor | Kuo-Pao Kang | 10,459 | 0 | 0 | 0 |
| EVP | Cheng-Juh Hsieh | 23,939<br>2,830(P) | 0 | 0 | 0 |
| EVP | Ching-Shou Liu | 13,220 | 0 | 0 | 0 |
| EVP | Jeng-Ping Liu | 10,697 | | | |
| EVP | Yanger Yang | 11,290 | 0 | 0 | 0 |
| Manager | Luke Yang | 11,712 | 0 | 0 | 0 |
| Manager | Michael Lin | 11,016 | 0 | 0 | 0 |
| Manager | Huei-Wen Chang | 6,050 | 0 | 0 | 0 |
| Manager | Chuen-Chour Li | 5,344 | 0 | 0 | 0 |

| Title | Name | 2018 | | April 2, 2019 | |
|---|---|---|---|---|---|
| | | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) |
| Manager | Chan-Kwei Chen | 4,468 | 0 | 0 | 0 |
| Manager | Hsin-Yi Yang | 0 | 0 | 0 | 0 |
| Manager | Wendy Chi | 9,902 | 0 | 0 | 0 |
| Manager | Ming-Tsan Hung | 5,532 | 0 | 0 | 0 |
| Manager | Chien-Hui Li | 4,821<br>(10,000)(P) | 0 | 0 | 0 |
| Manager | Jen-Chung Cheng | 7,834 | 0 | 0 | 0 |
| Manager | Ya-Yun Yang | 5,345<br>(10,000)(P) | 0 | 0 | 0 |
| Manager | Su-Yean Lo | 4,957 | 0 | 0 | 0 |
| Manager | Ru-Ji Cheng | 6,405 | 0 | 0 | 0 |
| Manager | Liang-Kuei Kuo | 6,680 | 0 | 0 | 0 |
| Manager | Hann-Tsau Tsai | 15,170 | 0 | 0 | 0 |
| Manager | Chang-Yung Chen | 11,906 | 0 | 0 | 0 |
| Manager | Cheng-Fa Huang | 4,680 | 0 | 0 | 0 |
| Manager | Chia-Yu Chuo | 6,681 | 0 | 0 | 0 |
| Manager | Joy Tang | 9,338 | 0 | 0 | 0 |
| Manager | June Kao | 5,957 | 0 | 0 | 0 |
| Manager | Liu, Chueh-Ling | 7,637 | 0 | 0 | 0 |
| Manager | Kuo-Kuang Chou | 4,524 | 0 | 0 | 0 |
| Manager | Jacky Liao | 5,082 | 0 | 0 | 0 |
| Manager | Wen-Chian Chang | 300 | 0 | 0 | 0 |
| Manger | Anita Hung | 5,142 | 0 | 0 | 0 |
| Manager | Jane Lu | 7,983 | 0 | 0 | 0 |
| Manager | Wen-Chi Chiang | 4,601 | 0 | 0 | 0 |
| Manager | Ling-Jung Hsiung | 0 | 0 | 0 | 0 |
| Manager | Yu-Hsiu Hsu | 7,608 | 0 | 0 | 0 |
| Manager | Peter Chien | 12,238 | 0 | 0 | 0 |
| Manager | Shih-Shien Cheng | 5,524 | 0 | 0 | 0 |
| Manager | Russell YC Chang | 11,816 | 0 | 0 | 0 |
| Manager | Chang-Chen Lin | 5,587 | 0 | 0 | 0 |
| Manager | Gary Tsai | 9,679 | 0 | 0 | 0 |
| Manager | Shum-Chen, Tu | 6,560 | 0 | 0 | 0 |
| Manager | Ching-Shyong Huang | 5,532 | 0 | 0 | 0 |
| Manager | Chu-Shih Wei | 5,846 | 0 | 0 | 0 |
| Manager | Sophie Hsu | 9,290 | 0 | 0 | 0 |
| Manager | Michael Lee | 6,344<br>(6,000)(P) | 0 | 0 | 0 |
| Manager | Chun-Hsien Chang | 5,481 | 0 | 0 | 0 |
| Manager | Chien-Lung Chen | 8,987<br>(6,000)(P) | 0 | 0 | 0 |
| Manager | Tawei Shih | 6,612 | 0 | 0 | 0 |
| Manager | Shu-Feng Hsueh | 5,199 | 0 | 0 | 0 |
| Manager | Lawrence Chen | 8,320 | 0 | 0 | 0 |
| Manager | Yeong-Jin Hwang | 6,210 | 0 | 0 | 0 |

# Corporate Governance

| Title | Name | 2018 | | April 2, 2019 | |
|---|---|---|---|---|---|
| | | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) |
| Manager | Meng-Hsia Wu | 8,686 | 0 | 0 | 0 |
| Manager | Chien-Chung Su | 4,981 | 0 | 0 | 0 |
| Manager | Hui-Chin Yang | 4,518<br>(16,000)(P)<br>(2,000) | 0 | 0 | 0 |
| Manager | Ye-Yan Lin | 4,609 | 0 | 0 | 0 |
| Manager | Ching-Wen Chen | 8,871 | 0 | 0 | 0 |
| Manager | Chih-Chung Chang | 5,664 | 0 | 0 | 0 |
| Manager | Fang-Ni Wang | 5,296 | 0 | 0 | 0 |
| Manager | Tsai-Ling Liao | 5,990<br>(5,990) | 0 | 0 | 0 |
| Manager | Yen-Jou Liu | 5,866 | 0 | 0 | 0 |
| Manager | Shih-Fu Liu | 5,412 | 0 | 0 | 0 |
| Manager | Vickie Chou | 4,956 | 0 | 0 | 0 |
| Manager | Shen-Yung Peng | 5,477<br>(35,471) | 0 | 0 | 0 |
| Manager | I-Ho Ou | 5,528 | 0 | 0 | 0 |
| Manager | Sheng-Hsiu Chou | 4,652 | 0 | 0 | 0 |
| Manager | Teh-Chin Tsai | 9,082 | 0 | 0 | 0 |
| Manager | Kuo-Yi Lu | 4,116 | 0 | 0 | 0 |
| Manager | Hsiu-Yun Su | 7,261 | 0 | 0 | 0 |
| Manager | Shis-Wen Lu | 5,508 | 0 | 0 | 0 |
| Manager | Kuan-Hong Lee | 5,990<br>(5,000)(P) | 0 | 0 | 0 |
| Manager | Hung-Min Chen | 6,662 | 0 | 0 | 0 |
| Manager | James Tsai | 9,335 | 0 | 0 | 0 |
| Manager | Hui-Fen Chao | 11,389 | 0 | 0 | 0 |
| Manager | Chia-Wei Lin | 4,786 | 0 | 0 | 0 |
| Manager | Huei-Jen Chiou | 5,322 | 0 | 0 | 0 |
| Manager | Chien-Chung Wu | 5,609 | 0 | 0 | 0 |
| Manager | Shan-Chih Yen | 6,567 | 0 | 0 | 0 |
| Manager | Ta-Yu Chin | 6,977 | 0 | 0 | 0 |
| Manager | Chi-Fang Chu | 5,188 | 0 | 0 | 0 |
| Manager | Candy Lin | 5,288 | 0 | 0 | 0 |
| Manager | Roger Chang | 4,615 | 0 | 0 | 0 |
| Manager | Hsien-Ming Yen | 7,633<br>(18,000) | 0 | 0 | 0 |
| Manager | Feng-Li Lin | 9,105 | 0 | 0 | 0 |
| Manager | Miao-Hui Yeh | 7,786 | 0 | 0 | 0 |
| Manager | CM Huang | 18,071 | 0 | 0 | 0 |
| Manager | I-Wen Ho | 6,977 | 0 | 0 | 0 |
| Manager | Cheng-Hsien Tseng | 6,851 | 0 | 0 | 0 |
| Manager | Jeffery Tsai | 9,195 | 0 | 0 | 0 |
| Manager | Ju-Ling Kuo | 7,608<br>(15,000)(P) | 0 | 0 | 0 |
| Manager | Wen-Hui Lin | 7,389 | 0 | 0 | 0 |

| Title | Name | 2018 | | April 2, 2019 | |
|---|---|---|---|---|---|
| | | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) |
| Manager | Miranda Tsai | 5,795(9,000)(P) | 0 | 0 | 0 |
| Manager | Kuen-Cheng Chou | 6,668 | 0 | 0 | 0 |
| Manager | Jyh-Chiang Huang | 9,338 (44,000) | 0 | 0 | 0 |
| Manager | Wen-Jui Chou | 5,650 | 0 | 0 | 0 |
| Manager | Ping-Hul Lin | 7,788 | 0 | 0 | 0 |
| Manager | Shiu-Lan Hsieh | 6,655 | 0 | 0 | 0 |
| Manager | Tereasa Lin | 7,296 | 0 | 0 | 0 |
| Manager | Amy Chung | 6,174 | 0 | 0 | 0 |
| Manager | Cooper Kao | 5,970 | 0 | 0 | 0 |
| Manager | Yao-Hsien Lee | 11,440 | 0 | 0 | 0 |
| Manager | Chao-Chuan Chuang | 3,999 | 0 | 0 | 0 |
| Manager | Jung-Hsiang Chung | 7,317 | 0 | 0 | 0 |
| Manager | Kuang-Yi Kuo | 6,458 | 0 | 0 | 0 |
| Manager | Chang-Fu Tsai | 5,854 | 0 | 0 | 0 |
| Manager | Connie Tseng | 7,294 (2,000)(P) | 0 | 0 | 0 |
| Manager | Lisa Lu | 7,667 | 0 | 0 | 0 |
| Manager | Liang-Wen Liu | 4,858 | 0 | 0 | 0 |
| Manager | Mei-Ling Lee | 6,624 | 0 | 0 | 0 |
| Manager | Wen-Shien Chu | 7,811 | 0 | 0 | 0 |
| Manager | Fei-Kun Lin | 5,993 | 0 | 0 | 0 |
| Manager | Shu-Huey Huang | 7,234 | 0 | 0 | 0 |
| Manager | Chien-Chou Chen | 5,332 | 0 | 0 | 0 |
| Manager | Chen-Jen Chang | 4,731 | 0 | 0 | 0 |
| Manager | Wen-Chih Cheng, | 7,268 | 0 | 0 | 0 |
| Major Shareholder | Tsong-Li Investment Co., Ltd. | 6,262,133 | 0 | 0 | 0 |
| Major Shareholder | Pai-Sheng Investment Co., Ltd. | 3,989,440 | 8,167,281 | 0 | 0 |
| Major Shareholder | Tien-Sheng Investment Co., Ltd. | 3,884,948 | 0 | 0 | 0 |
| Major Shareholder | Chen-Chern Investment Co., Ltd. | 3,750,889 | 4,103,103(P) | 0 | 0 |
| Major Shareholder | Chien-Tuan Investment Co., Ltd. | 3,616,719 | 0 | 0 | 0 |
| Major Shareholder | Wei-Chih Investment Co., Ltd. | 3,462,535 | 0 | 0 | 0 |
| Major Shareholder | Chuo-Pao Investment Co., Ltd. | 3,258,023 | 0 | 0 | 0 |
| Major Shareholder | Kun-Che Investment Co., Ltd. | 3,134,907 | 0 | 0 | 0 |
| Major Shareholder | Chi-Shun Investment Co., Ltd. | 2,911,776 | 0 | 0 | 0 |
| Major Shareholder | Jan-Pang Construction Co., Ltd. | 2,2890,546 | | | |
| Major Shareholder | Pao-Shing Investment Co., Ltd. | 2,728,942 | 5,586,760(P) | 0 | 0 |

| Title | Name | 2018 | | April 2, 2019 | |
|---|---|---|---|---|---|
| | | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) | Shareholding Increase (Decrease) | Share Pledges Increase (Decrease) |
| Major Shareholder | Union Enterprise Construction Co., Ltd. | 2,727,030 | 0 | 0 | 0 |
| Major Shareholder | Hung-Hsiang Investment Co., Ltd. | 2,700,564 | 0 | 0 | 0 |
| Major Shareholder | Horng-Gow Investment Co.,Ltd. | 2,525,716 | 0 | 0 | 0 |
| Major Shareholder | Bai-Ing Investment Co., Ltd. | 2,488,164 | 0 | 0 | 0 |
| Major Shareholder | Chen-Sheng Investment Co., Ltd. | 2,341,306 | 0 | 0 | 0 |
| Major Shareholder | Lin, Chang Su-O | 2,327,679 | 0 | 0 | 0 |
| Major Shareholder | Lin Rong San Foundation of Culture and Social Welfare | 1,979,333 | 0 | 0 | 0 |
| Major Shareholder | Horng-Pern Construction Co., Ltd. | 1,776,925 | 0 | 0 | 0 |
| Major Shareholder | Horng-Pang Construction Co., Ltd. | 1,503,700 | 0 | 0 | 0 |
| Major Shareholder | Union Recreation Enterprise Co., Ltd. | 1,319,209 | 0 | 0 | 0 |
| Major Shareholder | Yu-Pang Co., Ltd. | 1,139,189 | 0 | 0 | 0 |

Note: Preferred Stock shows with 〝P〞 while occurs。

(2) Information on Share Transfer: Not applicable as the counter parties to the share transfer are non-related parties.

(3) Information on Share Pledge: Not applicable as there is no change on the share pledge.

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

## 8. Information for Top 10 Shareholders Being the Related Parties

April 2 , 2019 Unit: Shares；%

| Shareholder (Note 1) | Shareholding | | Spouse or minor children's shareholding | | Top 10 shareholders being the related parties to each other | | Name of and Relationship Between the Top Ten Shareholders Being A Related Party as Defined in Statements of Financial Accounting Standards No. 6 | |
|---|---|---|---|---|---|---|---|---|
| | Shares (Preferred Stock Included) | % | Shares | % | Shares | % | Name | Relation |
| Tsong Li Investment Co., Ltd.<br>Representative: Hong-Bung Lin | 214,999,927<br>0 | 7.43%<br>0% | -<br>- | -<br>- | -<br>- | -<br>- | | |
| Pai-Sheng Investment Co., Ltd.<br>Representative: Si-Yong Lin | 145,138,058<br>298,531 | 5.02%<br>0.01% | -<br>1,544,855 | -<br>0.05% | -<br>- | -<br>- | Chu-Pao Investment Co., Ltd.<br>Pai-Sheng Investment Co., Ltd. | The Company's responsible person is the same as that of the other company |
| Tien-Sheng Investment Co., Ltd.<br>Representative: Chung- Yu Lee | 133,383,217<br>125,878 | 4.61%<br>0 | - | - | - | - | | |
| Chen-Chern Investment Co., Ltd.<br>Representative: Chung- Yu Lee | 133,026,488<br>125,878 | 4.60%<br>0 | | | | | | |
| Chien-Yuan Investment Co., Ltd.<br>Representative: C.C. Chang | 124,174,043<br>589,647 | 4.29%<br>0.02% | -<br>- | -<br>- | -<br>- | -<br>- | - | - |

# Corporate Governance

| Shareholder (Note 1) | Shareholding | | Spouse or minor children's shareholding | | Top 10 shareholders being the related parties to each other | | Name of and Relationship Between the Top Ten Shareholders Being A Related Party as Defined in Statements of Financial Accounting Standards No. 6 | |
|---|---|---|---|---|---|---|---|---|
| | Shares (Preferred Stock Included) | % | Shares | % | Shares | % | Name | Relation |
| Wei-Chih Investment Co., Ltd.<br>Representative:<br>S.S. Yeh | 118,880,401<br>0 | 4.11%<br>0 | - | - | -<br>- | -<br>- | - | |
| Chu-Pao Investment Co., Ltd.<br>Representative:<br>Si-Yong Lin | 111,858,801<br>298,531 | 3.87%<br>0.01% | -<br>1,544,855 | -<br>0.05% | - | - | Chu-Pao Investment Co., Ltd.<br>Pai-Sheng Investment Co., Ltd. | The Company's responsible person is the same as that of the other company |
| Kun-Che Investment Co., Ltd.<br>Representative:<br>Y. C. Huang | 107,631,839<br>8,447 | 3.72%<br>0% | - | - | - | - | - | - |
| Chi-Shun Investment Co., Ltd.<br>Representative:<br>Jyh-Dong Chen | 99,970,987<br>332,255 | 3.45%<br>0.01% | - | - | - | - | - | - |
| Pao-Shing Investment Co., Ltd.<br>Representative:<br>Chiou-Tzy Lin | 99,280,468<br>580,647 | 3.43%<br>0.02% | - | - | - | - | - | - |

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

## 9. Ownership of Investee Companies

December 31, 2017 Unit: Shares；%

| Investee Companies Note | Invested by the Bank (A) | | Investments from Directors, Supervisors, Executive Officers and Directly or Indirectly Controlled Entities of the Bank (B) | | Total Investments (C=A+B) | |
|---|---|---|---|---|---|---|
| | Shares | % | Shares | % | Shares | % |
| Union Finance Int'l (HK)Ltd. | 30,000,000 | 99.999993% | 2 | 0.000007% | 30,000,002 | 100.00% |
| Union Information Technology Corp. | 999,923 | 99.99% | 0 | 0.00% | 999,923 | 99.99% |
| Union Finance and Leasing Int'l Corp. | 130,000,000 | 100.00% | 0 | 0.00% | 130,000,000 | 100.00% |
| Union Securities Investment Trust Corp. | 10,500,000 | 35.00% | 2,595,656 | 8.652% | 13,095,656 | 43.65% |
| Union Real-Estate Management Corp. | 2,000,000 | 40.00% | 1,450,000 | 29.00% | 3,450,000 | 69.00% |
| Taiwan Asset Management Corp. | 6,000,000 | 0.57% | 0 | 0.00% | 6,000,000 | 0.57% |
| Li Yu Venture Corporation | 558,255 | 4.76% | 0 | 0.00% | 558,255 | 4.76% |
| Taiwan Financial Asset Service Corp. | 5,000,000 | 2.94% | 0 | 0.00% | 5,000,000 | 2.94% |
| Financial Information Service Co., Ltd. | 12,875,009 | 2.47% | 0 | 0.00% | 12,875,009 | 2.47% |
| Fu Hua Venture Corporation | 742,500 | 5.00% | 0 | 0.00% | 742,500 | 5.00% |
| Taiwan Depository & Clearing Corp. | 899,441 | 0.25% | 0 | 0.00% | 899,441 | 0.25% |
| Taiwan Futures Exchange Co., Ltd. | 6,807,106 | 2.04% | 0 | 0.00% | 6,807,106 | 2.04% |
| Taipei Forex Inc. | 160,000 | 0.81% | 0 | 0.00% | 160,000 | 0.81% |
| Huan Hua Securities Finance Co. | 2,102,512 | 0.53% | 0 | 0.00% | 2,102,512 | 0.53% |
| Lian An Service Corporation | 125,000 | 5.00% | 0 | 0.00% | 125,000 | 5.00% |
| I-Pass Corporation | 13,000,000 | 11.40% | 0 | 0.00% | 13,000,000 | 11.40% |
| Taipower Corporation | 394,879 | 0.0012% | 0 | 0.00% | 394,879 | 0.0012% |
| Taiwan Mobile Payment Corporation | 600,000 | 1% | 0 | 0.00% | 600,000 | 1% |
| Sunny Asset Management Co. | 386,376 | 6.44% | 0 | 0.00% | 386,376 | 6.44% |
| LINE BIZ+ Taiwan Limited | 5,470,647 | 10.00% | 0 | 0.00% | 5,470,647 | 10.00% |

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

# Fund Raising Status

## 1. Capital and Shares

(1) Sources of Capital

| Date | Issued Price | Authorized Capital | | Paid-in Capital | | Remark | |
|---|---|---|---|---|---|---|---|
| | | Shares | Amount ($) | Shares | Amount ($) | Source of Capital | Notes |
| Dec. 1991 | 10 | 1,200,000,000 | 12,000,000,000 | 1,200,000,000 | 12,000,000,000 | The promoters of a company subscribed shares for 9,600,000,000 Publicly soliciting subscription to shares for 2,400,000,000 | — |
| Jul 1995 | 10 | 1,230,000,000 | 12,300,000,000 | 1,230,000,000 | 12,300,000,000 | Capital Increase Via Return Earning | 1 |
| Jul 1997 | 10 | 1,281,660,000 | 12,816,600,000 | 1,281,660,000 | 12,816,000,000 | Capital Increase Via Return Earning | 2 |
| Jul 1998 | 10 | 1,361,516,990 | 13,615,169,900 | 1,361,516,990 | 13,615,169,900 | Capital Increase Via Return Earning | 3 |
| Jul 1999 | 10 | 1,418,700,704 | 14,187,007,040 | 1,418,700,704 | 14,187,007,040 | Capital Increase Via Return Earning | 4 |
| Jul 2000 | 10 | 1,488,926,389 | 14,889,263,890 | 1,488,926,389 | 14,889,263,890 | Capital Increase Via Return Earning | 5 |
| Mar 2005 | 10 | 2,488,926,389 | 24,889,263,890 | 1,788,926,389 | 17,889,263,890 | Cash Capital Increase | 6 |
| Jun 2005 | 10 | 2,488,926,389 | 24,889,263,890 | 1,825,394,074 | 18,253,940,740 | C.B. Conversion | 7 |
| Dec. 2006 | 10 | 2,488,926,389 | 24,889,263,890 | 1,827,797,807 | 18,277,978,070 | C.B. Conversion | 8 |
| Mar 2007 | 10 | 2,488,926,389 | 24,889,263,890 | 1,828,066,183 | 18,280,661,830 | C.B. Conversion | 9 |
| Sep 2007 | 10 | 3,000,000,000 | 30,000,000,000 | 2,228,066,183 | 22,280,661,830 | Preferred Stocks of Private Placement | 10 |
| Sep 2007 | 10 | 3,000,000,000 | 30,000,000,000 | 2,318,824,429 | 23,188,244,290 | C.B. Conversion | 11 |
| May 2010 | 10 | 3,000,000,000 | 30,000,000,000 | 1,753,661,989 | 17,536,619,890 | Capital reduction offset loss | 12 |
| Sep 2010 | 10 | 3,000,000,000 | 30,000,000,000 | 1,948,499,589 | 19,484,995,890 | Capital Increase Via Amalgamation | 13 |
| Sep 2012 | 10 | 3,000,000,000 | 30,000,000,000 | 2,026,439,572 | 20,264,395,720 | Capital Increase Via Return Earning | 14 |
| Aug 2013 | 10 | 3,000,000,000 | 30,000,000,000 | 2,216,525,121 | 22,165,251,210 | Capital Increase Via Return Earning & Bonus Share | 15 |
| Aug 2014 | 10 | 3,000,000,000 | 30,000,000,000 | 2,450,930,628 | 24,509,306,280 | Capital Increase Via Return Earning & Bonus Share | 16 |
| Sep 2015 | 10 | 3,000,000,000 | 30,000,000,000 | 2,605,152,427 | 26,051,524,270 | Capital Increase Via Return Earning & Bonus Share | 17 |
| Oct 2017 | 50 | 4,500,000,000 | 45,000,000,000 | 2,805,152,427 | 28,051,524,270 | Issuance of preferred stock by cash | 18 (revised in Articles of Association) |
| Aug 2018 | 10 | 4,500,000,000 | 45,000,000,000 | 2,890,012,883 | 28,900,128,830 | Capital Increase Via Return Earning & Bonus Share | 19 |

Nots:1. According to Tai-Tsai-Zheng Tze (1) Letter No. 35096 issued by the Ministry of Finance on June 14, 1995.2. According to Tai-Tsai-Zheng Tze (1) Letter No. 44753 issued by the Ministry of Finance on June 6, 1997.3. According to Tai-Tsai-Zheng Tze (1) Letter No. 55074 issued by the

Ministry of Finance on June 23, 1998.
4. According to Tai-Tsai-Zheng Tze (1) Letter No. 57967 issued by the Ministry of Finance on June 25, 1999.
5. According to Tai-Tsai-Zheng Tze (1) Letter No. 57163 issued by the Ministry of Finance on July 4, 2000.
6. According to Jin-Kuan-Zheng Tze (1) Letter No. 0930160237 issued by the Financial Supervisory Commission on January 10, 2005.
7. According to Jing-Shou-Shang Tze Letter No. 09401110140 issued by the Ministry of Economic Affairs on June 21, 2005.
8. According to Jing-Shou-Shang Tze Letter No. 09601055460 issued by the Ministry of Economic Affairs on March 20, 2007.
9. According to Jing-Shou-Shang Tze Letter No. 09601248450 issued by the Ministry of Economic Affairs on October 16, 2007.
10. According to Jin-Kuan-Yin Tze (2) Letter No. 09600410990 issued by the Financial Supervisory Commission on September 21, 2007.
11. According to Jing-Shou-Shang Tze Letter No. 09601305020 issued by the Ministry of Economic Affairs on December 14, 2007.
12. According to Jin-Kuan-Zheng Tze (1) Letter No. 0990020484 issued by the Financial Supervisory Commission on May 14, 2010.
13. According to Jing-Shou-Shang Tze Letter No. 09901196320 issued by the Ministry of Economic Affairs on September 1, 2010.
14. According to Jing-Shou-Shang Tze Letter No. 10101199660 issued by the Ministry of Economic Affairs on September 24, 2012.
15. According to Jing-Shou-Shang Tze Letter No. 10201171350 issued by the Ministry of Economic Affairs on August 22, 2013.
16. According to Jing-Shou-Shang Tze Letter No. 10301166960 issued by the Ministry of Economic Affairs on August 26, 2014.
17. According to Jing-Shou-Shang Tze Letter No. 10401185290 issued by the Ministry of Economic Affairs on September 10, 2015.
18. According to Jin-Kuan-Zheng Tze Letter No. 1060033586 issued by the Financial Supervisory Commission on September 1, 2017.
18. According to Jing-Shou-Shang Tze Letter No. 10701109740 issued by the Ministry of Economic Affairs on August 30, 2018.

| Type of Shares | Authorized Capital | | | Remark |
|---|---|---|---|---|
| | Issued Shares | Unissued Shares | Total | |
| Common Stock | 2,690,012,883 | 1,609,987,117 | 4,500,000,000 | Listed shares |
| Preferred Stock | 200,000,000 | | | |

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

(2) Shareholder Composition

A. Common Stock

April 2, 2019

| Shareholder Composition / Amount | Government Agencies | Financial Institutions | Other Legal Entities | Individuals | Foreign Institutions & Individuals | Total |
|---|---|---|---|---|---|---|
| No. of Shareholders | 0 | 0 | 90 | 32,382 | 100 | 32,572 |
| No. of Shares Held | 0 | 0 | 2,132,076,637 | 494,347,768 | 63,588,478 | 2,690,012,883 |
| % of Shareholding | 0.00% | 0.00% | 79.26% | 18.38% | 2.36% | 100% |

# Fund Raising Status

B. Preferred Stock

April 2, 2019

| Shareholder Composition / Amount | Government Agencies | Financial Institutions | Other Legal Entities | Individuals | Foreign Institutions & Individuals | Total |
|---|---|---|---|---|---|---|
| No. of Shareholders | 0 | 4 | 91 | 9,326 | 2 | 9,425 |
| No. of Shares Held | 0 | 5,345,000 | 114,336,635 | 80,284,791 | 33,574 | 200,000,000 |
| % of Shareholding | 0.00% | 2.67% | 57.17% | 40.14% | 0.02% | 100% |

(3) Distribution of Shareholding

A. Common Stock

Par value per share NT$ 10; April 2, 2019

| Class of Shareholding | Number of Shareholders | Shareholding (Shares) | Shareholding (%) |
|---|---|---|---|
| 1 ~ 999 | 13,013 | 3,216,767 | 0.12% |
| 1,000 ~ 5,000 | 9,638 | 20,728,221 | 0.77% |
| 5,001 ~ 10,000 | 3,100 | 21,466,623 | 0.80% |
| 10,001 ~ 15,000 | 3,382 | 42,340,682 | 1.57% |
| 15,001 ~ 20,000 | 681 | 11,817,372 | 0.44% |
| 20,001 ~ 30,000 | 895 | 21,715,894 | 0.81% |
| 30,001 ~ 40,000 | 359 | 12,363,661 | 0.46% |
| 40,001 ~ 50,000 | 215 | 9,690,594 | 0.36% |
| 50,001 ~ 100,000 | 586 | 40,559,018 | 1.51% |
| 100,001 ~ 200,000 | 348 | 46,814,677 | 1.74% |
| 200,001 ~ 400,000 | 184 | 51,485,615 | 1.91% |
| 400,001 ~ 600,000 | 54 | 26,137,038 | 0.97% |
| 600,001 ~ 800,000 | 26 | 17,997,506 | 0.67% |
| 800,001 ~ 1,000,000 | 15 | 13,675,242 | 0.51% |
| Over 1,000,001 | 76 | 2,350,003,973 | 87.36% |
| Total | 32,572 | 2,690,012,883 | 100.00% |

B. Preferred Stock

Par value per share NT$ 50; April 2, 2019

| Class of Shareholding | Number of Shareholders | Shareholding (Shares) | Shareholding (%) |
|---|---|---|---|
| 1 ~ 999 | 1,205 | 301,961 | 0.15% |
| 1,000 ~ 5,000 | 6,142 | 8,696,628 | 4.35% |
| 5,001 ~ 10,000 | 825 | 6,725,297 | 3.36% |
| 10,001 ~ 15,000 | 148 | 1,880,702 | 0.94% |
| 15,001 ~ 20,000 | 363 | 7,050,510 | 3.53% |
| 20,001 ~ 30,000 | 148 | 3,909,961 | 1.95% |
| 30,001 ~ 40,000 | 122 | 4,697,686 | 2.35% |
| 40,001 ~ 50,000 | 56 | 2,622,385 | 1.31% |
| 50,001 ~ 100,000 | 201 | 15,687,319 | 7.84% |
| 100,001 ~ 200,000 | 134 | 21,884,731 | 10.92% |
| 200,001 ~ 400,000 | 34 | 10,430,517 | 5.22% |
| 400,001 ~ 600,000 | 14 | 7,794,000 | 3.90% |
| 600,001 ~ 800,000 | 7 | 4,932,000 | 2.47% |
| 800,001 ~ 1,000,000 | 1 | 1,000,000 | 0.50% |
| Over 1,000,001 | 25 | 102,426,303 | 51.21% |
| Total | 9,425 | 200,000,000 | 100.00% |

# Fund Raising Status

(4) Major Shareholders

April 2, 2019

| Shares / Major Shareholders | No. of shares Held (preferred stocks included) | % of shareholding |
|---|---|---|
| Tsong-Li Investment Co., Ltd. | 214,999,927 | 7.43% |
| Pai-Sheng Investment Co., Ltd. | 145,138,058 | 5.02% |
| Tien-Sheng Investment Co., Ltd. | 133,383,217 | 4.61% |
| Chen-Chern Investment Co., Ltd. | 133,026,488 | 4.60% |
| Chien-Yuan Investment Co., Ltd. | 124,174,043 | 4.29% |
| Wei-Chih Investment Co., Ltd. | 118,880,401 | 4.11% |
| Chu-Pao Investment Co., Ltd. | 111,858,801 | 3.87% |
| Kun-Che Investment Co., Ltd. | 107,631,839 | 3.72% |
| Chi-Shun Investment Co., Ltd. | 99,970,987 | 3.45% |
| Pao-Shing Investment Co., Ltd. | 99,280,468 | 3.43% |
| Jen-Pang Construction Co., Ltd. | 99,242,088 | 3.43% |
| Union Enterprise Construction Co., Ltd. | 93,628,055 | 3.23% |
| Hung-Hsiang Investment Co., Ltd. | 92,719,373 | 3.20% |
| Horng-Gow Construction Co., Ltd. | 86,716,274 | 3.00% |
| Bai-Ing Investment Co., Ltd. | 85,426,989 | 2.95% |
| Chen-Sheng Investment Co., Ltd. | 80,384,849 | 2.78% |
| Lin, Chang Su-O | 79,916,986 | 2.76% |
| Lin Rong San Foundation of Culture and Social Welfare | 67,957,130 | 2.35% |
| Horng-Pern Construction Co., Ltd. | 61,007,791 | 2.11% |
| Horng-Pang Construction Co., Ltd. | 51,627,045 | 1.78% |
| Union Recreation Enterprise Co., Ltd. | 45,292,853 | 1.56% |
| Yu-Pang Co., Ltd. | 39,112,188 | 1.35% |

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

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

| Year / Item | | 2017 | 2018 |
|---|---|---|---|
| Market price per share | Highest | 9.37 | 10.75 |
| | Lowest | 8.83 | 9.03 |
| | Average | 9.10 | 9.83 |
| Net Worth per share | Before Distribution | 14.56 | 14.77 |
| | After Distribution | 14.12 | Note4 |

# Fund Raising Status

| Item | | | 2017 | 2018 |
|---|---|---|---|---|
| Earnings per share | Weighted Average Shares | | 2,683,307 | 2,688,690 |
| | Earning Per Share(NT$) | | 1.02 | 1.07 |
| Dividend per share | Cash Dividends | | 0.40 | 0 |
| | Stock Dividends | Dividends from retained earning | 0.3 | 0.70 (Note4) |
| | | Dividends from capital reserve | - | - |
| | Accumulated Dividends | | - | - |
| Return on investments | Price/Earning Ratio[Note1] | | 8.92 | 9.19 |
| | Price/Dividend Ratio [Note2] | | 22.75 | 22.75 |
| | Cash dividends yield rate [Note3] | | 4.40% | 4.40% |

Notes:

1. P/E ratio= Average closing share price for the current fiscal year/ earnings per share.
2. P/D ratio= Average closing share price for the current fiscal year/ cash dividends per share.
3. Cash dividend yield to maturity= Cash dividends per share/ average closing share price for the current fiscal year.
4. The distribution of 2018 earnings will be confirmed when it is passed by a resolution at the 2019 Shareholders' Meeting.
5. Net worth per share and earnings per share have been audited by independent auditors.

(6) Dividend Policy and Implementation

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

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

B. Proposal for dividend distribution for the current year:

The Board of Directors resolved in the meeting held on March 13, 2019 to approve the earnings distribution proposal for 2018 as follows: cash dividends on preferred stocks are NT$ 2.4% per share (the dividend rate of 4.8%); cash dividends on common shares are NT$ 0.70 per share. The actual earnings per share distributed described above may be adjusted by the Board of Directors based on the number of outstanding shares as recorded in the common shareholders' register on the record date.

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

<table>
<tr><th colspan="3">Item / Year</th><th>Year2019 (Forecast)</th></tr>
<tr><td colspan="3">Beginning Paid-In Capital</td><td>Common shares: NT $26,900,129,000<br>Preferred stocks: NT$2,000,000,000</td></tr>
<tr><td rowspan="3">Stock and Cash Dividend in this Year</td><td colspan="2">Cash Dividend per share</td><td>Preferred stocks: 2.4 NT dollars per share</td></tr>
<tr><td colspan="2">Capitalization of Retained Earnings Stock Dividend per share</td><td>0.07 shares per share (common shares)</td></tr>
<tr><td colspan="2">Capitalization of Capital Reserves Stock Dividend per share</td><td>None</td></tr>
<tr><td rowspan="7">Operation Result Changes</td><td colspan="2">Operating Profit</td><td rowspan="13">Not Applicable (Note)</td></tr>
<tr><td colspan="2">Ratio of Increase (Decrease) in Operating Profit Compared to the same period last year</td></tr>
<tr><td colspan="2">Net Profit after Tax</td></tr>
<tr><td colspan="2">Ratio of Increase (Decrease) in After Tax Net Profit Compared to the same period last year</td></tr>
<tr><td colspan="2">Earnings per Share (NT$)</td></tr>
<tr><td colspan="2">Ratio of Increase (Decrease) in Earnings per share Compared to the same period last year</td></tr>
<tr><td colspan="2">Annual Average Return on Investment (Reciprocal of Annual Average Price/Earnings Ratio)</td></tr>
<tr><td rowspan="6">Pro forma Earnings per Share and P/E Ratio</td><td rowspan="2">If Capitalization of Surplus is all changed to the Issuance of Cash Dividend</td><td>Pro forma earnings per share (NT$)</td></tr>
<tr><td>Pro forma annual average return on investment</td></tr>
<tr><td rowspan="2">If Capitalization of Capital Reserve in not conducted.</td><td>Pro forma earnings per share (NT$)</td></tr>
<tr><td>Pro forma annual average return on investment</td></tr>
<tr><td rowspan="2">If Capitalization of Capital Reserve is not conducted and Capitalization of Surplus is all changed to the Issuance of Cash Dividend</td><td>Pro forma earnings per share (NT$)</td></tr>
<tr><td>Pro forma annual average return on investment</td></tr>
</table>

Note: The Bank has not published the financial forecasts for the 2019 fiscal year. According to Tai-Tsai-Zheng Tze (1) Letter No. 00371 issued by the Ministry of Finance on February 1, 2000, companies that have not published their financial forecasts are not required to disclose this information.

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

A. The percentages or ranges with respect to employee bonuses and director/supervisors’ remuneration, as set forth in the Bank’s Articles of Incorporation:

a. Employees’ remuneration: Between 1% and 5% of net profit; where employees’ remuneration is paid in shares, the beneficiaries may include employees of subordinated companies that satisfy certain criteria. These criteria shall be determined by the board of directors.

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

The board of directors is authorized to change the rules of employees' and directors' remuneration described above.
In any case, however, profits must first be taken to offset against cumulative losses, if any, before the remainder can be distributed as employees' and directors' remuneration according to the above percentages.

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

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

(1) Employees' and directors' remuneration distributed by cash or stocks:
The Bank's Board of Directors resolved on March 13, 2019 to distribute the employees' remuneration and directors' remuneration in 2018 totaling NT$ 64,485,840 and NT$ 3,154,199, respectively. The employees' remuneration will be distributed in stocks and calculated based on the Bank's common stock closing price of NT$ 10.5 on March, which are 6,141,508 shares in total with face value of NT$ 10 per share (the remaining remuneration of NT$ 6 that is not enough for one share will be distributed by cash); the remuneration for directors are all distributed by cash. The amounts mentioned above have no difference with that estimated in the year of expense recognition.

(2) The ratio of the employees' stock remuneration to the after-tax income in the individual financial report for the current period and the total amount of employees' remuneration: 2.13%.

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

Unit: NTD

| | Amount proposed and passed by the board | Amount actually paid | Difference | Remarks |
|---|---|---|---|---|
| Employees' remuneration | 62,163,553 | 62,163,553 | – | |
| Directors' and supervisors' remuneration | 3,040,609 | 3,040,609 | – | |
| Total | 65,204,162 | 65,204,162 | – | |

Note: Directors' and supervisors' remuneration were paid in cash, whereas employees' remuneration was paid in shares. The number of shares issued was calculated based on the closing market price one day before the 2018 annual general meeting. Based on this calculation, a total of 6,705,884 shares were issued at NT$9.27 each.

(9) Share Repurchases by the bank: None

## 2. Issuance of Financial Debentures

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

## Fund Raising Status

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

3. **Issuance of Preferred Stock:**

| Item / Issue Date | October 24, 2017 (Series A Preferred Stock of Union Bank of Taiwan) |
|---|---|
| Face Value | NT$ 10 |
| Issue Price | NT$ 50 per share |
| Share Number | 200,000,000 shares |
| Total Amount | Total capital stock is NT$ 2,000,000,000;<br>Total amount issued is NT$ 10,000,000,000 |

## Fund Raising Status

| | | |
|---|---|---|
| Duties & Rights | Distribution of Dividends and Surplus | 1. Dividend: The dividend rate of Series A Preferred Stock (annually) is 4.8% (=5-yr IRS rate 0.89125% + 3.90875%), and are calculated based on the issue price per share. The 5-yr IRS rate will be reset on the second business day after 5.5 years since the issue date and be reset every 5.5 years afterwards.The pricing record date of the rate reset is two Taipei financial business days before the reset day. The interest rate indicator, the 5-yr IRS, is the average rate of the 5-yr interest rate swap price of PYTWDFIX and COSMOS3 published by the Reuter at 11:00 AM on the Taipei financial business day of the rate reset day. If the above-mentioned price cannot be obtained before the rate reset day, the rate will be decided by the Bank at the market price and based on the principle of good faith.<br>2. Dividend distribution: If there are earnings left in the Bank's annual resolution, in addition to the required payment of income tax, the Bank shall first offset the losses in the previous years, recognize legal reserve and recognize or reverse special reserve, and then may distribute the regulated dividends to the preferred stocks based on the earnings balance with priority. The Bank reserves the discretion right on the dividend distribution of preferred stocks. However, if there are no earnings or not enough earnings for distribution in the Bank's annual resolution, or if the dividend distribution of the preferred stock will cause the Bank's capital adequacy ratio to be lower than the requirement of laws or the minimum limit regulated by the competent authority, or if there is other necessary consideration, the Bank may decide not to distribute the dividends of preferred stocks. The shareholders of the preferred stock shall not have other opinions. The dividends decided not to be distributed or are distributed inadequately will also not accumulated as the future payment in years with earnings. The dividends of Series A Preferred Stock are distributed by cash one time annually. The distributable dividends for the previous year and the record date of payment are decided by the Board of Directors after the ratification of financial reports by the Annual Shareholders General Meeting. The distributed amount in the issue year and call year is calculated based on the actual issue days in the year. The dividends distributed will be recorded in the dividend certificate.<br>3. Excess dividend distribution: The shareholders of Series A Preferred Stock shall not participate in the cash and capital distribution of earnings and capital surplus in common stock, except for the regulated dividend rate mentioned above. |
| | Distribution of Residual Property | The order the shareholders of Series A Preferred Stock in distributing the Bank's residual property is former than that of the shareholders of common stocks and is the same with the shareholders of the Bank's other preferred stocks; except when the Bank is taken over by the competent authority, required to stop business for clearing and liquidation in accordance with "Regulations Governing the Capital Adequacy and Capital Category of Banks", the distribution order of the shareholders of Series A Preferred Stock is the same with that of the common stock shareholders. However, their order is inferior to the holders of Tier 2 capital tools, depositors and the general debtholders, and the dividend amount shall not exceed the issue amount. |
| | Execution of Voting Right | The shareholders of Series A Preferred Stock have no voting rights and election rights, but have voting rights on the preferred stock shareholders meetings or when there are circumstances in which their duties and rights are involved. |
| | Others | There is no maturity date for the Banks' Series A Preferred Stock. When the Bank issued new stocks by cash, the shareholders of Series A Preferred Stock have the same stock option right with common stock shareholders. |

# Fund Raising Status

| | | | |
|---|---|---|---|
| Outstanding Preferred Stock | Amount called or converted | | NT$ 0 |
| | Balance not called or converted | | NT$ 2,000,000,000 |
| | Terms of call and convert | | 1. The shareholders of Series A Preferred Stock shall not convert the preferred stocks into common stocks, and have no rights in asking the Banks to call back the Series A Preferred Stock they hold.<br>2. The Bank may call all or part of the preferred stocks at the original issue price anytime under approval of the competent authority on the second day after 5.5 years of the issuance. The preferred stocks not called still satisfy the duties and rights mentioned above. If the Bank's shareholders meeting decides to distribute dividends in the year that Series A Preferred Stock is called, then the dividends that should be distributed until the call day are calculated based on the actual issue days in that year. |
| Market Price per Share | 2017 | Highest | 50.80 |
| | | Lowest | 49.95 |
| | | Average | 50.22 |
| | 2018 | Highest | 53.40 |
| | | Lowest | 49.85 |
| | | Average | 51.54 |
| | As of March 31, 2019 | Highest | 55.10 |
| | | Lowest | 53.20 |
| | | Average | 54.54 |
| Other rights attached | Amount converted or bought as of the date Annual Report is printed | | The shareholders of Series A Preferred Stock shall not convert the preferred stocks into common stocks. |
| | Guidelines for issuance and convert or buying | | None |
| Effect of issue terms on the right of shareholders; circumstances that equity may be diluted and the effect on existing shareholders' right | | | None |
| Impact of callable preferred stocks on capital to risk-weighted asset ratio | | | Not applicable |

4. **The status of Overseas Depository Receipts and Employee Stock Option:**
   None

5. **Acquisitions or Disposition of Other Financial Institutions**
   (1) **Where the bank has acquired another financial institution through merger or acquisition in the most recent fiscal year, the annual report shall disclose the CPA's opinion on the reasonableness of the share swap ratio:** None.
   (2) **Mergers or acquisitions of other financial institutions in the past five**

**years:**None.

(3) **Where the Board of Directors has, during the most recent fiscal year or the current fiscal year up to the date of printing of annual report, adopted a resolution approving issuance of new shares due to merger or acquisition of shares of another financial institution, the annual report shall disclose the state of implementation and the basic information of the institution merged or acquired:** None.

## 6. Fund Utilization Plan and Execution Status

1. Fund Utilization Plan
   - A. Description of the plan: Please see the pages for details of previous public issues or private placement of securities and bank debentures.
   - B. Uncompleted previous public issues or private placement of securities, or those completed in the most recent three years but have not yet fully yielded the planned benefits: None.
2. Execution Status

   Status of implementation: There are no circumstances that the execution progress or benefits do not meet the expected goal.

# Operational Highlights

## 1. Business Description

(1) Main Businesses

A. Primary Business Activities of the Respective Business Units

a. To accept all types of deposits.

b. To extend corporate loans, discount bills and notes, issue domestic letters of credit and conduct accounts receivable factoring.

c. To handle exports, imports, foreign remittances, foreign currency loans and guarantees.

d. To extend mortgage, auto loans, personal loans and other consumer credits, and provide credit card services.

e. Wealth management, trust, custodian business, safe-deposit box rental and certification services for marketable securities.

f. To extend the insurance agency business and property insurance business.

g. To trade marketable securities and futures on behalf of customers.

h. To provide peripheral financial services by acting as collecting and paying agent for public facilities fees, taxes and remittances.

i. To conduct other relevant businesses authorized by the competent authorities.

B. Operational Highlight

a. Deposits: NTD and foreign currencies (including OBU), deposits from peers, and deposits from Chunghwa Post)

Amount: NT$ Million

| Type | December 31, 2018 | | December 31, 2017 | | Comparison | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Increase (Decrease) | Growth Rate% |
| Current Deposit | 219,676 | 42.26% | 205,330 | 45.56% | 14,346 | 6.99% |
| Time Deposit | 300,180 | 57.74% | 245,310 | 54.44% | 54,870 | 22.37% |
| Total | 519,856 | 100% | 450,640 | 100% | 69,216 | 15.36% |

b. Loans

Amount: NT$ Million

| Type | December 31, 2018 | | December 31, 2017 | | Comparison | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Increase (Decrease) | Growth Rate% |
| Consumer Banking | 194,849 | 58.98% | 168,810 | 52.47% | 26,039 | 15.43% |
| Corporate Banking | 135,543 | 41.02% | 152,930 | 47.53% | (17,387) | (11.37%) |
| Total | 330,392 | 100% | 321,740 | 100% | 8,652 | 2.69% |

c. Foreign Exchange

Amount: US$ Million

| Type | December 31, 2018 | | December 31, 2017 | | Comparison | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Increase (decrease) | Growth Rate% |
| Exports | 96 | 1.24% | 93 | 1.15% | 3 | 3.23% |
| Imports | 404 | 5.20% | 373 | 4.63% | 31 | 8.31% |
| Foreign Remittances | 7,259 | 93.56% | 7,591 | 94.22% | (332) | (4.37%) |
| Total | 7,759 | 100% | 8,057 | 100% | (298) | (3.70%) |

d. Trust & Wealth Management

## Operational Highlights

Amount: NT$ Million

| Type | | December 31, 2018 | December 31, 2017 | Comparison | |
|---|---|---|---|---|---|
| | | Amount | Amount | Increase (decrease) | Growth Rate% |
| Trust | Non-discretionary Money Trust Invested in Securities | 41,270 | 39,353 | 1,917 | 4.87% |
| | Fund Custody Business | 10,501 | 10,430 | 71 | 0.68% |
| | General Trusts | 19,876 | 18,502 | 1,374 | 7.43% |
| Ancillary Service | Other Custody Business | 6,921 | 5,113 | 1,808 | 35.36% |
| Total | | 78,568 | 73,398 | 5,170 | 7.04% |

e. Credit Card Business

Unit: NT$ Million；Card

| Item | December 31, 2018 | December 31, 2017 | Comparison | |
|---|---|---|---|---|
| | Amount / Card | Amount / Card | Increase (Decrease) | Growth Rate% |
| Card in New Issue | 257,072 | 300,075 | (43,003) | (14.33%) |
| Cards in Circulation | 2,126,989 | 2,036,860 | 90,129 | 4.42% |
| Valid cards | 1,174,896 | 1,152,629 | 22,267 | 1.93% |
| Credit Amount | 89,452 | 85,760 | 3,692 | 4.31% |
| Cash Advance Amount | 860 | 805 | 55 | 6.83% |
| Accounts Receivables | 15,164 | 14,783 | 381 | 2.58% |
| Revolving Credit Balance | 5,779 | 5,439 | 340 | 6.25% |
| Sales Amount | 58,896 | 56,873 | 2,023 | 3.56% |

f. Revenue and Percentage by Business

| Item | % of Total Revenue 2018 | % of Total Revenue 2017 | Changes (%) |
|---|---|---|---|
| Corporate Banking | 15.32% | 13.75% | 1.57% |
| Consumer Banking | 37.13% | 34.28% | 2.85% |
| Trust &Wealth Management | 9.55% | 9.21% | 0.34% |
| Investment Banking | 14.12% | 21.50% | (7.38%) |
| Other | 23.88% | 21.26% | 2.62% |
| Total | 100.00% | 100.00% | - |

(2) Business Plan for 2019

A. Deposit business

a、 In response to the trend of digital payment, the Bank plans to strengthen the functions of VISA debit cards and accounts (introducing the services of “EasyCard A/C LINK”, and “Apple Pay Debit Card” and so on) to provide depositors with multi-dimensional payment tools.

b、 Expand the functions of ATMs (introducing the services of “ATM interbank deposit” and “iPASS deposit function”) to provide customers with various services, continue holding marketing campaigns for VISA debit cards to increase customers’ loyalty and current deposits.

c、 Arrange for deposit campaigns for target customers to strengthen the absorption of current deposits and develop new customers.

d、 Hold promotional bonus campaigns for the interest rates of time deposits and foreign currency time deposits to increase the market share of time deposits.

B. Loan business

a、 Corporate banking

- Active cultivation of corporate loans, and the main cultivation focus is industrial and commercial enterprises, prioritize self-liquidating loans and loans for manufacturing industries and increase obligation protection through the SME credit guarantee fund and the request for collateral.
- Constantly strengthen business development of MIT industries, increase visits on existing loan clients and enhance the opportunities of business development via the upstream and downstream companies of the customers, further visit industrial parks and office buildings nearby or industrial park administration offices to develop new loan clients.
- Actively cultivate corporate loans to personal loan clients to facilitate the development of all the operations.
- Strengthen the undertaking of quality stock collateral loans.
- Constantly monitor the limit of various loan risks and concentration risks, such as industry concentration, real property collateral concentration, business group concentration, related party loan control, and so on.
- Evaluate the economy of the domestic real estate market and conduct business with caution, and prioritize the undertaking of loans for quality customers, construction projects with a good location and construction projects with good revenue and low Loan-to-Value ratio.

b、 Consumer banking

- Spread-related activity information via DM, eDM, and SMS, or utilize telemarketing to develop new mortgage customers and maintain existing mortgage customers.
- Constantly focus on further developing quality customers, provide customized programs for different customers in order to develop new customers.
- Recruit or train auto financing AOs and expand the auto financing centers in Taoyuan, Taichung, Kaohsiung and other metropolitan areas to boost business.

c. Consumer credit

- Adopt segment marketing and design loan packages for different customer segments.

- Actively train sales talents and managers to improve their professional knowledge and strengthen their marketing/developing skills.
- Enhance management of credit quality and overdue loans.
- Add the function of online loan applications via mobile APP to enhance the convenience for customers.

C. Foreign exchange

a、Develop the customer sources of foreign exchange businesses, expand imports, exports and foreign exchange businesses to increase the niche in foreign exchange business and market share.

b、Continue expanding the international financial investment business to make the most effective use of funds and improve the revenue of the Bank.

D. Trust and wealth management business

a. Promote private funds and introduce financial derivatives to provide various financial products for customers and meet income performance expected by them, and satisfy the requirements of customers with a large amount of assets. Increase the ratio of foreign bonds and ETF business.
b. Develop Internet ETF trading.
c. Expand the insurance product line such as overseas student insurance, major illness insurance, and one-year accident insurance to increase the handling charge income.
d. Actively develop the family trust business, introduce the promotional campaign “family trust - peace of mind for you and your family”, provide the Bank's customer with a greater variety of trust services, and satisfy the requirements of personal and family enterprise wealth inheritance.

E. Bill & Bond Financing Business

a、Actively expand the sources of bills & bonds and strictly the control credit risk of underwriting bills & bonds issued by enterprises, legal persons, or bills & bonds finance companies, improve the trading turnover rate of commercial paper and the underwriting market share to create maximum profit.

b、Review the appropriateness of the bill and bond ratio in order to maintain better capital movement flexibility.

c、Appropriately build a yielding ratio, select the subject matter with caution and ensure it has a good credit and yield rate, regularly review the bond issuer’s financial operating status to appropriately adjust the credit risk, flexibly adjust the value at risk according to the market trends and at the same time, actively develop new RP clients with highly stable sources and low cost to enhance the profit of yielding.

F. Credit card business

a. Channels: Regard branches as main channels to promote credit cards, actively cultivate new customers and develop the potential demand of customers, issue co-brand cards with known brands and participate in their marketing campaigns, further develop old and new customers, enhance the usage rate of online application platforms in response to the trends of the digital age, and simplify application procedures in order to enhance the virtual channel ratio.
b. Products: Launch credit cards that feature functionalities of other electronic cards, and thereby enhance our customer’s convenience and loyalty to the Bank. Enhance credit card performance via segment marketing, focus on premium credit card customers to enhance the loyalty of potential customers,

synchronize with the mobile payment market to plan various and special bonus promotion campaigns of mobile payment, and increase credit card loading of mobiles to attract credit card applications of the new age mobile group.

c. Campaign: Keep track of the trends of the market, further develop and expand the main consumption channels of credit cards.
d. Credit loans: Expand new small loans and decrease loss of the old ones so that the balance of loans can be increased, enhance the ratio of quality customers to control risks and increase revenue, enhance the ratio of online loan applications to boost loan revenue and returns.
e. Acquiring business: Promote mobile payment business and provide various and emerging payment methods to increase the competitiveness of acquiring business.

G. Ensure effective management of funds available to the Bank, regularly increase the investment amount of government bonds and corporate bonds issued by quality enterprises to increase the Bank's investment return, actively assist in the development of all the businesses to enhance the overall capital efficiency and maintain an appropriate level of liquid capital to ensure that the Bank has a sound liquidity level. For TMU business, in addition to continuing serving existing clients, provide them with all the real-time financial market information and products, and assist with developing new clients to increase the Bank's business turnovers in deposits, loans, and foreign exchange business.

**(1) Competitive Niches and Advantages/Disadvantages Relating to Development Prospects And Responsive Measures**

A. Advantages

a. After our banking industry fulfills anti-money laundering and combating terrorist financing step by step, the ability of risk control in domestic and foreign markets is enhanced, this will contribute to stabilizing our financial market and business environment of the banking industry, and is also beneficial to the international deployment.
b. With the constant assistance by the government, the limitation of domestic regulations decreases day by day when the bankers develop the new southbound market, so that they can focus on the business in the new southbound market and expedite the deployment.
c. Under the rapid development of the payment market, the bankers benefit from the accelerated approval of regulations and the assistance of policies, and they also constantly strengthen the digital financial online platform in the entity branches. In addition, the increase of information security, the bankers' cooperation with technology enterprises, together with the increase of willingness of using financial technologies resulting from the trend of mobile payment all contribute to enhancing the development of the financial technology market for the bankers and bringing new business and customers.

B. Disadvantages

a. The China-United States trade war has resulted in violent fluctuations in both the stock market and foreign exchange market. It also had a different level of impact on many domestic/foreign industries, which caused the increase of domestic/foreign investments and loan risk exposure for the bankers in 2019 and affected their profits.

b. Financial technology has changed the business model, the bankers are highly focused on the foreign markets of ASEAN countries, and the ability of the legal compliance still needs to be improved, so the bankers have a high demand for cross border talents, information technology talents, and legal compliance talents. Consequently, we predict that there will be a shortage of talents in 2019, and the labor cost will increase obviously.

c. The interest rate spread is unable to be raised because the bankers are encountering the situation of excessive capital under the circumstances of low interest rates for a long period of time. Even if the interest rate of the USD goes up step by step, the income of the interest rate spread for overall foreign currency loans is expected to be increased and the foreign currency loan business will be enhanced, but we can expect that the domestic price-cutting competition will continue existing in 2019. Since it is not easy to increase the interest rates of syndicated loans, corporate loans, or mortgages and so on, it will have a negative impact on the profitability in the domestic market.

C. Responsive measures

a. Assisting the enterprises with finance and investment via artificial intelligence will be an important market of development in the future. It also can reduce the rate of wealth management business risks. In the future, the new business performance and profit growth can be achieved by cooperation between human beings and artificially intelligent robots.

b. Conducting the judgment of data analysis can be more accurate in the future. To follow the policies, the Bank has comprehensively upgraded the protection system of internal information security. With the accelerated recruitment of the labor force, the risks of the bankers for developing financial technology are under control. Therefore, the development of financial technology business is progressing with rapid and safe expansion.

c. To expand the technological financial business more comprehensively, the bankers put more focus on mobile payment, information technology, cloud service, blockchain, and so on than in 2018. With the approval of pure online banking by the Financial Supervisory Commission, the business model will certainly be impacted. In addition, there will be participation of a number of private banks in the innovation of the Financial Regulatory Sandbox, so the technique of overall financial technology is enhanced constantly.

d. For SME loans, the guarantees by the Small & Medium Enterprise Credit Guarantee Fund of Taiwan really enhances the Bank's willingness to loan, especially since there are some SMEs whose evaluations are on the edge of the approval of loans, and some emerging industries which are not easy to evaluate, so this is the main reason causing the growth of SME loans .

**(4) Research of Financial Products and Status of Business Development**

**A. Main Financial Instruments and the Size of New Business Departments Introduced During the Past Two Years and the Profit/Loss Status**

a. Corporate Banking business continues introducing financial products such as good-quality stock loans, accounts receivable purchases and subsequent advance payment loans, easily discounted notes, and corporate banking foreclosure real estate loans to offer corporate customers multiple loan choices.

b. Actively promote issuance of bills with 1-year and 1-year plus maturity to offer customers more diverse choices for short and medium-term capital planning and increase handling charges for income at the same time.

c. Actively promote financial loan services and provide customers with multiple short/medium-term funding options. A total of NT$11,915,801,000 was disbursed in 2018, and the outstanding loan balance totaled NT$ 17,963,305,000 at the end of 2018.

d. Wealth management business

During 2017, the Bank launched several funds, foreign bonds, ETF and other financial products, and the bank also assisted customers to adjust their asset allocation. As of Dec. 31, 2018, the Bank had a total of over 130,000 wealth management clients and total assets under management aggregated to NT$285.1 billion, representing an increase of 8.7% from that of 2017.

e. Fortune passbook business

The Bank launched the “Fortune Passbook” for children under fifteen years of age. (It integrates our major financial management services including NTD deposit, foreign-currency deposit, securities, and funds.) The Bank also worked with fine-quality child art & cultural merchants horizontally (including Sesame Street English, Cloud Gate Dance Theatre Foundation, Ju Percussion Music School, Hsin Yi Parent-Child Game Bookstore, Parenting and Family Style, Language Canada Taipei, If Kids Theatre, Just Apple Theatre, and Song Song Song Children’s & Puppetm Theatre), and provided the exclusive offers. As of Dec. 31, 2018, the balance of assets of the Fortune Passbook holders amounted to NT$7,736,810,000, representing a 6.89% growth rate compared to NT$7,237,960,000 as of Dec. 31, 2017.

f. VISA debit cards

Card use promotion was still the main strategy for 2018, including the “Double Rewards for New Card Use”, “Cash Reward NT$200 for New Card Use of iPass Debit Card”, “2% Reward for UBOT Cards on Weekends”, “Free City Parking”, “Rebate for Gas Refill” and other card use promotion campaigns. The amounts spent by using the Bank’s Visa debit cards (including Easy Debit Card and iPass Debit Card) totaled NT$1,447,880,000, representing a 5.73% growth compared to 2017.

g. Promotion of automated services and e-banking

i. As of the fourth quarter of Jun. 2018, the Bank set up 315 ATMs step by step in SHOWBA and OK mart to provide customers with more convenient services.

ii. The “New New Bank” Union digital bank was launched in Aug., 2018 to introduce bonus promotion campaigns such as “1% interest rate for current deposit, inter-bank fee-free withdrawal/transfer, and first login gift NT$100".

iii. In response to launching the “payment service via a connection with LINE Pay x iPASS with a deposit account (account link)”, the Bank launched bonus promotion campaigns such as “account link gift”, consumption rebates, and “cash withdrawal without handling charges” for connection with the Bank's current deposit account. As of Dec. 31, 2018, the number of LINE Pay x iPASS connections with the Bank's savings account totaled over 50,000.

iv. The Bank provided “e-coupons” of food and convenience stores for “personal online banking” and “Lohas APP” respectively, and the Bank also launched a preferential foreign exchange rate applicable to 8 special currency e-banking channels including “USD, EURO, AUD, NZD, RMB, JPY, HKD and ZAR”, in hopes of increasing the exchange frequency of customers with substantial rebates. As of Dec. 31, 2018, the cumulative applicant number for the Bank’s e-banking services was 329,563, which grew by 14% compared to 2017. The accumulated downloading number for the Lohas APP was 543,909, which grew by 30% compared to 2017.

h. The business department set by the Bank in the recent two years: none.

**B. R&D Expenditures and Achievements for the Last Two Years and a Brief Description of Future R&D Plan**

a. R&D expenditure and results

Unit: NTD Thousand

| Item \ Year | 2018 | 2017 |
|---|---|---|
| R&D expenditure | 67,430 | 31,785 |

a. Since the launching of Apple Pay in Mar. 2017, the Bank further introduced mobile payment projects like Samsung Pay, Android Pay, and Hami wallet NFC contactless payment. It also developed mobile payment projects (Garmin Pay and Fitbit Pay) connecting with electronic ticket and wearable devices in 2018, and arranged for a variety of promotion campaigns for mobile payment. These motivated customers in loading mobile credit cards (growth by 66% compared to 2017) and payment amounts (growth by 180% compared to 2017), which helped the Bank become the best choice for credit card customers in the mobile payment market.

b. In 2018, we continued strengthening the Bank’s e-banking services. In addition to enhancing the using experience of each e-banking platform, we also started planning the upgrade of personal e-banking, corporate e-banking , and mobile banking platform in hopes of providing various service channels and more convenient financial service experiences via new user interfaces to enhance the Bank's overall service benefits in digital finance.

c. To attract digital customers, the Bank launched the relevant services of digital banking in 2017 to provide the customers with the services of online NTD savings account opening and continued adding different online functions and optimized the user experience. Meanwhile, in response to the developing trend of social media, the Bank has set up its LINE official account service to provide customers with the services of sticker download and instant notification for using credit cards. We accumulated more digital customers by being closer to the needs of the users and offering the services of online account opening and personal messages.

d. To optimize the Bank's anti-money laundering system in 2018 and correspond to the related regulation of the Money Laundering Control Act, we purchased the “anti-money laundering and combating terrorist financing system for banks” and AML-KYC system from the system integrator “Stark Technology, Inc.”, and we also purchased a “name scanning database” from “Dow Jones Factiva Limited” to integrate the basic information and transaction information of the Bank's customers with the information system to enhance the efficiency of conducting anti-money laundering operations for the Bank.

b. Future R&D plan

i. Build an online loan management system to streamline the credit granting process and enhance the operation efficiency. To reduce the credit risk of credit granting, the Bank has built an internal evaluation system for the credit granting to correspond to the credit risk structure of Basel II.

ii. In view of the popularization of smartphones and mobile devices, various mobile economic activities are thriving. In addition to original NFC contactless payment, QR code products (such as LINE Pay, JKOPay and so on) are also competing with each other in the market. This makes customers know more about mobile payment and accept it so that the Bank can keep its leading role in the mobile payment market. We will expand more locations (such as transportation and so on) for using the mobile payment and increase the functions (connection with membership card and so on) to enhance credit card loading and payment amount for the Bank.

iii. In view of the maturity of mobile devices and the network environment, the Bank will continue focusing on mobile applications in our digital banking service R&D. We will strengthen the existing e-banking service platform, start planning the upgrade of personal online banking, corporate online banking, and mobile banking platform, continue expanding all the services of digital banking, which will be designed based on customers' needs and put more focus on user experiences and service interface. Under the prerequisite of considering both trading efficiency and information safety, we will be able to provide customers with more instant, safer and more convenient e-banking services.

iv. Continue researching and paying attention to the technologies related to financial markets and the relevant applications, follow the evolution of information technologies, cultivate relevant talents in the fields of new financial technology of AI, blockchain, biometric, big data and so on. In response to the trend of changing service types in the future, the Bank will continue doing research on digital services and its application. We aim to strengthen the basis for future development of each business by developing the Bank's digital customers with new digital financial services.

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

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

A. Short-term Business Development Plan: Please refer to "Chapter (2) 2016 Business Plan".

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

# Operational Highlights

## 2. Employee Analysis

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

| Year | | End of 2017 | End of 2018 | Mar31, 2019 |
|---|---|---|---|---|
| Number of Employees | Permanent | 3,691 | 3,821 | 3,809 |
| | Temporary | 0 | 0 | 0 |
| | Other | 0 | 0 | 0 |
| | Total | 3,691 | 3,821 | 3,809 |
| Average age | | 37.41 | 37.86 | 38.09 |
| Average year of service | | 9.09 | 9.28 | 9.47 |
| Education | Doctorate | 0.03 | 0.03 | 0.03 |
| | Master | 7.13 | 7.04 | 6.85 |
| | University (College) | 85.99 | 86.29 | 86.40 |
| | Senior High School | 6.85 | 6.65 | 6.72 |
| | Junior High School & Under | 0 | 0 | 0 |
| Type of professional certification held by employees | | End of 2017 | End of 2018 | Mar31, 2019 |
| Certified Anti-Money Laundering Specialist (CAMS) | | 0 | 4 | 4 |
| Professional Exam for Anti-Money Laundering and Countering Terrorism Financing Specialist | | 0 | 125 | 123 |
| Basic Proficiency Test for International Banking Personnel | | 335 | 339 | 348 |
| Proficiency Test on Foreign Exchange Trading | | 10 | 11 | 12 |
| Proficiency Test for Trust Operations Personnel | | 2,281 | 2,407 | 2,396 |
| Subject Test - Laws and Regulations on Trust Businesses | | 33 | 33 | 32 |
| Qualification exam for "General knowledge of Financial Markets and professional code of Ethics" | | 2,722 | 2,831 | 2,829 |
| Financial Risk Manager (FRM) | | 3 | 3 | 3 |
| Class B Accounts Clerk | | 10 | 8 | 8 |
| Class C Accounts Clerk | | 105 | 101 | 100 |
| Basic Proficiency Test for Bank Lending Personnel | | 396 | 407 | 403 |
| Advanced Proficiency Test for Bank Lending Personnel | | 32 | 32 | 32 |
| Proficiency Test for Bank Collateral Appraisal Personnel | | 10 | 10 | 10 |
| Proficiency Test for Financial Planning Personnel | | 363 | 363 | 358 |
| Structured Product Sales Personnel Qualification Test | | 451 | 443 | 450 |
| Qualification exam for securities investment trust and consulting regulations (including professional ethics rules) | | 20 | 18 | 19 |
| For taking "Investment trust & consulting regulations(including self-disciplinary rules)" only | | 699 | 713 | 701 |
| Life insurance salesperson | | 2,728 | 2,781 | 2,783 |
| Investment-oriented insurance salesperson | | 1,245 | 1,241 | 1,242 |
| Fundamental Test of Investment-oriented insurance salesperson and financial market | | 232 | 253 | 250 |
| Property Insurance Salesperson Registration Certificate | | 1,130 | 1,174 | 1,165 |

| Year | End of 2017 | End of 2018 | Mar31, 2019 |
|---|---|---|---|
| Qualification Test for Life Insurance Salesperson Selling Non-Investment Type of Insurance Product in Foreign Currency | 1,018 | 1,066 | 1,059 |
| Futures specialist | 336 | 327 | 323 |
| Bill finance specialist | 80 | 85 | 87 |
| Fin Tech Knowledge Test | 27 | 33 | 36 |
| Labor safety and health specialists (Class B certificate for labor safety and hygiene) | 5 | 5 | 6 |
| Class A Manager of Labor Safety & Health Affairs | 51 | 56 | 56 |
| Class B Manager of Labor Safety & Health Affairs | 88 | 94 | 96 |
| Class C Manager of Labor Safety & Health Affairs | 39 | 39 | 40 |
| Fire Fighting Administrator | 139 | 142 | 142 |
| First Aid Specialist | 174 | 172 | 171 |
| Bond Specialist | 24 | 25 | 26 |
| Basic Proficiency Test on Internal Controls | 1,851 | 1,976 | 2,010 |
| Securities specialist | 364 | 364 | 360 |
| Senior securities specialist | 257 | 257 | 258 |
| Securities investment trust and consulting professionals | 195 | 192 | 191 |
| Securities investment Analyst | 5 | 6 | 6 |
| Specialist of "Margin and Stock Loans by Securities Firms" | 47 | 49 | 50 |
| Assistant real estate Brokers | 8 | 9 | 8 |

Note: Not include the 2 employees of offshore units.

(2) Advanced Education and Training of Employees

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

| Item | Internal program | External program | Total |
|---|---|---|---|
| Number of employees trained | 13,983 | 3,348 | 17,331 |
| Total training expense ( in NT$ thousand) | 15,475 | 8,656 | 24,131 |

(3) Rules of Employee Behavior and Ethics

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

(4) Protection for Work Environment and Employee Safety

A. Access Security: The Bank has installed a premise access surveillance system to monitor people entering or leaving the office premise. The system is linked to the police stations at all times and is subject to regular trial checks. Security guards stationed on site to ensure personnel and premise security.

B. Office Premises and Equipment: The Bank performs regular or random maintenance check on the various equipment in accordance with the relevant regulations on public safety and fire tests of office premises.

C. Security Maintenance: The security maintenance regulations enforced by the competent authority and Bankers' Association prescribe that each retail office shall conduct anti-robbery rehearsals each year.

D. Safety and health: We have established the "Safety and Health Work Rules" and "Occupational Safety and Health Management Plan". In addition, we implement various environmental examinations and organize occupational safety and health education/training activities and first aid training courses in accordance with the Occupational Safety and Health Act and relevant regulations to ensure workplace safety for employees.

## 3. Corporate Responsibility and Ethical Conduct

(1) **Cultural Intelligence Education**:

We have long devoted ourselves to the promotion of cultural intelligence education, as witnessed by the "Let Me Draw My Mommy" children's drawing contests over the past 18 years. Apart from cultivating art literacy and the filial piety culture in children, we donate NT$5 for each entry in 2018 to finance "Taoyuan City lunch fee donation account". The annual "Little Banker—Financial Management Camp" entered its 11th session. The course content is varied and innovated every year. Apart from equipping children with financial management knowledge, we introduced a basketball course and animal conservation course in collaboration with the "men's basketball team of Dong-Shan High School in Taichung" and "Endemic Species Research Institute" to promote the concept of exercising and the concept of environmental protection. To introduce the beauty of Taiwan's cultural relics, we launched the TV program "Stories in Taiwan - A UBOT tour to historical relics in Taiwan II"in collaboration with SET Taiwan Channel to promote cultural relics across Taiwan and explore the history and culture of Taiwan. In 2018, a total of 7 episodes were produced, and the visit topics contained Taoyuan Daxi, Taipei Dalongdong, Taichung, Beitou, Lukang, Danshui, and Tainan Anping. In addition, to promote the concept of ecological protection, the Bank not only participated in adopting Taiwan's protected animal, the "Chinese leopard cat" and "ring-necked pheasant", but also held a "Get Some Gifts By Energy Efficiency And Carbon Reduction" activity to promote the knowledge of energy efficiency.

(2) **Sponsoring Arts and Cultural Activities:**

To promote and facilitate the development of local arts and cultural activities, we have been funding the "Kaohsiung Philharmonic Cultural and Arts Foundation" for 8 consecutive years since 2011 to organize theme concerts and the Kaohsiung Spring Arts Festival and other important arts and cultural activities. In addition, we have established the "UBOT Arts and Cultural Gallery" in the KMRT Formosa Boulevard Station for citizens to appreciate art works. In addition, the Bank also participated in and sponsored the “Taiwan Lantern Festival in Chiayi” to support local art and cultural activities through practical actions.

(3) **Social Engagement**

A. Care for community development: We continued adopting “Minyao Park #2 in Songshan District” and the flower beds in front of Luzhou Elementary School in New Taipei City to maintain a public natural environment and facilitate positive symbiosis between enterprise and community.

B. Care for farmers: In May, 2018, on the eve of Mother’s Day, we purchased 36,630 carnations from flower farmers in Tianwei, Changhua County and presented them to our customers and local citizens. In addition, in June of the same year we purchased 16 tons of bananas from the “New Taipei City Farmers' Association” and presented them to our customers to support local agriculture through practical actions.

C. Care for young students: To care for young students without adequate economic resources and help them dig out their talents and pursue their dreams, the Bank engaged in sponsoring the training fee for the “men's basketball team of Dong-Shan High School of Taichung City” and the traveling expenses for “Puzangalan Children's Choir” respectively to assist them to exert their talents and bring honor to our country.

D. Care for local industries: Every year we order a large quantity of Lunar New Year gifts such as ceramic Chinese zodiac piggy banks, calendars, red envelops, and Spring Festival couplets. Local MIT manufacturers are always our priority contractors.

E. Promote digital banking, reduce the volume of physical paper transactions, facilitate environmental protection and energy efficiency.

(4) Charity

A. Donation for charities: The Bank introduced donation campaigns including sponsoring Eden Social Welfare Foundation by purchasing Wei Yin Chen iPASS for charities and purchasing the tickets and box meals for the annual “Children Are Us Theatre and Music Group” concert by the Children Are Us Foundation. At the Mother’s Day welfare carnivals during May, we invited charity organizations like the Children Are Us Foundation, Down Syndrome Foundation, Down Syndrome Care Association, Eden Social Welfare Foundation, and so on for charity sale, with the revenues all donated to charities. In addition, for Hualien earthquake donations, we donated NT$5,000,000 to assist Hualien residents with post-quake reconstruction work. We sponsored Jun Han Yang with NT$ 2,250,000 for the gold medal of the Guo-guang Sports Award in hopes of encouraging more extraordinary sportsmen to acquire excellent performance in all the sports competitions in the future and bring honor to our country

B. Sponsorship: We sponsored the Taoyuan Metro Corporation to hold “MRT promotion animation”, “documentary film on Mayday concert traffic dispersing”,“Mission of Tao-chi poli” charity campaign, and we also cooperated with the Taoyuan Metro Corporation and Breeze Center to introduce the “Tao-chi Merry X’mas Market” X’mas charity campaign to promote the Taoyuan Metro Corporation, and the safety of transporting luggage, we also fulfilled our social responsibilities by the charity sale market. We sponsored Kaohsiung MRT to hold the “Fashion X Classic～”, “Kaohsiung MRT Summer Love Cosplay Event”, “3-to-3 Basketball Tournament”, “Charity Marathon” , and promoted Anime & Manga culture in Taiwan, harbor city tourism, and the urban sports trend, and participated in charity campaigns to fulfill our social responsibilities.

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

Unit: NT$ thousands; %

| Category | 2017 | 2018 | Difference | |
|---|---|---|---|---|
| Head count | 3,303 | 3,434 | 131 | 3.97% |
| Average welfare expense | 780 | 809 | 29 | 3.63% |

## 5. Facilities of Information Technology

(1) Maintenance and Allocation of Hardware & Software for major IT systems:

A. Production Computer Room: One IBM z/BC12 operation server and one IBMz/890 backup- server, two IBM 8870 diskettes driver, IBM 3590 Tape driver, Fujitsu 3490 Tape driver, IBM TS7760 virtual Tape driver, fourteen IBM RS/6000, one IBM i520 and 100 PC servers.

B. Backup Computer Room: One IBM z/800 remote backup server, two IBM Shark-800 diskeet drive, IBM 2074 back-end controller, one set of 3590 tape drive, IBM TS7760 virtual Tape driver, two IBM RS/6000, one IBM AS/400-720 and twelve PC servers.

C. Network: The operating system control room uses two CISCO 7206 routers, two CISCO 7507 routers, two CISCO 4507 routers. The backup control rooms uses three ASR1001 routers, three CISCO ASR1001 routers, and two CISCO 3750 routers via the DWDM connecting with the operating system and backup control rooms. Branches use CISCO 2811/2911 routers and connected to the operation system’s computer room via the CHT exclusive line (transaction), with connection to the backup control room routers via Asia Pacific Telecom FTTB 2M (non-transaction) as alternate, if necessary.

D. The Bank has signed maintenance contracts with the vendors for above hardwares and softwares.

(2) Future development or procurement plans:

A. Development of software for system operation trail audits

B. Development of the control system for country risks.

C. Development of the registration system for loaning of book-entry government bonds.

D. Upgrading of online banking

E. Upgrading of recording equipment system of call center.

F. Upgrading of hardware and software of database storage.

G. Constructing the defense system of APT (Advanced Persistent Threat) over the internet.
H. TCP/IP centralized management system of Passbook Entry Machine
I. Computer system information security evaluation and testing
J. Construction of the mail audit and archival system
K. Big data analysis
L. SIEM inter-network information safety prediction and analysis system
M. Replacement of stamp identification system of the branches
N. Development of off-site backup environment for OA system of all the branches.

(3) Emergency Backup and Security Protection Measures

A. Construct on-site backup device at Neihu computer room with Minsheng computer room serving as the remote backup support.
B. Off-site media backup and storage of sensitive documents, separately at Neihu and Minsheng computer rooms.
C. Installation of access control system, surveillance cameras, line control, fire safety equipment and environmental security systems to protect the IT equipment.
D. Using intrusion detector, setting internal/external firewalls and anti-spam system, scanning virus, Trojan horse or spy programs, updating virus-code and system patch to ensure internet and data transmission security.
E. Enact the “Plan for Union Bank of Taiwan IT Security Contingency” and conduct annual rehearsals of on-site and remote backup and fire safety in accordance with the “Plan for Union Bank of Taiwan IT Disaster Contingency”.

## 6. Labor Relations

(1) **Execution status of employee welfare and retirement policy, labor agreements and protection of employee welfare:**

A. Establish the Employee Welfare Committee. Deduct 0.5% of employees’ monthly salaries and appropriate 0.1% of operating revenue and use the fund to administer employee welfare affairs such as Mother’s Day Fair and special allowances for marriage, funeral, birth (including spouse) and major accident.
B. In accordance with the Social Insurance Policy, the Bank administers Labor Insurance, National Health Insurance and Group Insurance (including term life insurance, group accident insurance, worker’s accident insurance, occupational injury insurance, cancer insurance and hospital and medical insurance for employees and their dependents).
C. Offer deposits, loans and unsecured consumer loan for staff at special rates.
D. The Employee Welfare Committee disburses bonus to employees on major festivals of the Lunar year.
E. Employee Retirement Policy has been set that any employee reaching retirement age or eligible for retirement pursuant to the Bank’s retirement policy is entitled to receive the retirement payout under the old pension system (Labor Standards Act). On the other hand, the Bank makes monthly contributions to individual retirement accounts for employees who apply for new pension system.

F. The Bank has set up rules for governing labor-management committee to maintain sound and harmonious labor-management relationship.

(2) **List Any Loss Sustained As A Result of Labor Disputes in the Most Recent Fiscal Year, and During the Current Fiscal Year up to The Date of Publication of the annual report, (Including Matters in Violation of the Labor Standards Act According to Labor Inspection, the Date of Punishment, the Number of Punishments, the Regulations Violated, the Content of Regulations Violated, the Content of Punishments Should Be Listed), Disclose an Estimate of Losses Incurred to Date or Likely to Be Incurred in the Future, and Indicate Mitigation Measures Being or to Be Taken. If the Loss Cannot Be Reasonably Estimated, Make a Statement to That Effect.**

In Aug., 2018, the Office of Labor Inspection, Taoyuan conducted labor inspection in the branch of Northern Taoyuan and found that the branch didn't pay worker overtime wages. On Sep. 12, 2018, punishment notification No. 1070222943 was issued due to the fact that the employer was in violation of the rules of Article 24 of the Labor Standards Act: “ An employer shall pay worker overtime wages by using the following basis: 1. When the overtime work does not exceed two hours, the worker shall be paid, in addition to the regular hourly wage, at least an additional one-third of the regular hourly rate. II. When the overtime work is over two hours, but the total overtime work does not exceed four hours, the worker shall be paid, in addition to the regular hourly wage, at least an additional two-thirds of the regular hourly rate. III. When the overtime work requested is governed by Paragraph 4 of Article 32, the worker shall be paid two times the regular hourly rate. In accordance with Article 36, an employer shall pay a worker overtime wages when required to work on the rest days. When the overtime work does not exceed two hours, the worker shall be paid, in addition to the regular hourly wage, at least an additional one and one-third of the regular hourly rate. When the overtime work is over two hours, the worker shall be paid, in addition to the regular hourly wage, at least an additional one and two-thirds of the regular hourly rate”, and was fined NT$20,000.

## 7. Major Contracts

Mar 31,2018

| Nature of Contract | Concerned Parties | Contract Period | Content | Restriction on Contract |
|---|---|---|---|---|
| Insurance Contract | Central Deposit Insurance Corporation | Signed on Apr. 27, 1994 | Performance bond agreement for the solvency of financial institution in paying depositors | None |
| Insurance Contract | MSIG Mingtai Insurance Co., Ltd. | Jan. 21, 2018 to Jan. 21, 2019 | Bankers Blanket Insurance | None |
| Outsource Contract | Yesing Technologies | Dec 4, 2014 | Install Cami customer service via email for the Bank | None |
| Outsource Contract | Union Information Technology Corp. | Jun. 16, 2008 | Design & maintenance of Web and | None |

# Operational Highlights

| Nature of Contract | Concerned Parties | Contract Period | Content | Restriction on Contract |
|---|---|---|---|---|
| | | | Mainframe | |
| Outsource Contract | Union Information Technology Corp. | Jul. 01, 2001 | Credit card information system | None |
| Outsource Contract | IBM | Jul 01, 2011 | Credit card information system | None |
| Outsource Contract | Financial eSolution Co., Ltd. | Apr. 14, 2008 | Chip card transactions processing | None |
| Outsource Contract | Union Information Technology Corp. | Apr. 01, 2009 | Collections system of Convenient Store and tuition | None |
| Outsource Contract | Smart Star Software Inc. | Nov 05, 2012 | Maintenance of debt collection System | None |
| Outsource Contract | Foongtone Technology Co., Ltd. | Jun. 09, 2008 | Manufacturing of chip credit cards | None |
| Outsource Contract | Foongtone Technology Co., Ltd. | Jun. 02, 2008 | Manufacturing of chip ATM cards | None |
| Outsource Contract | Taiwan Name Plate Co., Ltd. | Dec. 10, 2007 | Manufacturing of chip credit cards | None |
| Outsource Contract | Taiwan Name Plate Co., Ltd. | Jan. 23, 2008 | Manufacturing of chip ATM cards | None |
| Outsource Contract | Gemalto Co., Ltd. | Jul. 15, 2007 | Manufacturing of chip credit cards | None |
| Outsource Contract | TECO Smart Technologies Co., Ltd. | Oct. 31,2014 | Manufacturing of chip credit cards | None |
| Outsource Contract | Taiwan Mobile Payment Corporation | Dec. 17, 2014 | Manufacturing of credit cards for the mobile payment tools | None |
| Outsource Contract | Yuen Foong Paper Co., Ltd. | Nov. 01, 2008 | Printing and mailing Statement | None |
| Outsource Contract | Yuen Foong Paper Co., Ltd. | Oct. 01, 2009 | Printing and mailing integrated Statement | None |
| Outsource Contract | Yuen Foong Paper Co., Ltd. | Jan. 01, 2008 | Printing of withholding tax statements | None |
| Outsource Contract | Ma Chiu Consulting Management Co. Ltd. | Mar. 1, 2010 | Household registration transport apply | None |
| Outsource Contract | Ma Chiu Consulting Management Co. Ltd. | Apr. 24, 2010 | Household registration and financial/tax information search | None |
| Outsource Contract | SinLinYang Business Consulting Co., Ltd. | Apr. 24, 2010 | Household registration and financial/tax information search | None |

## Operational Highlights

| Nature of Contract | Concerned Parties | Contract Period | Content | Restriction on Contract |
|---|---|---|---|---|
| Outsource Contract | EVERY8D Co., LTD. | Aug. 1, 2012 | Messaging system and message delivery service | None |
| Outsource Contract | SYSTEX Corporation | June 01, 2016 | Mail Printing and Posting of Credit Card | |
| Outsource Contract | Mitake Inc. | July 01, 2017 | Messaging system and message delivery service | None |
| Outsource Contract | IBM | Jul. 01, 2011 | Credit card statement printing | None |
| Outsource Contract | Chunghwa Post Co., Ltd. Taipei Post | Aug. 01, 2012 | Printing, the credit card notification letter and aerogram | None |
| Outsource Contract | Chunghwa Post Co., Ltd. Taipei Post | Aug. 01, 2012 | Enveloping the credit card notification letter and aerogram | None |
| Outsource Contract | Chunghwa Post Co., Ltd. Taipei Post | Aug. 01, 2012 | Delivery Service | None |
| Outsource Contract | Hou Jeh Co., Ltd. | Dec. 31, 2008 | Enveloping of printed mail and delivery | None |
| Outsource Contract | Philip Morris International Taiwan | Nov. 20, 2012 | Packaging the redemptions | None |
| Outsource Contract | Philip Morris International Taiwan | Nov. 20, 2012 | Delivery the redemptions | None |
| Outsource Contract | SYSTEX Corporation | Sep. 01, 2012 | Delivery of credit card statements | None |
| Outsource Contract | SYSTEX Corporation | Jan. 01, 2016 | Delivery of credit card e-statements | None |
| Outsource Contract | Leebao Security Co., Ltd | Aug. 01, 2008 | Cash transportation | None |
| Outsource Contract | Taiwan Security Co., Ltd. | Jan. 01, 2010 | Cash transportation | None |
| Outsource Contract | Jihsun Security Co., Ltd. | Dec. 01, 2012 | Cash transportation | None |
| Outsource Contract | An Fong Enterprise Co., Ltd. | Oct. 01, 2008 | ATM banknote replenishment and troubleshooting operation | None |
| Outsource Contract | Lian-An Service Co., Ltd. | Jan. 01, 2010 | ATM banknote replenishment and troubleshooting operation | None |
| Outsource Contract | Transnational Group | Jan. 01, 2013 | Check clearing house delivery operation | None |

## Operational Highlights

| Nature of Contract | Concerned Parties | Contract Period | Content | Restriction on Contract |
|---|---|---|---|---|
| Outsource Contract | Lee & Lin Real Estate Consultant | Dec 1, 2014 | Conveyancing services | None |
| Outsource Contract | Yeah Ju-Cui Conveyancing Office | Nov. 25, 2014 | Conveyancing services | None |
| Outsource Contract | Hsin Yaun Conveyancing Office | Nov. 14, 2014 | Conveyancing services | None |
| Outsource Contract | Ja Chou Conveyancing Office | Nov. 17, 2014 | Conveyancing services | None |
| Outsource Contract | Lin Hsiu-Fan Conveyancing Office | Dec 1, 2014 | Conveyancing services | None |
| Outsource Contract | Chou Jin-Kuo Conveyancing Office | Dec 1, 2014 | Conveyancing services | None |
| Outsource Contract | Shih Chang-Chih Conveyancing Office | Nov. 25, 2014 | Conveyancing services | None |
| Outsource Contract | Lin Yin-Hui Conveyancing Office | Dec 1, 2014 | Conveyancing services | None |
| Outsource Contract | Huang Jin-Yuan Conveyancing Office | Dec 1, 2014 | Conveyancing services | None |
| Outsource Contract | Pu-Hsin Conveyancing Office | Dec 1, 2014 | Conveyancing services | None |
| Outsource Contract | Fong Tai Management Consulting Co., Ltd. | Aug. 28, 2007 | Lost car search service | None |
| Outsource Contract | Tai Ding Industrial Co., Ltd. | Aug. 28, 2007 | Lost car search service | None |
| Outsource Contract | Hong Jeh Management Consulting Co., Ltd. | Dec.01, 2009 | Lost car search service | None |
| Outsource Contract | SinJang Enterprise Co., Ltd. | Jul. 01, 2006 | Lost car resell | None |
| Outsource Contract | Yu San Automobile Co., Ltd . | May. 01, 2008 | Lost car resell | None |
| Outsource Contract | Ho Rong Co., Ltd. | Oct. 01, 2006 | Lost car resell | None |
| Outsource Contract | Justor Collection Management Co. Ltd. | Jul. 01, 2007 | Collection of receivables | None |
| Outsource Contract | YuBan Credit Management Consulting Co., Ltd. | Jul. 06, 2007 | Collection of receivables | None |

# Operational Highlights

| Nature of Contract | Concerned Parties | Contract Period | Content | Restriction on Contract |
|---|---|---|---|---|
| Outsource Contract | Sparkle Collection Management Co., Ltd | Jul. 01, 2007 | Collection of receivables | None |
| Outsource Contract | Chung Yu Credit Finance & Credit Management Co., Ltd. | Jul. 01, 2007 | Collection of receivables | None |
| Outsource Contract | E-HAO MANAGEMENT CONSULTANT LTD | Jul. 01, 2007 | Collection of receivables | None |
| Outsource Contract | Standard Finance & Credit Management Co., Ltd. | Jul. 01, 2007 | Collection of receivables | None |
| Outsource Contract | Asia Credit Management Co., Ltd. | Oct. 27, 2009 | Collection of receivables | None |
| Outsource Contract | APEX Credit Solutions Inc. | Oct. 27, 2009 | Collection of receivables | None |
| Outsource Contract | United Credit Services Ltd. | Oct. 27, 2009 | Collection of receivables | None |
| Outsource Contract | Hung Lih Asset Management Consulting Co., Ltd. | Oct. 01, 2011 | Collection of receivables | None |
| Outsource Contract | Win Trust International Asset Management Co., Ltd. | Jul. 01, 2007 | Collection of receivables | None |
| Outsource Contract | Uni-President Enterprises Corporation | Nov. 01, 2005 | Collection of consumer loan payment | None |
| Outsource Contract | Taiwan FamilyMart Co., Ltd. | Jun. 01, 2011 | Collection of consumer loan payment | None |
| Outsource Contract | Ok Mart Taiwan | Jun. 25, 2016 | Collection of credit card payment | None |
| Outsource Contract | Hi-Life International Co., Ltd | Sep. 25, 2012 | Collection of credit card payment | None |
| Outsource Contract | Taiwan FamilyMart Co., Ltd. | Jun. 01, 2011 | Collection of credit card payment | None |
| Full Authorization Contract in Security Investment | Yuanta Securities Investment Trust Co., Ltd. | Feb 08, 2018 to Feb 07, 2019 | Conducting security investment with full authorization in accordance with Article 74-1 of the Banking Act | None |

| Nature of Contract | Concerned Parties | Contract Period | Content | Restriction on Contract |
|---|---|---|---|---|
| Full Authorization Contract in Security Investment | Union Securities Investment Trust Co., Ltd. | Feb 08 2018 to Feb 07, 2019 | Conducting security investment with full authorization in accordance with Article 74-1 of the Banking Act | None |
| Other major contracts | Stark Technology, Inc. | Oct. 15,2018 | Anti-money laundering and combating terrorist financing system for bank | None |
| Other major contracts | Dow Jones Factiva Limited | Jul. 25, 2018 | Name scanning database | None |

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

# Financial Highlights

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

### (1) Condensed Consolidated Balance Sheets - IFRS

In NT$ thousand

| Item \ Year | Financial Data for the Past Five Years (Note 1) | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Cash and equivalent, due from the Central Bank and other banks | 76,850,501 | 71,659,720 | 65,385,579 | 31,317,157 | 43,277,365 |
| Financial assets at fair value through profit or loss | 18,614,020 | 9,058,815 | 9,538,090 | 12,136,325 | 36,709,925 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 33,393,507 |
| Investments in debt instruments at amortized cost | - | - | - | - | 94,149,872 |
| Available-for-sale financial assets | 13,974,008 | 23,319,718 | 39,978,425 | 35,489,633 | - |
| Hedging derivative financial instruments | - | - | - | - | - |
| Securities purchased under resell agreements | 26,371,487 | 22,072,191 | 27,855,242 | 28,234,334 | 68,480,765 |
| Receivable-Net | 14,781,594 | 15,217,776 | 17,888,230 | 17,751,420 | 18,131,482 |
| Current Tax asset | 332,275 | 322,660 | 186,231 | 52,134 | 81,020 |
| Available-for-sale asset-Net | - | - | - | - | - |
| Discounts & Loans-Net | 255,787,180 | 278,801,052 | 282,416,950 | 316,728,989 | 325,015,686 |
| Held-to-maturity financial asset | 534,200 | 4,207,436 | 7,192,115 | 51,285,957 | 0 |
| Equity Investment(Equity Method)- Net | 54,183 | 53,794 | 53,447 | 53,121 | 1,623,462 |
| Restricted assets | - | - | - | - | - |
| Other financial asset – Net | 56,835,380 | 61,133,831 | 57,403,743 | 48,267,839 | 2,301,648 |
| Property and equipment- Net | 7,732,876 | 7,723,438 | 8,156,305 | 8,081,729 | 8,007,495 |
| Investment property-Net | 3,691,781 | 3,703,410 | 5,415,376 | 5,284,434 | 5,398,908 |
| Intangible asset –Net | 2,050,999 | 2,144,240 | 2,167,730 | 2,169,444 | 2,162,961 |
| Deferred tax asset-Net | 2,407,704 | 1,886,538 | 1,447,039 | 1,172,974 | 791,550 |
| Other asset | 6,463,385 | 7,184,578 | 7,622,068 | 7,590,797 | 8,060,448 |
| Total asset | 486,481,573 | 508,489,197 | 532,706,570 | 565,616,287 | 647,586,094 |
| Due to the central bank and other banks | 6,748,799 | 3,781,976 | 8,389,312 | 9,249,185 | 12,111,895 |
| Call loans to the central banks and other banks | - | - | - | - | - |

# Financial Highlights

| Year / Item | | Financial Data for the Past Five Years（Note 1） | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Financial liability at fair value through profit or loss | | 211,084 | 54,271 | 39,523 | 183,384 | 307,799 |
| Hedging derivative financial instruments | | - | - | - | - | - |
| Securities sold under repurchase agreements | | 31,791,276 | 26,986,936 | 28,874,137 | 30,273,976 | 44,334,388 |
| Payable | | 5,567,108 | 4,061,998 | 6,981,464 | 7,108,824 | 7,013,422 |
| Current Income Tax liability | | 9,849 | 49,618 | 97,549 | 77,173 | 41,221 |
| Liabilities directly associated with assets held for sale | | - | - | - | - | - |
| Deposit and remittance | | 395,852,404 | 421,018,106 | 431,618,915 | 449,049,470 | 513,918,075 |
| Bank debentures | | 7,400,000 | 10,204,397 | 12,335,884 | 13,109,598 | 11,180,976 |
| Liability component of preferred stocks | | - | - | - | - | - |
| Other financial liability | | 2,517,176 | 2,679,438 | 4,235,138 | 4,291,441 | 4,089,464 |
| Provision | | 959,941 | 1,044,534 | 189,572 | 182,262 | 262,482 |
| Deferred tax liability | | 707,731 | 881,731 | 834,410 | 937,196 | 1,269,570 |
| Other liability | | 2,409,132 | 2,575,775 | 2,892,210 | 2,967,213 | 2,998,047 |
| Total liability | Before dilution | 454,174,500 | 473,338,780 | 496,488,114 | 517,429,722 | 597,527,339 |
| | After dilution | 454,811,742 | 474,380,841 | 497,660,433 | 518,562,523 | Note 2 |
| Total equity attributable to owners of parent | | 32,038,122 | 34,890,164 | 35,949,316 | 47,918,675 | 49,813,029 |
| Capital stock | Before dilution | 24,509,306 | 26,051,524 | 26,051,524 | 28,051,524 | 28,900,129 |
| | After dilution | 25,979,865 | 26,051,524 | 26,051,524 | 28,833,070 | Note 2 |
| Capital surplus | | 33,006 | 32,413 | 32,413 | 8,032,413 | 8,032,413 |
| Retained earnings | Before dilution | 6,126,910 | 7,087,950 | 8,673,248 | 10,254,481 | 11,220,664 |
| | After dilution | 4,019,109 | 6,045,889 | 7,500,929 | 8,340,134 | Note 2 |
| Others equity | | 1,368,900 | 1,718,277 | 1,192,131 | 1,580,257 | 1,659,823 |
| Treasury Stock | | - | - | - | - | - |
| Non control Interest | | 268,951 | 260,253 | 269,140 | 267,890 | 245,726 |
| Total equity | Before dilution | 32,307,073 | 35,150,417 | 36,218,456 | 48,186,565 | 50,058,755 |
| | After dilution | 31,669,831 | 34,108,356 | 35,046,137 | 47,053,764 | Note 2 |

Note 1: All financial data has been audited by independent auditors.
Note 2: The 2019 annual general shareholders' meeting has yet to be held. As such, the amount after appropriation for 2018 was not provided.

# Financial Highlights

## （2）Condensed Individual Balance Sheet-IFRS

In NT$ thousand

| Item \ Year | Financial Data for the Past Five Year（Note 1） | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015(Reedit) | 2016 | 2017 | 2018 |
| Cash and equivalent, due from the Central Bank and other banks | 76,737,109 | 71,152,509 | 64,389,151 | 29,937,036 | 41,940,353 |
| Financial assets at fair value through profit or loss | 18,373,136 | 8,815,810 | 9,291,613 | 11,852,723 | 36,355,695 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 33,118,474 |
| Investments in debt instruments at amortized cost | - | - | - | - | 94,149,872 |
| Available-for-sale financial assets | 13,699,485 | 22,911,977 | 39,548,602 | 35,183,406 | - |
| Hedging derivative financial instruments | - | - | - | - | - |
| Securities purchased under resell agreements | 26,350,581 | 22,052,189 | 27,845,242 | 28,215,334 | 68,467,365 |
| Receivable-Net | 14,678,252 | 15,141,449 | 17,768,361 | 17,627,438 | 17,870,713 |
| Current Tax asset | 326,786 | 316,861 | 183,591 | 46,909 | 73,563 |
| Available-for-sale asset-Net | - | - | - | - | - |
| Discounts & Loans-Net | 257,632,121 | 280,781,558 | 284,040,723 | 318,624,348 | 326,837,853 |
| Held-to-maturity financial asset | 521,266 | 4,191,245 | 7,192,115 | 51,285,957 | - |
| Equity Investment(Equity Method)-Net | 2,616,318 | 2,758,367 | 2,910,889 | 2,981,366 | 4,725,795 |
| Restricted assets | - | - | - | - | - |
| Other financial asset – Net | 56,639,357 | 60,969,196 | 56,620,906 | 48,100,741 | 2,204,959 |
| Property and equipment- Net | 7,722,206 | 7,713,726 | 8,136,374 | 8,061,615 | 7,982,503 |
| Investment property-Net | - | - | - | - | - |
| Intangible asset –Net | 2,046,198 | 2,140,281 | 2,164,516 | 2,162,835 | 2,154,587 |
| Deferred tax asset-Net | 2,245,936 | 1,750,150 | 1,307,570 | 1,019,583 | 634,777 |
| Other asset | 1,962,732 | 2,193,401 | 2,230,774 | 2,102,313 | 2,490,419 |
| Total asset | 481,551,483 | 502,888,719 | 523,630,427 | 557,201,604 | 639,006,928 |
| Due to the central bank and other banks | 6,164,744 | 3,163,991 | 7,017,629 | 8,961,290 | 11,389,841 |
| Call loan to the central bank and other banks | - | - | - | - | - |

# Financial Highlights

| Item \ Year | | Financial Data for the Past Five Year（Note 1） | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015(Reedit) | 2016 | 2017 | 2018 |
| Financial liability at fair value through profit or loss | | 211,084 | 54,271 | 38,430 | 183,611 | 307,799 |
| Hedging derivative financial instrument | | - | - | - | - | - |
| Securities sold under repurchase agreements | | 31,791,276 | 26,986,936 | 28,874,137 | 30,273,976 | 44,334,388 |
| Payable | | 5,456,071 | 4,037,153 | 6,889,250 | 7,005,686 | 6,912,587 |
| Current Income Tax liability | | - | 32,955 | 64,784 | 70,008 | 24,379 |
| Liabilities directly associated with assets held for sale | | - | - | - | - | - |
| Deposit and remittance | | 396,410,432 | 421,746,026 | 432,062,824 | 449,412,119 | 514,386,800 |
| Bank debentures | | 7,400,000 | 9,600,000 | 11,200,000 | 11,700,000 | 9,700,000 |
| Liability component of preferred stocks | | - | - | - | - | - |
| Other financial liability | | 18,928 | 20,408 | 19,566 | 21,720 | 11,825 |
| Provision | | 942,785 | 1,026,155 | 176,554 | 171,759 | 252,949 |
| Deferred tax liability | | 699,730 | 869,197 | 815,251 | 911,524 | 1,228,719 |
| Other liability | | 418,311 | 461,463 | 522,686 | 571,236 | 644,612 |
| Total liability | Before dilution | 449,513,361 | 467,998,555 | 487,681,111 | 509,282,929 | 589,193,899 |
| | After dilution | 450,150,603 | 469,040,616 | 488,853,430 | 510,415,730 | Note 2 |
| Capital stock | Before dilution | 24,509,306 | 26,051,524 | 26,051,524 | 28,051,524 | 28,900,129 |
| | After dilution | 25,979,865 | 26,051,524 | 26,051,524 | 28,833,070 | Note 2 |
| Capital surplus | | 33,006 | 32,413 | 32,413 | 8,032,413 | 8,032,413 |
| Retained earning | Before dilution | 6,126,910 | 7,087,950 | 8,673,248 | 10,254,481 | 11,220,664 |
| | After dilution | 4,019,109 | 6,045,889 | 7,500,929 | 8,340,134 | Note 2 |
| Other equity | | 1,368,900 | 1,718,277 | 1,192,131 | 1,580,257 | 1,659,823 |
| Treasury stock | | - | - | - | - | - |
| Total equity | Before dilution | 32,038,122 | 34,890,164 | 35,949,316 | 47,918,675 | 49,813,029 |
| | After dilution | 31,400,880 | 33,848,103 | 34,776,997 | 46,785,874 | Note 2 |

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

Note 2: The 2019 annual general shareholders’ meeting has yet to be held. As such, the amount after appropriation for 2018 was not provided.

# Financial Highlights

## （3）Condensed Consolidated Comprehensive Income Statement - IFRS

In NT$ thousand

| YEAR / Item | Financial Data for the past five years（Note） | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Interest Revenue | 9,516,680 | 10,098,167 | 10,014,337 | 10,268,804 | 10,987,708 |
| Less: interest expense | 3,730,345 | 4,013,743 | 3,709,965 | 3,677,756 | 4,285,920 |
| Net interest | 5,786,335 | 6,084,424 | 6,304,372 | 6,591,048 | 6,701,788 |
| Net revenue others than interest | 5,148,606 | 5,656,298 | 5,707,288 | 5,880,317 | 6,030,533 |
| Total net revenue | 10,934,941 | 11,740,722 | 12,011,660 | 12,471,365 | 12,732,321 |
| Provision reversal of allowance for doubtful accounts | (494,806) | (113,942) | 171,542 | 356,861 | 293,579 |
| Operating expense | 7,691,951 | 8,014,400 | 8,529,331 | 8,727,933 | 8,962,158 |
| Income before income tax | 3,737,796 | 3,840,264 | 3,310,787 | 3,386,571 | 3,476,584 |
| Income tax (expense) revenue | (614,311) | (701,340) | (649,166) | (620,536) | (521,583) |
| Income after income tax | 3,123,485 | 3,138,924 | 2,661,621 | 2,766,035 | 2,955,001 |
| Discontinue segment profit/ loss | - | - | - | - | - |
| Net income | 3,123,485 | 3,138,924 | 2,661,621 | 2,766,035 | 2,955,001 |
| Other comprehensive income after tax | 470,169 | 298,867 | (535,336) | 396,819 | (412,950) |
| Total comprehensive income | 3,593,654 | 3,437,791 | 2,126,285 | 3,162,854 | 2,542,051 |
| Net income attributable to owners of bank | 3,093,795 | 3,120,902 | 2,636,375 | 2,744,987 | 2,956,724 |
| Net income attributable to Non-controlling interests | 29,690 | 18,022 | 25,246 | 21,048 | (1,723) |
| Net profit attributable to owners of bank | 3,564,000 | 3,419,774 | 2,101,213 | 3,141,678 | 2,544,240 |
| Net profit attributable to Non-controlling interests | 29,654 | 18,017 | 25,072 | 21,176 | (2,189) |
| Earnings per share | $1.19 | $1.20 | $1.01 | $1.02 | $1.07 |

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

# Financial Highlights

## （4）Condensed Individual Comprehensive Income Statement - IFRS

In NT$ thousand

| Year / Item | Financial Data for The Past Five years（Note） | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015(Reedit) | 2016 | 2017 | 2018 |
| Interest Revenue | 9,548,551 | 10,129,151 | 10,051,894 | 10,298,904 | 11,016,864 |
| less: Interest Expense | 3,681,523 | 3,958,924 | 3,653,016 | 3,613,710 | 4,225,103 |
| Net Interest | 5,867,028 | 6,170,227 | 6,398,878 | 6,685,194 | 6,791,761 |
| Net revenues others than interest | 2,982,487 | 3,635,663 | 3,508,315 | 3,602,533 | 3,779,951 |
| Total net revenue | 8,849,515 | 9,805,890 | 9,907,193 | 10,287,727 | 10,571,712 |
| Provision reversal of allowance for doubtful accounts | (494,806) | (113,942) | 171,542 | 356,861 | 291,985 |
| Operating expenses | 5,668,767 | 6,156,689 | 6,509,173 | 6,617,616 | 6,842,702 |
| Income before income tax | 3,675,554 | 3,763,143 | 3,226,478 | 3,313,250 | 3,437,025 |
| Income tax revenue(expense) | (581,759) | (642,241) | (590,103) | (568,263) | (480,301) |
| Income after income tax | 3,093,795 | 3,120,902 | 2,636,375 | 2,744,987 | 2,956,724 |
| Discontinue segment profit | - | - | - | - | - |
| Net income | 3,093,795 | 3,120,902 | 2,636,375 | 2,744,987 | 2,956,724 |
| Other comprehensive income after tax | 470,205 | 298,872 | (535,162) | 396,691 | (412,484) |
| Total comprehensive income | 3,564,000 | 3,419,774 | 2,101,213 | 3,141,678 | 2,544,240 |
| Earnings per share | $1.19 | $1.20 | $1.01 | $1.02 | $1.07 |

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

# Financial Highlights

### (5) Name of CPAs and the Auditors' Opinion

| Year | CPA Firm | Independent Auditors | Audit Opinion |
|---|---|---|---|
| 2012 | Deloitte & Touche | Terence Huang /Vincent Cheng | Unqualified opinion |
| 2013 | Deloitte & Touche | Terence Huang /Vincent Cheng | Unqualified opinion |
| 2014 | Deloitte & Touche | Terence Huang /Vincent Cheng | Unqualified opinion |
| 2015 | Deloitte & Touche | Terence Huang /Vincent Cheng | Unqualified opinion |
| 2016 | Deloitte & Touche | Charels Yang /Vincent Cheng | Unqualified opinion |
| 2017 | Deloitte & Touche | Charels Yang /Vincent Cheng | Unqualified opinion |
| 2018 | Deloitte & Touche | Charels Yang /Vincent Cheng | Unqualified opinion |

## 2. Financial Analysis and Capital Adequacy Ratio

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

A. Consolidated Financial Report.

In NT$ thousand

| Item(Note2) \ Year | | Financial Data for the Past Five Years (Note1) | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating capability | Loans to deposits ratio (%) | 65.27 | 66.89 | 66.18 | 71.31 | 64.03 |
| | Non-performing loan ratio (%) | 0.09 | 0.05 | 0.10 | 0.12 | 0.12 |
| | Interest expense to average total deposits (%) | 0.85 | 0.86 | 0.73 | 0.66 | 0.69 |
| | Interest revenue to average total loans (%) | 2.40 | 2.36 | 2.17 | 2.08 | 2.15 |
| | Total asset turnover (times) | 0.0236 | 0.0236 | 0.0231 | 0.0227 | 0.0210 |
| | Average net income per employee | 3,014 | 3,061 | 3,085 | 3,141 | 3,160 |
| | Average earnings per employee | 861 | 818 | 684 | 697 | 733 |
| Profitability | Return on tier 1 capital (%) | 15.04 | 14.00 | 10.91 | 8.88 | 7.80 |
| | Return on assets (%) | 0.67 | 0.63 | 0.51 | 0.50 | 0.49 |
| | Return on equity (%) | 10.24 | 9.31 | 7.46 | 7.44 | 7.28 |
| | Net income ratio (%) | 28.56 | 26.74 | 22.16 | 22.18 | 23.21 |
| | EPS (NT$) | 1.19 | 1.20 | 1.01 | 1.02 | 1.07 |
| Financial Structure | Total liabilities to total assets ratio (%) | 93.32 | 93.05 | 93.18 | 91.46 | 92.24 |
| | Fixed assets to shareholders' equity ratio (%) | 23.94 | 21.97 | 22.52 | 16.77 | 16.00 |
| Growth rate | Asset growth ratio (%) | 10.53 | 4.52 | 4.76 | 6.18 | 14.49 |
| | Profitability growth ratio (%) | 9.67 | 2.74 | (13.79) | 2.29 | 2.66 |
| Cash Flow | Cash flow ratio (%) | 11.5 | - | 3.45 | - | 86.32 |
| | Cash flow adequacy ratio (%) | 214.41 | 115.75 | 78.95 | 99.12 | 1,093.33 |
| | Cash flow reinvestment ratio (%) | 192.64 | - | 34.71 | - | 1,401.87 |
| Liquid Reserve Ratio (%) | | 23.38 | 20.69 | 20.79 | 20.65 | 28.35 |
| Balance of Secured Loans to Related Parties | | 1,781,537 | 2,357,291 | 2,235,592 | 1,259,684 | 1,240,019 |
| Total Secured Loans to Related Parties as a % of Total Loans | | 0.65 | 0.80 | 0.75 | 0.37 | 0.36 |
| Operation Scale | Market share of asset (%) | 0.99 | 1.00 | 1.02 | 1.04 | 1.14 |
| | Market share of net worth (%) | 1.03 | 1.03 | 1.00 | 1.28 | 1.25 |
| | Market share of deposits (%) | 1.08 | 1.09 | 1.08 | 1.08 | 1.21 |
| | Market share of loans (%) | 1.10 | 1.16 | 1.14 | 1.22 | 1.19 |

# Financial Highlights

Reason of ration change: The increase in Cash Flow Adequacy Ratio is mainly due to the increase in deposits.

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

Note 2: Financial ratios are computed as follows:

I. Operating Capability
   i. Loans to deposits ratio= Total loans/ total deposits (excluding redeposits of Chunghwa Post Co.)
   ii. Non-performing loan ratio= Total NPL/ total loans
   iii. Interest expense to average total deposits= Deposits related interest expense/ average total deposits
   iv. Interest revenue to average total loans= Loans related interest revenue/ average total loans
   v. Total asset turnover= Net operating revenue/ average total assets
   vi. Average net income per employee (Note 6) = Net operating revenue/ total number of employees.
   vii. Average earnings per employee= Net income after tax/ total number of employees.

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

III. Financial structure
   i. Total liabilities to total assets ratio=Total liabilities (Note 3) / total assets.
   ii. Fixed assets and equipment to net worth ratio=Fixed assets and equipment, net/shareholders' equity, net.

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

V. Cash flow (Note 7)
   i. Cash flow ratio=Net cash from operating activities/(call loans to banks+ CD payable＋change in fair value of financial liabilities through the income statement＋repurchase securities payable＋Liabilities-current portion due within one year).
   ii. Cash flow adequacy ratio=Net cash from operating activities for the past five years/(capital expenditure＋cash dividends) incurred for the past 5 years.
   iii. Cash flow reinvestment ratio=Net cash from operating activities/net cash from investing activities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Financial Highlights

(B) Financial Analysis – Financial Report

In NT$ thousand

| Item(Note2) \ Year | | Financial Data for the Past Five Years (Note1) | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating capability | Loans to deposits ratio (%) | 65.65 | 67.24 | 66.49 | 71.68 | 64.32 |
| | Non-performing loan ratio (%) | 0.09 | 0.05 | 0.10 | 0.12 | 0.12 |
| | Interest expense to average total deposits (%) | 0.85 | 0.86 | 0.73 | 0.66 | 0.69 |
| | Interest revenue to average total loans (%) | 2.40 | 2.36 | 2.17 | 2.08 | 2.15 |
| | Total asset turnover (times) | 0.0193 | 0.0199 | 0.0193 | 0.0190 | 0.0177 |
| | Average net income per employee | 2,693 | 2,745 | 2,729 | 2,780 | 2,813 |
| | Average earnings per employee | 942 | 874 | 726 | 742 | 787 |
| Profitability | Return on tier 1 capital (%) | 14.72 | 13.70 | 10.64 | 8.71 | 7.73 |
| | Return on assets (%) | 0.67 | 0.63 | 0.51 | 0.51 | 0.49 |
| | Return on equity (%) | 10.23 | 9.33 | 7.44 | 7.43 | 7.33 |
| | Net income ratio (%) | 34.96 | 31.83 | 26.61 | 26.68 | 27.97 |
| | EPS (NT$) | 1.19 | 1.20 | 1.01 | 1.02 | 1.07 |
| Financial Structure | Total liabilities to total assets ratio (%) | 93.31 | 93.02 | 93.11 | 91.38 | 92.17 |
| | Fixed assets to shareholders' equity ratio (%) | 24.10 | 22.11 | 22.63 | 16.82 | 16.02 |
| Growth rate | Asset growth ratio (%) | 10.33 | 4.43 | 4.12 | 6.41 | 14.68 |
| | Profitability growth ratio (%) | 10.09 | 2.38 | (14.26) | 2.69 | 3.74 |
| Cash Flow | Cash flow ratio (%) | 8.27 | - | - | - | 84.52 |
| | Cash flow adequacy ratio (%) | 892.03 | 364.19 | 92.41 | 81.05 | 1,029.33 |
| | Cash flow reinvestment ratio (%) | 1159.37 | - | - | - | 2,380.43 |
| Liquid Reserve Ratio (%) | | 23.38 | 20.69 | 20.79 | 20.65 | 28.35 |
| Balance of Secured Loans to Related Parties | | 3,626,478 | 4,337,797 | 3,859,365 | 3,155,043 | 3,062,186 |
| Total Secured Loans to Related Parties as a % of Total Loans | | 1.32 | 1.47 | 1.29 | 0.94 | 0.88 |
| Operation Scale | Market share of asset (%) | 0.98 | 0.99 | 1.00 | 1.02 | 1.13 |
| | Market share of net worth (%) | 1.02 | 1.02 | 1.00 | 1.27 | 1.24 |
| | Market share of deposits (%) | 1.08 | 1.09 | 1.08 | 1.08 | 1.21 |
| | Market share of loans (%) | 1.11 | 1.17 | 1.14 | 1.22 | 1.20 |

# Financial Highlights

Reason of ration change: The increase in Cash Flow Adequacy Ratio is mainly due to the increase in deposits.

Note 1: All financial data for the most recent two years was audited by CPA.
Note 2: Financial ratios are computed as follows:

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

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

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

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

V. Cash flow (Note 7)
Cash flow ratio=Net cash from operating activities/(call loans to banks+ CD payable＋change in fair value of financial liabilities through the income statement＋repurchase securities payable＋Liabilities-current portion due within one year).
Cash flow adequacy ratio=Net cash from operating activities for the past five years/(capital expenditure＋cash dividends) incurred for the past 5 years.
Cash flow reinvestment ratio=Net cash from operating activities/net cash from investing activities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Financial Highlights**

(2) Capital Adequacy

(Unconsolidated)

In NT$ thousand

| Item | | Year(Note1) | Capital Adequacy Ratio for the Past Five Years (Note2) | | | | | Capital Adequacy Ratio as of the current year |
|---|---|---|---|---|---|---|---|---|
| | | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Regulatory Capital | Common Stock Equity | | 26,380,471 | 28,573,380 | 30,419,225 | 31,867,478 | 33,172,535 | As of the date of publication of the annual report, the recent information (2018) certified or audited by the CPA has been presented in the left column and does not need to be disclosed again. |
| | Other Tier1 Capital of Non- Common Stock Equity | | 0 | 0 | 1,664,565 | 12,146,864 | 11,720,972 | |
| | Tier2 Capital | | 6,462,888 | 7,817,292 | 6,851,336 | 5,726,391 | 4,310,985 | |
| | Regulatory Capital | | 32,843,359 | 36,390,672 | 38,935,126 | 49,740,733 | 49,204,492 | |
| Risk Weighted Assets | Credit risk | Standardized Approach | 214,767,222 | 232,370,458 | 248,197,971 | 262,292,427 | 289,940,083 | |
| | | Internal Ratings-Based Approach | | | | | | |
| | | Credit Valuation Adjustment (CVA) | 8,416 | 14,776 | 8,583 | 25,735 | 29,221 | |
| | | Asset Securitization | 1,262,627 | 1,227,133 | 919,153 | 11,794,762 | 2,343,167 | |
| | Operation risk | Basic Indicator Approach | 15,555,738 | 16,711,475 | 17,384,500 | 17,986,588 | 18,656,113 | |
| | | Standardized Approach/ Alternative Standardized Approach | | | | | | |
| | | Advanced Measurement Approach | | | | | | |
| | Market Risk | Standardized Approach | 17,206,850 | 25,658,013 | 22,483,575 | 24,757,659 | 32,534,371 | |
| | | Internal Model Approach | - | - | - | - | - | |
| | Total Risk-weighted Assets | | 248,800,853 | 275,981,855 | 288,993,781 | 316,857,171 | 343,502,955 | |
| Capital Adequacy Ratio | | | 13.20% | 13.19% | 13.47% | 15.70% | 14.32% | |
| Ratio of tier 1 capital to risk-weighted assets | | | 10.60% | 10.35% | 11.10% | 13.89% | 13.07% | |
| Ratio of common stock equity to risk-weighted assets | | | 10.60% | 10.35% | 10.53% | 10.06% | 9.66% | |
| Leverage Ratio | | | | 5.28% | 5.68% | 7.30% | 6.48% | |

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

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

Note3: The ratios are computed as follows:

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

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

Note 5: The disclosure of leverage ratio since 2015.

# Financial Highlights

(Consolidated)

In NT$ thousand

| Item | | Year(Note1) | Capital Adequacy Ratio for the Past Five Years (Note2) | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Regulatory Capital | Common Stock Equity | | 26,284,281 | 28,573,960 | 29,751,735 | 31,226,900 | 32,575,667 |
| | Other Tier1 Capital of Non- Common Stock Equity | | 0 | 0 | 2,378,925 | 12,878,925 | 12,496,555 |
| | Tier2 Capital | | 9,094,428 | 10,537,483 | 9,629,432 | 8,534,948 | 7,313,533 |
| | Regulatory Capital | | 35,378,709 | 39,111,443 | 41,760,092 | 52,640,773 | 52,385,755 |
| Risk Weighted Assets | Credit risk | Standardized Approach | 222,034,638 | 240,005,077 | 258,435,318 | 271,952,498 | 299,979,309 |
| | | Internal Ratings-Based Approach | | | | | |
| | | Credit Valuation Adjustment (CVA) | 8,416 | 14,776 | 8,583 | 25,735 | 29,221 |
| | | Asset Securitization | 1,262,627 | 1,227,133 | 919,153 | 11,794,762 | 2,343,167 |
| | Operation risk | Basic Indicator Approach | 17,986,163 | 19,034,288 | 19,969,925 | 20,976,363 | 22,156,450 |
| | | Standardized Approach/ Alternative Standardized Approach | | | | | |
| | | Advanced Measurement Approach | | | | | |
| | Market Risk | Standardized Approach | 18,233,988 | 26,975,300 | 23,893,763 | 25,883,018 | 33,506,790 |
| | | Internal Model Approach | - | - | - | - | - |
| | Total Risk-weighted Assets | | 259,525,832 | 287,256,574 | 303,226,742 | 330,632,376 | 358,014,937 |
| Capital Adequacy Ratio | | | 13.63% | 13.62% | 13.77% | 15.92% | 14.63% |
| Ratio of tier 1 capital to risk-weighted assets | | | 10.13% | 9.95% | 10.60% | 13.34% | 12.59% |
| Ratio of common stock equity to risk-weighted assets | | | 10.13% | 9.95% | 9.81% | 9.44% | 9.10% |
| Leverage Ratio | | | | 5.21% | 5.57% | 7.21% | 6.42% |

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

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

Note3: The ratios are computed as follows:

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

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

Note 5: The disclosure of leverage ratio since 2015.

### 3. Supervisors' Report for the 2018 Financial Statements

Union Bank of Taiwan Co., Ltd.

Audit Committee's Report

The Board of Directors of the Bank has prepared and submitted the 2018 Business Report, Financial Statements (Including Balance Sheet, Income Statement, Statement of Shareholders' Equity, Statement of Cash Flows), and proposal for allocating profits, of which, the Financial statements (including consolidated statements of subsidiaries) have been audited by CPA Mr. Vincent Cheng and Mr. Charles Yang of Deloitte & Touche. The above Business Report, Financial Statements and proposal have been further determined to be correct and accurate by the supervisors. Hence, according to Article 14-4 and Article 219 of the Company Act, we hereby submit this report.

Union Bank of Taiwan Co., Ltd.

Convener of Audit Committee：Guo-Zhang Li

March 13, 2019

**4. Financial Statements for 2018:** Please refer to Appendix.

**5. 2018 Individual Financial Statements for certified and audited by the CPA:** Please refer to Appendix.

**6. Any Financial Difficulties Experienced by the Bank and its Affiliated Enterprises in the Past Year and Current Year up to the Printing Date of the Annual Report, if yes, please narrate the impact upon the Bank's financial conditions:** None.

# Analysis of the Financial Status and Operating Results & Risk Management

## 1. Financial Status

In NT$ thousand

| Item \ Year | Dec. 31, 2018 | Dec. 31, 2017 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Cash & cash equivalent, Due from Central Bank and other banks (note 1) | 43,277,365 | 31,317,157 | 11,960,208 | 38.19 |
| Financial assets at fair value through profit or loss | 36,709,925 | 12,136,325 | 24,573,600 | 202.48 |
| | 33,393,507 | - | 33,393,507 | - |
| | 94,149,872 | - | 94,149,872 | - |
| Securities purchased under re-sale agreements | 68,480,765 | 28,234,334 | 40,246,431 | 142.54 |
| Account receivable – net | 18,131,482 | 17,751,420 | 380,062 | 2.14 |
| Current income tax asset (note 2) | 81,020 | 52,134 | 28,886 | 55.41 |
| Discount & loans – net | 325,015,686 | 316,728,989 | 8,286,697 | 2.62 |
| Financial assets available for sale – net | - | 35,489,633 | (35,489,633) | (100.00) |
| Held-to-maturity investment financial asset (note 3) | - | 51,285,957 | (51,285,957) | (100.00) |
| Stock investments accounted for under the Equity Method | 1,623,462 | 53,121 | 1,570,341 | 2,956.16 |
| Other Financial Assets - net | 2,301,648 | 48,267,839 | (45,966,191) | (95.23) |
| Property & equipment – net | 8,007,495 | 8,081,729 | (74,234) | (0.92) |
| Investment property-net | 5,398,908 | 5,284,434 | 114,474 | 2.17 |
| Intangibles | 2,162,961 | 2,169,444 | (6,483) | (0.30) |
| Due to Central Bank & other banks | 791,550 | 1,172,974 | (381,424) | (32.52) |
| Other assets | 8,060,448 | 7,590,797 | 469,651 | 6.19 |
| Total assets | 647,586,094 | 565,616,287 | 81,969,807 | 14.49 |
| Due to Central Bank & other banks | 12,111,895 | 9,249,185 | 2,862,710 | 30.95 |
| Financial liability at fair value through profit or loss (note 4) | 307,799 | 183,384 | 124,415 | 67.84 |
| Securities sold under re-purchase agreement | 44,334,388 | 30,273,976 | 14,060,412 | 46.44 |
| Accounts Payable | 7,013,422 | 7,108,824 | (95,402) | (1.34) |
| Current income tax liabilities | 41,221 | 77,173 | (35,952) | (46.59) |
| Deposit & remittance | 513,918,075 | 449,049,470 | 64,868,605 | 14.45 |
| Bank debentures | 11,180,976 | 13,109,598 | (1,928,622) | (14.71) |
| Other financial liability | 4,089,464 | 4,291,441 | (201,977) | (4.71) |
| Provision | 262,482 | 182,262 | 80,220 | 44.01 |
| Deferred income tax liabilities | 1,269,570 | 937,196 | 332,374 | 35.46 |

# Analysis of the Financial Status and Operating Results & Risk Management

| Item \ Year | Dec. 31, 2018 | Dec. 31, 2017 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Other liabilities | 2,998,047 | 2,967,213 | 30,834 | 1.04 |
| Total liabilities | 597,527,339 | 517,429,722 | 80,097,617 | 15.48 |
| Capital stock | 28,900,129 | 28,051,524 | 848,605 | 3.03 |
| Capital surplus (note 5) | 8,032,413 | 8,032,413 | - | - |
| Retained earnings | 11,220,664 | 10,254,481 | 966,183 | 9.42 |
| Others equity | 1,659,823 | 1,580,257 | 79,566 | 5.04 |
| Total equity attributable to owners of the Bank | 49,813,029 | 47,918,675 | 1,894,354 | 3.95 |
| Non control interest | 245,726 | 267,890 | (22,164) | (8.27) |
| Total Equity | 50,058,755 | 48,186,565 | 1,872,190 | 3.89 |

Notes:

1. Cash and cash equivalents, due to the Central Bank and other banks: The increase was in deposit reserve and due from other banks
2. Financial instruments at fair value through profit or loss: The increase was due to investment of commercial paper.
3. The adoption of IFRS 9 for reclassification of financial assets as from 2018.
4. Investment accounted for using the equity method-net: Addition of Investment in LINE BIZ+ TAIWAN LIMITED.
5. Due from the Central Bank and other banks: Due from Chunghwa Post Co., Ltd., and due from other banks.

## 2. Results of Operation

In NT$ thousand

| Item | 2018 | 2017 | Change in Amount | Change in % |
|---|---|---|---|---|
| | Amount | Amount | | |
| Interest Income | 6,701,788 | 6,591,048 | 110,740 | 1.68 |
| Income other than Interest Income | 6,030,533 | 5,880,317 | 150,216 | 2.55 |
| Reversal of Bad debt expense (note 1) | 293,579 | 356,861 | (63,282) | (17.73) |
| Operating expense | 8,962,158 | 8,727,933 | 234,225 | 2.68 |
| Income (loss) before tax | 3,476,584 | 3,386,571 | 90,013 | 2.66 |
| Income tax benefits (expense) | 521,583 | 620,536 | (98,953) | (15.95) |
| Consolidated income | 2,955,001 | 2,766,035 | 188,966 | 6.83 |
| Other comprehensive income, net of income tax (note 2) | (412,950) | 396,819 | (809,769) | (204.07) |
| Total comprehensive income | 2,542,051 | 3,162,854 | (620,803) | (19.63) |

Notes of change:
Other comprehensive income (after-tax): Increase of valuation loss on debt instruments measured at fair value through other comprehensive income

## 3. Cash Flow

(1) Cash Flow Analysis for the Past Two Years

In NT$ thousand

| Item \ Year | 2018 | 2017 | Change in % |
|---|---|---|---|
| Cash flow ratio (%) | 86.32% | - | 86.32% |
| Cash flow adequacy ratio (%) | 1,093.33% | 99.12% | 994.21% |
| Cash flow satisfaction ratio (%) | 1,401.87% | - | 1,401.87% |
| The rise of cash flow ratio was due to the increase of deposits.. | | | |

(2) Liquidity Analysis for the Next Year

In NT$ thousand

| Opening balance of cash ① | Expected cash inflows (outflows) from operating activities ② | Total expected cash inflows (outflows) ③ | Expected cash surplus (deficit) ①+②+③ | Corrective measures for cash Deficiency | |
|---|---|---|---|---|---|
| | | | | Investment Plan | Financing Plan |
| 88,821,151 | 1,041,623 | 291,000 | 90,153,774 | - | - |

Cash flow analysis:

1. Operating activities: The increase was due to the growth of operating activities.
2. Investing and financing activities: The increase was due to the issuance of subordinated debt and the increase of reinvestment
3. Measures to finance cash deficiency and liquidity analysis: None.

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

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

(1) Reinvestment Policy

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

(2) The Main Reasons for Profit or Loss

The Bank's Investment profit recognized in 2018 totaling NT$ 96.6 million and the main items recognized are the operating profit and cash dividend income of the reinvestment business.

(3) Improvement Plan

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

(4) Investment Plan for the Next Year

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

## 6. Risk Management

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

A. Credit Risk Management System and Capital Requirement:

# Analysis of the Financial Status and Operating Results & Risk Management

a. Credit Risk Management System-2018

| Item | Contents |
|---|---|
| 1. Credit risk management strategies and procedures | 1. Credit risk management strategy: The Bank has enacted UBOT credit risk management principle as the basis to plan, promote, manage and execute the credit risk.<br>2. Credit risk management objective: The Bank has established credit risk management mechanism to lower credit risk, and to achieve the objective of operating and management, and to attain a balance between risk control and business development.<br>3. Credit risk management policy: The Bank has aimed at maintaining an adequate capital base within an acceptable level of credit risk to complete the objective of credit risk strategy and maximize revenue in after-risk-adjusted.<br>4. Credit risk management procedure: The Bank has employed procedures such as risk recognition, risk measuring, risk offsetting, risk control and risk reporting etc. to establish risk management system. |
| 2. Credit risk management organization and framework | 1. Board of Directors: The highest decision-making unit of the Bank's credit risk management policy. Responsible for reviewing the Bank's credit risk management policy.<br>2. Assets and Liabilities Management Committee: Responsible for reviewing the implementation of the Bank's credit risk management.<br>3. Risk Management Dept.: Responsible for examining the risk management mechanisms established by the respective business administration departments, performing the risk control and submitting the risk control report to the Board of Directors regularly.<br>4. Business Planning and Administration Dept.: Responsible for formulating the business management rules and control mechanisms and properly supervising the performance of risk control of respective business unit.<br>5. Respective business units: Shall comply with the rules and regulations set forth by the Business Planning and Administration Departments while conducting their day-to-day operations. |
| 3. Scope and characteristics of credit risk reporting and measurement system | Scope of Risk Reporting<br>1. All business administration departments report to the Assets and Liabilities Management Committee on a periodic basis regarding the status of business promotion and execution as well as information on the allocation of risk-based assets.<br>2. The Risk Management Dept. monitors the control of the Bank's credit limits on a periodic basis and reports to the Assets and Liabilities Committee with respect to concentration of credit risks and achievement of the BIS targets set for various business sectors. The Risk Management Dept. also reports to the Board of Directors on the various business volumes achieved, status of nonperforming loans, concentration of credit risks and the execution of credit risk control measures.<br>Measurement System: |

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

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

As of Dec 31, 2018

In NT$ thousand

| Type of exposure | Exposure after risk reduction | Capital requirement(Note) |
|---|---|---|
| Sovereign states | 82,772,227 | 211,029 |
| Public departments other than the central government | 18,122,476 | 357,919 |
| Banks (including multiple development banks) | 37,405,923 | 1,165,699 |
| Enterprises (including securities and insurance companies) | 68,442,853 | 6,389,402 |
| Retailing credits | 195,953,641 | 15,724,572 |
| Residential real estate | 76,051,750 | 3,828,327 |
| Investments in equity securities | 66,209 | 6,538 |
| Other assets | 18,666,596 | 948,097 |
| Total | 497,481,675 | 28,631,583 |

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

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

a. Risk Management System of Asset Securitization in 2018

# Analysis of the Financial Status and Operating Results & Risk Management

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

| Item | Contents |
|---|---|
| credit and market fluctuation related to securitization exposure.<br>e. Management policy of offsetting credit risk in securitization and re securitization. | |
| 7. The description of accounting policy of bank's securitization.. | |
| 8.Explian the exposure of securitization and ECAI in the banking book | |
| 9. Explain major change in the quantities information after reporting period | |

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

| Type | Total issue amount | Outstanding balance | Amount repurchased |
|---|---|---|---|
| None | | | |

c. Exposure & Capital Requirement of Asset Securitization as of December 31, 2018

In NT$ thousand

| The role of bank | Book Type | Type of exposure | Conventional – Exposures – Held or Purchased | Conventional – Exposures – Liquidity facilities provided | Conventional – Exposures – The enhancement of credit provided | Conventional – Exposures – Subtotal (1) | Conventional – Capital requirement (2) | Portfolio – Exposure – Held or Purchased (3) | Portfolio – Capital requirement (4) | Total – Exposures (5) = (1) + (3) | Total – Capital requirement (6) = (2) + (4) | Total – Capital requirement prior to securitization |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-originating bank | Bank Book | CMO | 42,307,037 | | | 42,307,037 | 57,548 | | | 42,307,037 | 57,548 | |
| | | Reits | 129,905 | 0 | 0 | 129,905 | 129,905 | 0 | 0 | 129,905 | 129,905 | |
| | Trade Book | | | | | | | | | | | |
| | Subtotal | | 42,436,942 | | | 42,436,942 | 187,453 | | | 42,436,942 | 187,453 | |
| Originating bank | Bank Book | | | | | | | | | | | |
| | Trade Book | | | | | | | | | | | |
| | Subtotal | | | | | | | | | | | |
| Total | | | 42,436,942 | | | 42,436,942 | 187,543 | | | 42,436,942 | 187,543 | |

d. Information of Securitized commodities investment as of December 31, 2018

I. Summary of Investment in Securitized commodities

USD：NTD = 1：30.733 In NT$ thousand

| Item | Account | Initial Cost | Cumulative Valuation Gain or Loss | Cumulative Impairment | Carrying Amount |
|---|---|---|---|---|---|
| CMO | Financial Assets at Fair Value Through Profit or Loss | 56,004 | 5,414 | 0 | 60,415 |
| CMO | Investment in Debt Instruments at Amortized Cost | 42,387,531 | 23,997 | 2,418 | 42,121,629 |
| Reits | Financial Assets at Fair Value Through Other Comprehensive Income | 140,341 | -10,436 | 0 | 129,905 |

Note1: The above numbers do not include the amount of Interest Receivable.
Note2: Accumulated valuation gains or losses and accumulated impairment losses were calculated and provided by an internationally renowned professional risk management agency (MARKIT model).

II.

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

USD：NTD = 1：29.848 In NT$ thousand

| Name of Securities | Account (Note) | Currency | Issuer & Place | Purchase Date / Maturity Date | Coupon Rate | Credit Rating | Method of Interest Payment & Principal Repayment | Initial Cost | Cumulative Valuation Gain or Loss | Cumulative Impairment | Carrying Amount | Attachment Point | Details of Asset Pool |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ginnie Mae CMO | Non-active market debt instruments | USD | Ginnie Mae | 20091130-20180530 / 20190429-20340909 | 2.5%~5.5% | Moody's Aaa<br>Fitch AAA<br>S&P AA+ | Monthly | 29,382,134 | 0 | 185,543 | 29,196,591 | N/A | N/A |
| Fannie Mae CMO | Non-active market debt instruments | USD | Fannie Mae | 20121030 / 20281106 | 3.0% | | Monthly | 851,325 | 0 | 5,237 | 846,088 | | |

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

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

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

In NT$ thousand

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

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

In NT$ thousand

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

C. Operation Risk Management System and Capital Requirement

a. Operation Risk Management System

2018

| Item | Risks |
|---|---|
| 1. Operation risk management strategies and procedures | Strategies:<br>The Bank has enacted the "Operation Risk Management Guidelines of Union Bank of Taiwan" which serves as the basis for relevant business units to plan, promote, manage and execute operations risk management.<br>Procedure:<br>The Bank has built up an operation risk management mechanism through procedures for risk identification, assessment, measuring, monitoring and reporting. |
| 2. Operational risk management organization and framework | 1. Board of Directors: The top decision-making body of the Bank's operational risk management policy. Responsible for reviewing the Bank's operational risk management policy.<br>2. Assets and Liabilities Management Committee: Responsible for reviewing the implementation of the Bank's operational risk management.<br>3. Risk Management Dept.: Responsible for examining the risk management mechanisms established by the respective business administration departments, performing risk control and the submitting the risk control report to the board of Directors regularly.<br>4. Business Planning and Administration Dept.: Responsible for formulating the business management rules and control mechanisms and supervising the performance of risk control of respective business unit.<br>5. All business units: Shall comply with the rules and regulations set forth by the Business Administration departments in daily operations. |

| Item | Risks |
|---|---|
| 3. Scope and characteristics of the operational risk reporting and measurement system | 1 The Bank adapts the "Guidelines for Collection of Operational Risk Information" and establishes the "Operational Risk Reporting System" for all departments to report any operational risk incident to the Risk Management Dept.<br>2 The Bank has put in place the "Operational Risk Indicators". Upon setting the control frequency and risk warning standards, the relevant departments are responsible for providing the risk indicator values based on the risk control frequency to the Risk Management Dept. Improvement measures are taken to address any risks that exceeded the set standards.<br>3 The Bank has adopted the "Guidelines for Operational Risk Control Self-Assessment" and established the "Operational Risk Control Self-Assessment" database to carry out the operational risk control self-assessment throughout the Bank periodically.<br>4 The Risk Management Dept. reports the status control of "Operational risk events", "Operational risk indicators" and "Operational risk control self-assessment" to the Assets and Liabilities Management Committee and Board of Directors on a regular basis. |
| 4. Operational risk hedging or risk reduction policies, and strategies and procedures for monitoring the effectiveness of hedges and risk reduction tools | 1. The Bank evaluates the frequency and level of influence with respect to operation risk confronted and adopts a series of risk reduction measures such as insurance, outsourcing operation, procedure improvement, personnel training enhancement, urgent response actions set up and risk hedging.<br>2. The Bank takes every possible operation risk into consideration and build up acceptable action measures while enacting operation manual for core products. In addition, External and internal auditing are the enhancements of operation risk prevention.<br>3. Risk Management Dept. informs Assets and Liabilities Management Committee about operation risk incidents collected quarterly and reports the Board of Director the operation risk control status of all business biannually. |
| 5. Method used to provide the legal capital | Basic Indicator Approach. |

b. Operation Risk Capital Requirement as of Dec.31, 2018

In NT$ thousand

| Year | Gross profit | Capital requirement |
|---|---|---|
| 2016 | 9,547,483 | |
| 2017 | 9,688,238 | |
| 2018 | 10,614,058 | |
| Total | 29,849,779 | 1,492,489 |

D. Market Risk Management System and Capital Requirement

a. Market Risk Management System－2017

| Item | Contents |
|---|---|
| 1. Market risk management strategies and procedures | 1. The Bank has enacted "UNION BANK market risk management principle" approved by the Board of Directors, as the basis for market risk management.<br>2. The management procedure of market risk management contains the following five processes:<br>(1) Risk Identification: For items on/off the Balance Sheet, the bank identify the market risk factors of various products and investment business to evaluate the risk and define management procedure and control mechanism.<br>(2) Risk Measurement: To cope with market risk quantification, there is at least one assessment tool for each investment or transaction. The assessment tools include mark-to-market, nominal principal, sensitivity analysis, value at risk and pressure test.<br>(3) Risk Monitoring: Clearly define risk limits on relevant operation regulations for all business and monitor by frequency. Risk Management Dept. is in charge of the summarization and presentation of market risks for the Bank.<br>(4) Risk Reporting: Risk Reporting is divided into routine reporting, overrun reporting and exceptional reporting. Routine reports are distributed to proper authorized level in accordance with the List of Separation of Duties; overrun reports should explain overrun status and suggest responsive measures; Exception reports are submitted by business unit before an event due to temporary business needs.<br>(5) Risk reduction: Risk reduction procedures such as risk hedging, investment portfolio adjustment, position allocation, stop-loss and close new transactions. |
| 2. Market risk management organization and framework | 1. Board of Directors: The top decision-making body of the Bank's market risk management policy responsible for examining and approving the Bank's market risk policy and the total risk limit targets for all businesses, and setting and modifying the Bank's market risk management organization structure.<br>2. Asset and Liability Management Committee: Examine the management reports and information submitted by risk management department and the business units.<br>3. Risk Management Dept.: It is a dedicated independent risk management unit executing three pillars related operation of BASEL Π market risk, planning and building market risk measuring tools, and monitoring according to the risk limits for different products.<br>4. Business Units: responsible for the execution of daily market risk management for the business they handle, and reporting the market risk and investment status related information to proper authorization level. |
| 3. Scope and characteristics of the market risk reporting and measurement system | 1. Market Risk evaluated trading book position for various financial products and use fair market value or evaluation model as basis to regularly evaluate the profit/loss condition of the position held.<br>2. All business units and Risk Management Department should make relevant management reports regularly and submit to proper authorization level.<br>3. Market risk management system combine with front-desk trading position and middle desk evaluation to generate sufficient information for assisting all management levels to execute each individual risk monitoring task, and can support the capital calculation method selected by a bank to generate relevant internal and |

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

b. Market Risk Capital Requirement

December 31, 2018

In NT$ thousand

| Type of risk | Capital requirement |
|---|---|
| Interest rate risk | 745, 716 |
| Equity securities risk | 1, 627, 325 |
| Foreign exchange risk | 229, 709 |
| Product risk | |
| Total | 2, 602, 750 |

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

a. Maturity Analysis of NTD Assets and Liabilities

December 31, 2018

In NT$ thousand

| Item | Total | The amount of remaining period to maturity | | | | | |
|---|---|---|---|---|---|---|---|
| | | 0~10 days | 11~30 days | 31~90 days | 91~180 days | 181 days ~ 1 year | Over 1 year |
| Main capital inflow on maturity | 576,751,774 | 90,039,081 | 88,266,578 | 42,949,727 | 43,346,518 | 73,322,794 | 238,827,076 |
| Main capital outflow on maturity | 662,529,252 | 35,230,362 | 55,858,512 | 93,951,174 | 89,290,503 | 169,096,433 | 219,102,268 |
| Gap | (85,777,478) | 54,808,719 | 32,408,066 | (51,001,447) | (45,943,985) | (95,773,639) | 19,724,808 |

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

b. Maturity Analysis of USD Assets and Liabilities

December 31, 2018

In US$ thousand

| Item | Total | The amount of remaining period to maturity | | | | |
|---|---|---|---|---|---|---|
| | | 1~30 days | 31~90 days | 91~180 days | 181 days ~1 year | Over 1 year |
| Main capital inflow on maturity | 3,704,232 | 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 |

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

c. Approach to Manage Assets and Liabilities

i. The Bank's assets and liabilities management mechanism applies the asset and liability interest rate sensitivity and gap analysis for control purpose. Presently, the Bank has set up the Assets and Liabilities Management Committee to provide guidance and policy instruction and, to manage interest rate fluctuations and gaps. In addition to fully monitoring on interest rate, senior executive meetings are called from time to time as needed to exercise overall adjustment and review the Bank's asset and liabilities structure, and present result to the Committee for approval.

ii. For the interest rate risk of NTD and foreign currencies, the Bank employ well-established trading and funding MIS to manage daily changes of deposit and loan amounts, as well as the cost and balance of deposits in various types and terms. In addition, it will produce the analysis of floating and fixed interest rate deposits and loans, the analysis of interest rate sensitivity and the analysis of interest rate spread. The Bank will utilize above mentioned information and analyses to set up strategies for interest rate adjustment.

iii. For foreign exchange risk, the Bank has designed independent and related procedures for transaction settlement, and has also applied the position control, individual trader position control and stop-loss control etc.

iv. For liquidity risk, the Bank strictly monitor cash on hands and the movement of deposits and loans every day. Meanwhile, the Bank has also launched the mechanism to forecast, measure,calculate and early warning for future needs and changes of funding so as to realize current assets to meet the needs.

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

A. The FSC has relaxed its restrictions and given banks more room to invest. The Bank's investment limit is now determined based on "net worth," which should allow greater freedom.

B. New amendments to the Personal Information Protection Act "Special

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

C. For the Principle of Fair Treatment of Customers for the Financial Service Industry newly promulgated by the Financial Supervisory Commission, the contents of which include nine principles: the principle of fair and honest in contract engagement, the principle of duty of care and loyalty, the principle of truthfulness in marketing and advertising, the principle of product or service suitability, the principle of notification and disclosure, the principle of selling complex high risk products, the principle of balanced remuneration structures, the principle of customer complaint handling, and the principle of professionalism of sales people. The Bank has formulated the policy for fair treatment of customers and the implementation strategy for fair treatment of customers to enhance employee awareness of the Bank on financial consumer protection and compliance with the relevant laws and regulations regarding financial consumer protection. The evaluation shows that the future compensation for risks and expenses of financial consumers should be able to be reduced.

D. Regarding the "Money Laundering Control Act" amended and published by the president of R.O.C., the Financial Supervisory Commission has additionally mandated the "Regulations Governing Anti-Money Laundering of Financial Institutions", and revised relevant sub-laws such as "Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Business, Electronic Payment Institutions and Electronic Stored Value Card Issuers". The Bankers Association, Trust Association, Bills Finance Association and Taiwan Securities Association will continually revise their compliance modules. The Bank has formulated "Notices for Anti- Money Laundering and Terrorist Financing", supervised each department in executing the internal control system of anti- money laundering and terrorist financing, and evaluated the additional human resource needed, educational training, and the cost and expense of the IT system.

E. In order to enhance financial holding companies' focus on legal compliance of the banking industry and anti- money laundering and terrorist financing, the FSC has put more restrictions on the qualification, professional training and role function of legal compliance personnel and supervisors. At the same time, the reporting mechanism of financial holding companies and banks has been strengthened, and the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" have also been amended. The Bank has revised its legal compliance implementation rules and the guidelines for self-evaluation of legal compliance system. Although the stricter qualification and on-the-job training of legal compliance supervisors and personnel will increase costs and expenses, it shall be able to effectively lower the Bank's legal compliance risk.

(3) The Effect of Technological and Industrial Changes on the Bank's Financial Position and Its Response Actions:
Under the trend of digital banking development, E-payment, cloud service, mobile payment, blockchain application, biometrics, big data and social media are innovated constantly and bring rapid changes to customers' behaviors and spending patterns, and are revolutionizing the ways banking services were delivered in the past. In response to the innovation of digital banking services and technology, the Bank not only dedicates itself to introducing all the digital banking services to accelerate the digitization of financial services, but also strengthens the assessment of information security risks to protect customer's interest.

(4) The effect of change in the Bank's corporate image on the Bank and its response actions:

A. In response to various developments of digital financial technology, the Bank is dedicated to the development of popular financial services and the promotion of mobile payment, and it has become a minority of domestic banks which supports 7 mobile payments in Taiwan. In addition, to meet and develop young digital customers, the Bank has also set up its official LINE account to introduce LINE corporate stickers with the mascot Mykonos and became one of the banks in cooperation with LINE Pay x iPASS in the beginning of launching the service. Furthermore, the Bank actively aligned itself with LINE Pay and Hi-Life to become strategic association partners in hopes of innovating a greater variety of financial services via brand, product, and all the integration services to achieve the effect of brand rejuvenation.

B. In addition, to ensure proper communication with the media, and avoid a public relation crisis that would hurt the corporate image, the Bank adopts the spokesperson system, and it also has formulated the "Union Bank of Taiwan Crisis Management Guidelines" and "internal material information procedures". When a crisis that would hurt the corporate image arises, the issue will be escalated to the accountable department according to the SOP. Meanwhile, the public will be addressed through the spokesperson in an appropriate manner to prevent damage from spreading, and thereby protect the Bank's reputation and brand image.

(5) Expected Result and Possible Risks of Mergers and Acquisitions and Response Actions thereof: None

(6) Expected Result for Establishing More Business Locations, Possible Risk and Response Actions Thereof:
The establishment of business unit will not only increase transaction volume of deposits/loans/wealth management but also improve profits as well as provide comprehensive services to our customers. Effectively nevertheless, there is possibility that the economy of scale may not be achieved due to poor branch location or the business activities may be below our expectation. The Bank will then access the needs for relocation.

(7) Risk in the Over Concentration of Business and Response Action thereof:
When business is concentrated, it could easily make business income source over-concentrated in one single industry or single customer group. It is vulnerable to industry cycle and could heighten the risks borne by the Bank.
The Bank’s current credit and investment related business are all based on and executed within the internal quota policy. The Bank has set regulations such as “Credit/Market Risk Management Guideline”, “Regulations governing the Management of Enterprise Group Credit Risk”, “Foreign Currency Security Investment Processing Guideline”, “Foreign Currency Credit and Country Risk Management Approach”, and “Investment Policy” to strenghten the management of risk quota for all business.
The Bank’s Risk Management Department also monitors credit quota, controls status and reports the credit concentration regularly to Asset and Liability Management Committee and the Board of Directors.

(8) The Effect of Change in the Management of the Bank, Possible Risk and Response Action Thereof: The Bank was founded with the mission for sustainable operation. We maintain the management concepts of “Enthusiasm”, “Stability”, “Efficiency” and “Innovation” to provide financial products and services that meet the needs of customers and to service the general public. The Bank employs professional managerial officers to manage the businesses and as such, the Bank’s business management will not change or be impacted significantly as a result of changes in management power. The Bank shall provide the relevant internal management information and enhance the transparency of information disclosure in the event of a change in management power in order to secure investor and consumer confidence.

(9) The effect that large transfer in shares of director or supervisor, or shareholders holding more than ten percent of shares of the company, Possible Risk and Response Action:
There has been no significant change in share ownership of the Bank’s shareholders, directors and supervisors. The Bank employs professional managerial officers to manage the Bank’s business. Therefore, the Bank’s operational management wil not be impacted as a result of a significant change in share ownership. The Bank shall ensure infromation transparency in the event of a significant tranfer or change in share ownership and files a declaration and makes public announcement with respect to the changes in accordance with the relevant banking regulations to secure investor and consumer confidence.

(10) Legal Actions and Non-contentious Matters: None.

(11) Other Major Risks and Response Actions thereof: None.

## 7. Contingency Plan

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

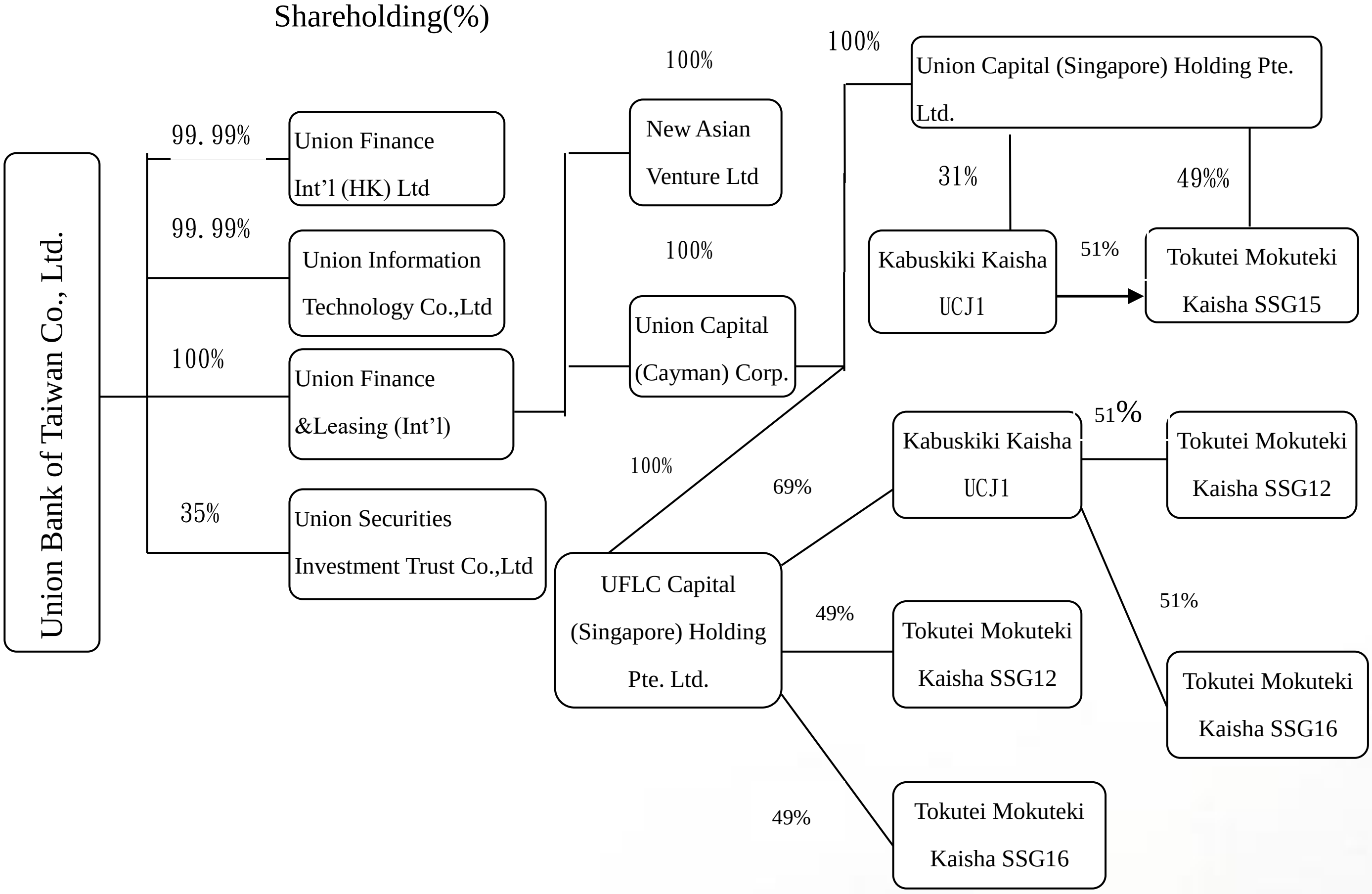
**8. Other Important Matters:** None

# Affiliated and Special Notes

## 1. Information on Affiliated Enterprises

(1) Organization Chart

Shareholding(%)




Amount in NT$ thousand

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

| | | | | |
|---|---|---|---|---|
| UFLC Capital (Singapore)Holding Pte. Ltd. | 2016.3.11 | 50 RAFFLES PLACE #25-03 SINGAPORE LAND TOWER SINGAPORE (048623) | – | Lease investment businesses。 |
| Kabuskiki Kaisha UCJ1 | 2014.9.12 | 1 Chome 11, Kanda Jinbocho, Chiyoda ,Tokyo, Japan | JPY1,043,800 | Lease investment businesses。 |
| Tokutei Mokuteki Kaisha SSG15 | 2014.9.19 | 1 Chome 11, Kanda Jinbocho, Chiyoda ,Tokyo , Japan | JPY1,430,200 | Lease investment businesses。 |
| Tokutei Mokuteki Kaisha SSG12 | 2016.2.25 | 1 Chome 11, Kanda Jinbocho, Chiyoda ,Tokyo , Japan | JPY1,930,200 | Lease investment businesses。 |
| Tokutei Mokuteki Kaisha SSG16 | 2016.3.31 | 1 Chome 11, Kanda Jinbocho, Chiyoda ,Tokyo , Japan | JPY1,300,200 | Lease investment businesses。 |

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

December 31, 2018

| Name of Enterprise | Title | Name of Representative | Shareholding | |
|---|---|---|---|---|
| | | | Shares | % |
| Union Finance International (HK) Ltd | Director | Union Bank of Taiwan (Representative: Jeff Lin) | 30,000,000 | 99.999993% |
| | Director | Shiang-Chang Lee | 2 | 0.000007% |
| | Director | Union Bank of Taiwan (Representative: Cheng-Yu Liu) | - | 0.00% |
| | Director | Union Bank of Taiwan (Representative: Connie Tseng) | - | 0.00% |
| | Director & President | Union Bank of Taiwan (Representative: Amanda Lin) | - | 0.00% |
| Union Information Technology Co., Ltd. | Chairman | Union Bank of Taiwan (Representative: Angela Shen) | 999,923 | 99.99% |
| | Director | Union Bank of Taiwan (Representative: Cheng-Yu Liu) | | |
| | Director | Union Bank of Taiwan (Representative: Luke Yang) | | |
| | Supervisor | Ling-Jung Hsiung | 0 | 0% |
| | President | Angela Shen | 0 | 0.00% |
| Union Finance & Leasing (International) Co., Ltd. | Chairman | Union Bank of Taiwan (Representative: Wei-Shin Shen) | 130,000,000 | 100.00% |
| | Director | Union Bank of Taiwan (Representative: Herman Tu) | | |
| | Director | Union Bank of Taiwan (Representative: Cheng-Juh Hsieh) | | |
| | Supervisor | Union Bank of Taiwan (Representative: Yin-Bor Chan) | | |
| | President | Wei-Shin Shen | 0 | 0.00% |
| Union Securities Investment Trust Co., Ltd. | Chairman | Union Bank of Taiwan (Representative: Ming-Hsing Ho) | 10,500,000 | 35% |
| | Director | Union Bank of Taiwan (Representative: Herman Tu) | | |
| | Director | Union Bank of Taiwan (Representative: Ting-Wan Hsu) | | |
| | Supervisor | Kun-Che Investment Co., Ltd. (Representative: Wen-Ming Lee)) | 5,399,667 | 17.99% |
| | President | Lin-Yu Fan | 0 | 0.00% |
| Union Capital (Cayman) Corp | Director | Union Finance & Leasing (International) Co., Ltd. (Representative: Wei-Shin Shen) | 50,000 | 100% |
| | Director | Union Finance & Leasing (International) Co., Ltd. (Representative: Cheng-Juh Hsieh) | | |
| New Asian Ventures Ltd. | Director | Union Finance & Leasing (International) Co., Ltd. (Representative: Wei-Shin Shen) | 1 | 100% |
| | Director | Union Finance & Leasing (International) Co., Ltd. (Representative: Cheng-Juh Hsieh) | | |
| Union Capital (Singapore) Holding Pte. Ltd. | Director | Union Capital (Cayman) Corp (Representative: Wei-Shin Shen) | 1 | 100.00% |
| | Director | Union Capital (Cayman) Corp (Representative: Ru-Jwu Tsai) | 0 | 0 |
| UFLC Capital (Singapore) Holding | Director | Union Capital (Cayman) Corp (Representative: Wei-Shin Shen) | 1 | 100.00% |

# Affiliated and Special Notes

| Name of Enterprise | Title | Name of Representative | Shareholding | |
|---|---|---|---|---|
| | | | Shares | % |
| Pte. Ltd. | Director | Union Capital (Cayman) Corp<br>(Representative: Ru-Jwu Tsai) | 0 | 0 |
| Kabuskiki,Kaisha UCJ1 | Director | Union Capital (Singapore) Holding Pte. Ltd.<br>(Representative: Wei-Shin Shen) | 6,378 | 31% |
| | Director | UFLC Capital (Singapore) Holding Pte. Ltd.<br>(Representative: Wei-Shin Shen) | 14,499 | 69% |
| Tokutei Mokuteki Kaisha SSG15 | Director | Union Capital (Singapore) Holding Pte. Ltd.<br>(Representative: Wei-Shin Shen) | 14,015 | 49% |
| | Director | Kabuskiki Kaisha UCJ1<br>(Representative: Wei-Shin Shen) | 14,586 | 51% |
| Tokutei Mokuteki Kaisha SSG12 | Director | UFLC Capital (Singapore) Holding Pte. Ltd.<br>(Representative: Wei-Shin Shen) | 18,915 | 49% |
| | Director | Kabuskiki Kaisha UCJ1<br>(Representative: Wei-Shin Shen) | 19,686 | 51% |
| Tokutei Mokuteki Kaisha SSG16 | Director | UFLC Capital (Singapore) Holding Pte. Ltd.<br>(Representative: Wei-Shin Shen) | 12,741 | 49% |
| | Director | Kabuskiki Kaisha UCJ1<br>(Representative: Wei-Shin Shen) | 13,260 | 51% |

## (3) General Information of Affiliated Enterprises

December 31, 2018 In NT$ thousand except Earnings Per Share (NT$)

| Name of Enterprise | Paid-in Capital | Total Assets | Total Liabilities | Net Worth | Operating Income | Operating Profit | Net Income (Loss) After Tax | Earnings Per Share After-tax ($) |
|---|---|---|---|---|---|---|---|---|
| Union Finance International (H.K.) Ltd. Note1 | 106,589 | 225,381 | 155,660 | 69,721 | (20,848) | (31,422) | (31,422) | - |
| Union Information Technology Co., Ltd. | 10,000 | 84,755 | 63,583 | 21,172 | 131,515 | 3,696 | 3,274 | 3.27 |
| Union Finance & Leasing (International) Co., Ltd. | 1,300,000 | 11,691,277 | 8,812,148 | 2,879,129 | 2,173,235 | 76,957 | 135,315 | 1.04 |
| Union Securities Investment Trust Co., Ltd. | 300,000 | 394,834 | 16,797 | 378,037 | 105,119 | 624 | (2,652) | - |
| Union Capital (Cayman) Corp.Note2 | 1,644 | 2,403,648 | 1,821,547 | 582,101 | 69,362 | 42,711 | 37,659 | 753.18 |
| New Asian Ventures Ltd. | 1 | 91,323 | 20 | 91,303 | 1,053 | 964 | 964 | 964,000 |
| Union Capital (Singapore) Holding PTE . Ltd. Note2 | 1 | 767,407 | 736,509 | 30,898 | 29,214 | 28,916 | 13,194 | 13,194,000 |
| Uflc Capital (Singapore) Holding PTE . Ltd. Note2 | 1 | 1,588,680 | 1,554,013 | 34,667 | 43,562 | 42,750 | 14,441 | 14,441,000 |
| Kabuskiki Kaisha UCJI Note2 | 79,653 | 1,644,470 | 1,213,274 | 431,196 | 42,197 | 39,393 | 2,697 | 129.19 |
| Tokutei Mokuteki Kaisha SSG15 Note2 | 398,138 | 1,072,340 | 674,202 | 398,138 | 78,906 | 40,801 | 35,430 | 1,238.77 |
| Tokutei Mokuteki Kaisha SSG12 Note2 | 537,327 | 1,101,881 | 564,554 | 537,327 | 34,421 | 18,128 | 16,057 | 415.97 |
| Tokutei Mokuteki Kaisha SSG16 Note2 | 361,948 | 726,661 | 364,713 | 361,948 | 40,126 | 22,321 | 18,788 | 722.59 |

Note1: HKD/TWD: 3.923980 for Asset and Liability items; HKD/TWD: 3.848992 for P/L items

Note 2 : JPY/TWD: 0.278379 for Asset and Liability items JPY/TWD: 0.273571 for P/L Items

(4) Consolidated Financial Reports of affiliated enterprises: please refer to Appendix.

(5) Report on relationships between the business activities conducted by affiliated enterprises: please refer to Appendix.

2. **Private placement of marketable securities and financial debentures in the past year and current year up to the printing date of the annual report:** None.

3. **Shares of the Bank held or disposed of by subsidiaries in the past year and current year up to the printing date of the annual report:** None.

4. **Other necessary supplements:** None.

5. **In the past year and current year up to the printing date of the annual report, any event which has a material impact on shareholders’ equity or securities prices pursuant to Article 36.2.2 of the Security and Exchange Law:** None.

# Bank Directory

## Bank Directory

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

# Bank Directory

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

## Bank Directory

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

# Bank Directory

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

# 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:

<u>Accuracy of Interest Revenue from Discounts and Loans</u>

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

Notice to Readers

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

*For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.*

# UNION BANK OF TAIWAN

**BALANCE SHEETS**
**DECEMBER 31, 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 |

(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** | **%** | **%** |
| 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 | Unappropriated 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) |

(Continued)

# 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 |

(Continued)

## 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)

# UNION BANK OF TAIWAN

**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

## 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.

<u>Financial guarantee contracts</u>

<u>2018</u>

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.

<u>2017</u>

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**

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 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

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 | 169,831 | 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 | 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%<br>AUD/USD 9.08%-9.70%<br>EUR/USD 7.35%-7.45%<br>NZD/USD 9.74%<br>USD/TWD 3.69%-5.61%<br>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%<br>AUD/USD 9.08%-9.70%<br>EUR/USD 7.35%-7.45%<br>NZD/USD 9.74%<br>USD/TWD 3.69%-5.61%<br>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:

| | **Carrying Amount** | **Allowance for Impairment Loss** | **Exposure Amount (Amortized Cost)** | **Fair Value of Collateral** |
|---|---|---|---|---|
| Credit-impaired financial assets | | | | |
| 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** | **Stage 2** | **Stage 3** | **Additional** | |
| | **12-month ECL** | **Lifetime ECL** | **Lifetime ECL (Credit-impaired Financial Assets)** | **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** | **Stage 2** | **Stage 3** | **Additional** | |
| | **12-month ECL** | **Lifetime ECL** | **Lifetime ECL (Credit-impaired Financial Assets)** | **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** |
| <u>Financial assets</u> | | | |
| USD | $ 2,809,313 | 29.848 | $ 83,852,383 |
| JPY | 4,740,622 | 0.2650 | 1,256,085 |
| GBP | 1,409 | 40.2053 | 56,652 |
| AUD | 128,377 | 23.2635 | 2,986,498 |
| HKD | 190,976 | 3.8189 | 729,325 |
| CAD | 15,168 | 23.7795 | 360,685 |
| CNY | 706,005 | 4.5790 | 3,232,822 |
| SGD | 1,507 | 22.3246 | 33,654 |
| ZAR | 853,238 | 2.4191 | 2,064,030 |
| CHF | 1,687 | 30.5507 | 51,529 |
| THB | 331 | 0.9153 | 303 |
| NZD | 26,935 | 21.2010 | 571,041 |
| EUR | 32,026 | 35.6773 | 1,142,605 |
| <u>Financial liabilities</u> | | | |
| USD | 2,367,763 | 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<br>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<br>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<br>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<br>Securities sold under repurchase agreements | $ 8,552,033 | $ 8,557,700 | $ 8,552,033 | $ 8,557,700 | $ (5,667) |
| Available-for-sale financial assets<br>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<br>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** | **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.

## 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.

**TABLE 1**

## 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<br>(JPY 8,000,000) | $ 2,227,032<br>(JPY 8,000,000) | $ 1,798,878<br>(JPY 5,639,163)<br>(US$ 7,453) | 1.50 | Business transaction | $ 2,227,032<br>(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<br>(JPY 3,700,000) | 1,030,002<br>(JPY 3,700,000) | 731,364<br>(JPY 2,627,225) | 1.50 | Business transaction | 1,030,002<br>(JPY 3,700,000) | - | - | - | - | 2,879,129 | 2,879,129 |
| | | Uflc Capital (Singapore) Holding Pte. Ltd. | Receivables of affiliates | 1,809,464<br>(JPY 6,500,000) | 1,809,464<br>(JPY 6,500,000) | 1,539,126<br>(JPY 5,523,808)<br>(US$ 46) | 1.50 | Business transaction | 1,809,464<br>(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<br>(JPY 1,900,000) | 528,920<br>(JPY 1,900,000) | 408,066<br>(JPY 1,465,865) | 2.75 | Business transaction | 528,920<br>(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<br>(JPY 3,300,000) | 918,651<br>(JPY 3,300,000) | 794,912<br>(JPY 2,855,504) | 2.75 | Business transaction | 918,651<br>(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 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares/Piece/ Units (In Thousands) | Carrying Value | Percentage of Ownership (%) | Market Value or Net Asset Value | |
| | 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<br>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<br>(JPY 5,639,163)<br>(US$ 7,453) | - | $ - | - | $ - | $ - |
| Union Capital (Cayman) Corp. | Union Capital (Singapore) Holding Pte. Ltd. | Subsidiary | 731,364<br>(JPY 2,627,225) | - | - | - | - | - |
| | Uflc Capital (Singapore) Holding Pte. Ltd. | Subsidiary | 1,539,126<br>(JPY 5,523,808)<br>(US$ 46) | - | - | - | - | - |
| Union Capital (Singapore) Holding Pte. Ltd. | Kabushiki Kaisha UCJ1 (Japan) | Subsidiary | 408,066<br>(JPY 1,465,865) | - | - | - | - | - |
| Uflc Capital (Singapore) Holding Pte. Ltd. | Kabushiki Kaisha UCJ1 (Japan) | Subsidiary | 794,912<br>(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. | <u>Nonfinancial - related</u> | | | | | | | | | | |
| | Kabushiki Kaisha UCJ1 | Japan | Buy, sell and lease real estate | 30.55 | 131,725<br>(JPY 473,185) | $ 824<br>(JPY 3,012) | 9 | - | $ 9 | 30.55 | Note 3 |
| | Tokutei Mokuteki Kaisha SSG15 | Japan | Real estate securitization | 49.00 | 195,074<br>(JPY 700,750) | 17,361<br>(JPY 63,459) | Note 6 | - | Note 6 | 49.00 | Note 3 |
| Kabushiki Kaisha UCJ1 | <u>Nonfinancial - related</u> | | | | | | | | | | |
| | Tokutei Mokuteki Kaisha SSG15 | Japan | Real estate securitization | 51.00 | 203,022<br>(JPY 729,300) | 18,069<br>(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<br>(JPY 984,300) | 14,539<br>(JPY 53,144) | Note 5 | - | Note 5 | 51.00 | Note 3 |
| | Tokutei Mokuteki Kaisha SSG16 | Japan | Real estate securitization | 51.00 | 184,565<br>(JPY 663,000) | 9,582<br>(JPY 35,026) | Preferred stock 26 | - | Preferred stock 26 | 51.00 | Note 3 |
| Uflc Capital (Singapore) Holding Pte. Ltd. | <u>Nonfinancial - related</u> | | | | | | | | | | Note 3 |
| | Kabushiki Kaisha UCJ1 | Japan | Buy, sell and lease real estate | 69.45 | 299,472<br>(JPY 1,075,770) | 1,873<br>(JPY 6,847) | 21 | - | 21 | 69.45 | Note 3 |
| | Tokutei Mokuteki Kaisha SSG12 | Japan | Real estate securitization | 49.00 | 263,277<br>(JPY 945,750) | 13,968<br>(JPY 51,059) | Note 6 | - | Note 6 | 49.00 | Note 3 |
| | Tokutei Mokuteki Kaisha SSG16 | Japan | Real estate securitization | 49.00 | 177,341<br>(JPY 637,050) | 9,206<br>(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

**STATEMENT 1**

# 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.

**STATEMENT 2**

## 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 | | Credit Risk Due to Changes in Fair Value | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | | Unit Price | Total Amount | | |
| 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.

STATEMENT 4

## 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.

# 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.

**STATEMENT 8**

# 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 |

# 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 | | | | Note |
|---|---|---|---|---|---|
| | Personnel Expenses | Net Profits Other than Interest | Other Operating Expenses | Total | |
| 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)

# UNION BANK OF TAIWAN
## SECURITIES DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
## (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

### 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.

Financial assets

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.

<u>2017</u>

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

| | | December 31 | |
|---|---|---|---|
| Related Party | Account | 2018 | 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

STATEMENT 1

# 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)**

| Item | Transaction Terms | | | Fair Value | Issue Price |
|---|---|---|---|---|---|
| | Issue Date | Maturity Date | Interest Rate % | | |
| 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 |

## 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 |

# 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:

____________________________________

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

*Notice to Readers*

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

## UNION BANK OF TAIWAN AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 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 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share Capital (Notes 35 and 42) | | | | Retained Earnings (Notes 4 and 35) | | | | Other Equity (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)

# UNION BANK OF TAIWAN AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
## (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

### 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.

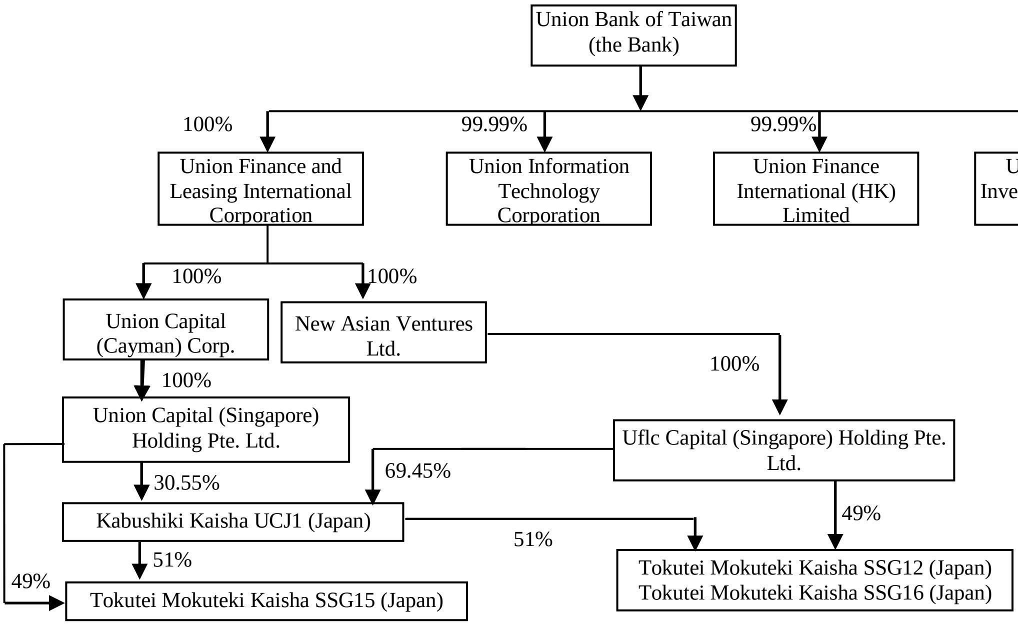
On August 26, 2015, the board of directors of the Bank resolved to merge UIB in order to integrate the resources, strengthen management and business synergy. The merger was approved by the Financial Supervisory Commission (FSC) under Rule No. 10502022990. The effective date of this merger was August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

Classification, measurement and impairment of financial assets

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:

| | | | Percentage of Ownership | | |
|---|---|---|---|---|---|
| | | | December 31 | | |
| Investor | Investee | Main Businesses | 2018 | 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 | 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 | 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 | December 31 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 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 | | | | | | | | |
| 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 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/USD 8.08%-8.60%<br>EUR/USD 7.25%-7.30%<br>NZD/USD 7.77%<br>USD/TWD 4.20%-5.30%<br>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%<br>EUR/USD 7.25%-7.30%<br>NZD/USD 7.77%<br>USD/TWD 4.20%-5.30%<br>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:

Discounts and loans

| | | 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).

Receivables

| | | 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.

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 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<br>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<br>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<br>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<br>Securities sold under repurchase agreements | $ 8,552,033 | $ 8,557,700 | $ 8,552,033 | $ 8,557,700 | $ (5,667) |
| Available-for-sale financial assets<br>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<br>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 | 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.

## 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<br>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<br>(JPY 5,639,163)<br>(US$ 7,453) | - | $ - | - | $ - | $ - |
| Union Capital (Cayman) Corp. | Union Capital (Singapore) Holding Pte. Ltd. | Subsidiary | 731,364<br>(JPY 2,627,225) | - | - | - | - | - |
| | Uflc Capital (Singapore) Holding Pte. Ltd. | Subsidiary | 1,539,126<br>(JPY 5,523,808)<br>(US$ 46) | - | - | - | - | - |
| Union Capital (Singapore) Holding Pte. Ltd. | Kabushiki Kaisha UCJ1 (Japan) | Subsidiary | 408,066<br>(JPY 1,465,865) | - | - | - | - | - |
| Uflc Capital (Singapore) Holding Pte. Ltd. | Kabushiki Kaisha UCJ1 (Japan) | Subsidiary | 794,912<br>(JPY 2,855,504) | - | - | - | - | - |

# 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<br>(JPY 110,992) | 14,243<br>(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<br>(JPY 124,532) | 15,746<br>(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: Shares (Thousands) | Pro Forma Shares (Note 2) | Total: Shares (Thousands) | Total: Percentage of Ownership (%) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Union Capital (Singapore) Holding Pte. Ltd. | <u>Nonfinancial - related</u> | | | | | | | | | | |
| | 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 | <u>Nonfinancial - related</u> | | | | | | | | | | |
| | 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. | <u>Nonfinancial - related</u> | | | | | | | | | | |
| | 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)

TABLE 7

## 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)