Taiwan Cooperative Bank, Ltd.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder
Taiwan Cooperative Bank, Ltd.

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Taiwan Cooperative Bank, Ltd. 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 of Taiwan Cooperative Bank, Ltd. for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters in our audit of the financial statements for the year ended December 31, 2017 were as follows:

Impairment Assessment on Discounts and Loans

The discounts and loans of Taiwan Cooperative Bank, Ltd. as of December 31, 2017 were \$2,019,276,445 thousand, consisting 63% of total assets. Therefore, the assessment on the impairment loss of the discounts and loans may have significant impacts on the financial statements. The assessment on the impairment of the discounts and loans performed by the management of the Bank is based on whether there is any objective evidence of impairment. The amount of impairment loss is the difference between the book value and the estimated future cash flows of the discounts and loans (with consideration to the collaterals and guarantees). In addition, the amount of provisions of impairment loss made should also be in accordance with FSC guidelines. Impairment assessment on discounts and loans was identified as a key audit matter due to the critical judgements and estimations involved. For accounting policies and critical accounting judgements and estimations, refer to Notes 4 and 5 to the financial statements; for discounts and loans, refer to Note 11.

With respect to the critical judgements, estimations, and assumptions used, the procedures we performed were as follows:

1. Understand and test the internal control of impairment assessment on discounts and loans performed by the Bank.

2. Sample loans that are individually assessed for impairment loss to evaluate the reasonableness of estimated future cash flow, including the assumptions, discount rates and the value of collaterals.

3. Test the assumption pertaining to the model, data, and calculation for loans that are assessed collectively for impairment loss, including the historical data adopted, the classification of similar credit risk, recovery rate, and the impairment rate.

4. Test the classification of credit assets of the Bank to evaluate whether the classification of credit assets and provisions of impairment loss are in accordance with the FSC guidelines by considering the length of overdue of the loans and the value of collaterals.

Assessment on Retired Employees' Preferential Deposit Benefits

The present value of retired employees' preferential deposit obligation was calculated based on the actuarial results with application of various assumptions. Assessment on the retired employees' preferential deposit benefits was identified as a key audit matters due to the application of critical judgements and estimations. For the accounting policies and critical accounting judgements and estimations, refer to Notes 4 and 5 to the financial statements; for the employees' preferential deposit benefits, refer to Notes 26 and 27.

With respect to the actuarial report of retired employees' preferential deposit obligation, the procedures we performed were as follows:

1. Evaluate the actuary on the basis of qualification, competency, and objectivity.

2. Evaluate the reasonableness of the actuarial assumptions and method applied, including discount rates, return on deposit, account balance decrease rate per year, and rate of probability of change in the preferential deposit system.

3. Obtain and evaluate the completeness and accuracy of the information used by the actuary.

Impairment Assessment on Goodwill

When the management of the Bank determines whether goodwill is impaired, estimation of the value in use of the cash-generating units to which goodwill has been allocated is required. The calculation of value in use requires the management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. Impairment assessment on goodwill was identified as a key audit matters due to the critical judgements and estimations involved. For the accounting policies and critical accounting judgements and estimations, refer to Notes 4 and 5 to the financial statements; for impairment assessment on goodwill, refer to Note 18.

With respect to the report of impairment assessment on goodwill and the report of discount rate used in assessment, the procedures we performed were as follows:

1. Evaluate the external expert on the basis of qualification, competency, and objectivity.

2. Evaluate the reasonableness of model and assumptions used by the external expert.

3. Obtain and evaluate the completeness and accuracy of the information used by the external expert.

4. Evaluate the reasonableness of the expected future cash flows arising from the cash-generating units allocated to goodwill.

Correctness of Recognized Loan Interest Income

The loan interest income of Taiwan Cooperative Bank, Ltd. for the year ended December 31, 2017 was $39,483,830 thousand, consisting 78% of total interest income. Of the amount, domestic loan interest income was $35,463,240 thousand, consisting 90% of total interest income on discounts and loans, the major source of income of the Bank. Therefore, the correctness of domestic loan interest income has a significant impact on the financial statements. In addition, since loan interest income depends highly on automated calculations, the information technology environment and the effectiveness of general information technology controls also have significant impact on the recognition of domestic loan interest income. Therefore, recognition of interest income was identified as a key audit matter. For accounting policies, refer to Note 4 to the financial statements; for recognized loan interest income, refer to Note 28.

With respect to the correctness of recognized domestic loan interest income, the procedures we performed were as follows:

1. Understand and test the internal controls on the calculation of domestic loan interest income of the Bank.

2. Understand the information technology environment and general information technology controls of the Bank particularly on domestic loan interest income, and test the effectiveness of the controls, which include the automated controls of relevant application systems.

3. Select samples from the Bank's domestic loan interest income summary table, and verify the correctness of major parameters set for calculation of loan interest income, including amount of loans, loan period and interest rate.

4. Select samples of domestic loan information in a certain period from the Bank's information system, including amount of loans, loan period, interest rate and other major parameters. Understand and assess the reasonableness of the computing of the Bank's loan interest in each category, and recalculate loan interest income and verify the correctness of recognized interest income.

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 the 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 Taiwan Cooperative Bank, Ltd.'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 supervisors, are responsible for overseeing the Bank's financial reporting process.

Auditors' 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 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 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 Taiwan Cooperative Bank, Ltd.'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 Taiwan Cooperative Bank, Ltd.'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 Taiwan Cooperative Bank, Ltd. 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 Taiwan Cooperative Bank, Ltd. to express an opinion on the 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Li-Chi Chen and Cheng-Hung Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 23, 2018

Notice to Readers

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

TAIWAN COOPERATIVE BANK, LTD.

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

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 35)	$ 63,562,455	2	$ 54,064,826	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Notes 4, 7, 35 and 36)	274,341,552	9	302,017,438	10
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 35)	12,862,843	-	27,866,137	1
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4, 9 and 35)	249,463	-	-	-
RECEIVABLES, NET (Notes 4, 10, 35 and 42)	18,593,582	1	14,808,694	1
CURRENT TAX ASSETS (Notes 4, 32 and 35)	1,402,132	-	1,187,408	-
DISCOUNTS AND LOANS, NET (Notes 4, 11, 35 and 36)	1,993,819,434	63	1,958,508,412	62
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 12 and 36)	154,441,496	5	123,640,946	4
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 4, 13 and 36)	513,789,325	16	510,048,964	16
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Notes 4 and 14)	2,073,809	-	1,882,267	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 15, 35 and 36)	107,002,789	3	99,887,733	3
PROPERTIES AND EQUIPMENT, NET (Notes 4 and 16)	33,926,763	1	37,962,847	1
INVESTMENT PROPERTIES, NET (Notes 4 and 17)	6,984,409	-	2,886,363	-
INTANGIBLE ASSETS (Notes 4 and 18)	3,513,492	-	3,545,312	-
DEFERRED TAX ASSETS (Notes 4 and 32)	1,282,022	-	954,971	-
OTHER ASSETS (Notes 4, 19 and 37)	606,519	-	711,131	-
TOTAL	$ 3,188,452,085	100	$ 3,139,973,449	100
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND OTHER BANKS (Notes 20 and 35)	$ 212,300,065	7	$ 225,668,911	7
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8, 24 and 35)	14,450,851	1	14,631,011	1
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 8, 12 and 21)	10,377,142	-	12,000,831	-
PAYABLES (Notes 22 and 35)	45,179,629	2	44,120,225	2
CURRENT TAX LIABILITIES (Notes 4, 32 and 35)	1,185,896	-	328,375	-
DEPOSITS AND REMITTANCES (Notes 23 and 35)	2,624,598,335	82	2,564,157,192	82
BANK DEBENTURES (Note 24)	64,610,000	2	74,610,000	2
OTHER FINANCIAL LIABILITIES (Notes 4, 25, 35 and 37)	3,749,545	-	2,614,125	-
PROVISIONS (Notes 4, 26 and 27)	7,624,197	-	7,171,678	-
DEFERRED TAX LIABILITIES (Notes 4, 16 and 32)	2,996,390	-	3,261,164	-
OTHER LIABILITIES	1,119,382	-	1,170,965	-
Total liabilities	2,988,191,432	94	2,949,734,477	94
EQUITY				
Capital stock				
Common stock	88,081,300	3	85,863,000	3
Capital surplus				
Additional paid-in capital from share issuance in excess of par value	58,664,088	2	55,882,340	2
From treasury stock transactions	103,157	-	103,157	-
Total capital surplus	58,767,245	2	55,985,497	2
Retained earnings				
Legal reserve	32,982,547	1	29,225,467	1
Special reserve	1,280,201	-	1,217,583	-
Unappropriated earnings	18,723,762	-	18,697,129	-
Total retained earnings	52,986,510	1	49,140,179	1
Other equity	425,598	-	(749,704)	-
Total equity	200,260,653	6	190,238,972	6
TOTAL	$ 3,188,452,085	100	$ 3,139,973,449	100

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

TAIWAN COOPERATIVE BANK, LTD.

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

	2017		2016		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUE (Notes 4, 28 and 35)	$ 50,739,405	120	$ 50,110,097	123	1
INTEREST EXPENSE (Notes 4, 28 and 35)	(18,440,708)	(44)	(18,707,695)	(46)	(1)
NET INTEREST	32,298,697	76	31,402,402	77	3
NET REVENUES AND GAINS OTHER THAN INTEREST					
Service fee income, net (Notes 4, 29, 35 and 42)	5,924,892	14	6,267,528	15	(5)
Losses on financial assets and liabilities at fair value through profit or loss (Notes 4, 30 and 35)	(2,023,677)	(5)	(592,346)	(1)	242
Realized gains on available-for-sale financial assets (Note 4)	923,358	2	1,202,764	3	(23)
Foreign exchange gains, net (Note 4)	4,807,785	12	1,407,642	3	242
Reversal of impairment losses on assets (Notes 4, 12 and 13)	7,895	-	6,351	-	24
Share of gains of subsidiaries, associates and joint ventures accounted for using the equity method (Notes 4 and 14)	114,050	-	107,183	-	6
Gains on financial assets carried at cost, net (Note 4)	279,275	1	285,035	1	(2)
Gains on debt instruments with no active market, net (Note 4)	30,725	-	153,778	-	(80)
Other noninterest gains (losses), net (Notes 35 and 42)	(1,297)	-	594,637	2	(100)
Total net revenues and gains other than interest	10,063,006	24	9,432,572	23	7
TOTAL NET REVENUES	42,361,703	100	40,834,974	100	4
BAD-DEBT EXPENSES AND PROVISION FOR LOSSES ON GUARANTEES (Notes 4 and 11)	(5,302,494)	(13)	(3,802,662)	(9)	39

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TAIWAN COOPERATIVE BANK, LTD.

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

	2017		2016		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
OPERATING EXPENSES (Notes 4, 16, 17, 18, 27, 31 and 35)					
Employee benefits	$ (14,614,056)	(35)	$ (14,757,601)	(36)	(1)
Depreciation and amortization	(1,058,025)	(2)	(1,075,976)	(3)	(2)
General and administrative	(6,501,534)	(15)	(6,652,502)	(16)	(2)
Total operating expenses	(22,173,615)	(52)	(22,486,079)	(55)	(1)
INCOME BEFORE INCOME TAX	14,885,594	35	14,546,233	36	2
INCOME TAX EXPENSE (Notes 4 and 32)	(1,986,400)	(5)	(2,022,632)	(5)	(2)
NET INCOME	12,899,194	30	12,523,601	31	3
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss (Notes 4 and 27)					
Remeasurement of defined benefit plans	(348,963)	(1)	(46,589)	-	649
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(32,084)	-	32,330	-	(199)
Items that will not be reclassified subsequently to profit or loss, net of income tax	(381,047)	(1)	(14,259)	-	2,572
Items that may be reclassified subsequently to profit or loss (Notes 4, 14 and 32)					
Exchange differences on the translation of financial statements of foreign operations	(1,473,014)	(4)	(203,063)	(1)	625
Unrealized gains (losses) on available-for-sale financial assets	2,361,509	6	(1,588,002)	(4)	249

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TAIWAN COOPERATIVE BANK, LTD.

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

	2017		2016		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
Share of other comprehensive income (losses) of subsidiaries, associates and joint ventures accounted for using the equity method	$ 83,561	-	$ (100,089)	-	183
Income tax attributable to other comprehensive income	235,330	1	50,908	-	362
Items that may be reclassified subsequently to profit or loss, net of income tax	1,207,386	3	(1,840,246)	(5)	166
Other comprehensive income (losses), net of income tax	826,339	2	(1,854,505)	(5)	145
TOTAL COMPREHENSIVE INCOME	$ 13,725,533	32	$ 10,669,096	26	29
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 33)					
Basic	$1.48		$1.48		

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

TAIWAN COOPERATIVE BANK, LTD.

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

	Capital Stock (Note 34)			Retained Earnings (Notes 4 and 34)			Other Equity			
	Shares (In Thousands)	Common Stock	Capital Surplus (Notes 4 and 34)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on the Translation of Financial Statements of Foreign Operations (Note 4)	Unrealized Gains (Losses) on Available-for-sale Financial Assets (Note 4)	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value through Profit or Loss (Note 4)	Total Equity
BALANCE, JANUARY 1, 2016	8,349,300	$ 83,493,000	$ 53,054,992	$ 25,586,622	$ 1,217,583	$ 18,349,592	$ 287,893	$ 768,151	$ 2,168	$ 182,760,001
Appropriation of the 2015 earnings										
Legal reserve	-	-	-	3,638,845	-	(3,638,845)	-	-	-	-
Cash dividends	-	-	-	-	-	(8,490,630)	-	-	-	(8,490,630)
Capital increase in June 2016	237,000	2,370,000	2,930,505	-	-	-	-	-	-	5,300,505
Total comprehensive income										
Net income for the year ended December 31, 2016	-	-	-	-	-	12,523,601	-	-	-	12,523,601
Other comprehensive losses for the year ended December 31, 2016	-	-	-	-	-	(46,589)	(251,368)	(1,588,878)	32,330	(1,854,505)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	12,477,012	(251,368)	(1,588,878)	32,330	10,669,096
BALANCE, DECEMBER 31, 2016	8,586,300	85,863,000	55,985,497	29,225,467	1,217,583	18,697,129	36,525	(820,727)	34,498	190,238,972
Appropriation of the 2016 earnings										
Legal reserve	-	-	-	3,757,080	-	(3,757,080)	-	-	-	-
Special reserve	-	-	-	-	62,618	(62,618)	-	-	-	-
Cash dividends	-	-	-	-	-	(8,703,900)	-	-	-	(8,703,900)
Capital increase in June 2017	221,830	2,218,300	2,781,748	-	-	-	-	-	-	5,000,048
Total comprehensive income										
Net income for the year ended December 31, 2017	-	-	-	-	-	12,899,194	-	-	-	12,899,194
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	(348,963)	(1,156,596)	2,363,982	(32,084)	826,339
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	12,550,231	(1,156,596)	2,363,982	(32,084)	13,725,533
BALANCE, DECEMBER 31, 2017	8,808,130	$ 88,081,300	$ 58,767,245	$ 32,982,547	$ 1,280,201	$ 18,723,762	$ (1,120,071)	$ 1,543,255	$ 2,414	$ 200,260,653

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

TAIWAN COOPERATIVE BANK, LTD.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 14,885,594	$ 14,546,233
Adjustments for:		
Depreciation expenses	901,848	902,976
Amortization expenses	156,177	173,000
Bad-debt expenses	5,083,442	3,751,196
Losses on financial assets and liabilities at fair value through profit or loss	2,023,677	592,346
Interest expense	18,440,708	18,707,695
Interest revenue	(50,739,405)	(50,110,097)
Dividend income	(470,513)	(466,036)
Provision for losses on guarantees	219,052	51,466
Share of gains of subsidiaries, associates and joint ventures accounted for using equity method	(114,050)	(107,183)
Losses on disposal of properties and equipment	1,820	1,695
Gains on disposal of investment properties	-	(66)
Gains on disposal of investments	(762,845)	(1,175,540)
Reversal of impairment losses on financial assets	(7,895)	(6,351)
Net changes in operating assets and liabilities		
Decrease in due from the Central Bank and call loans to other banks	6,532,788	88,499,333
Decrease in financial assets at fair value through profit or loss	23,770,490	1,176,244
Increase in receivables	(2,819,033)	(955,228)
Decrease (increase) in discount and loans	(38,918,151)	11,387,338
Increase in available-for-sale financial assets	(30,603,291)	(29,369,839)
Increase in held-to-maturity financial assets	(4,464,203)	(468,082,871)
Decrease (increase) in other financial assets	(9,858,636)	538,155
Decrease in other assets	7,697	365,739
Increase (decrease) in due to the Central Bank and other banks	(13,368,846)	27,295,934
Decrease in financial liabilities at fair value through profit or loss	(9,537,014)	(14,030,747)
Decrease in securities sold under repurchase agreements	(1,623,689)	(5,451,649)
Increase in payables	423,606	8,381,029
Increase in deposits and remittances	60,441,143	59,770,901
Increase (decrease) in other financial liabilities	629,175	(4,621,279)
Decrease in provision for employee benefits	(114,986)	(2,212,883)
Decrease in other liabilities	(55,369)	(14,552)
Cash used in operations	(29,940,709)	(340,463,041)
Interest received	50,531,515	49,750,108
Dividends received	491,369	481,048
Interest paid	(18,350,775)	(18,877,639)
Income tax paid	(1,681,550)	(3,110,036)
Net cash generated by (used in) operating activities	1,049,850	(312,219,560)

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TAIWAN COOPERATIVE BANK, LTD.

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

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition for properties and equipment	$ (993,300)	$ (219,866)
Proceeds of the disposal of properties and equipment	60	-
Increase in refundable deposits	-	(15,150)
Decrease in refundable deposits	96,902	-
Acquisition for intangible assets	(111,389)	(75,452)
Proceeds of the disposal of investment properties	-	3,861
Decrease in other assets	1,703	7,613
Net cash used in investing activities	(1,006,024)	(298,994)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issuance of bank debentures	2,000,000	5,000,000
Repayment of bank debentures	(12,000,000)	-
Increase in guarantee deposits received	506,245	-
Decrease in guarantee deposits received	-	(473,964)
Dividends paid	(8,703,900)	(8,490,630)
Capital increase	5,000,048	5,300,505
Net cash generated by (used in) financing activities	(13,197,607)	1,335,911
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,054,575	923,926
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,099,206)	(310,258,717)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	120,906,483	431,165,200
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 109,807,277	$ 120,906,483

(Continued)

TAIWAN COOPERATIVE BANK, LTD.

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

Cash and cash equivalent reconciliations:

	December 31	
	2017	**2016**
Cash and cash equivalents in the balance sheets	$ 63,562,455	$ 54,064,826
Due from the Central Bank and call loans to other banks in accordance with the definition of cash and cash equivalents under IAS 7 "Statement of Cash Flows"	45,698,559	66,841,657
Securities purchased under resell agreements in accordance with the definition of cash and cash equivalents under IAS 7 "Statement of Cash Flows"	249,463	-
Other items in accordance with the definition of cash and cash equivalents under IAS 7 "Statement of Cash Flows"	296,800	-
Cash and cash equivalents, end of the year	$ 109,807,277	$ 120,906,483

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

TAIWAN COOPERATIVE BANK, LTD.

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

1. ORGANIZATION AND OPERATIONS

Taiwan Cooperative Bank, Ltd. (the Bank) was officially established on October 5, 1946 to regulate the supply of and demand for funds for cooperative organizations by accepting their surplus funds as deposits and extending working funds to them. On February 10, 2006, the Bank changed its Chinese name upon approval by the Ministry of Economic Affairs. However, the Bank's English name remains unchanged. The Bank became a legal entity in 1985 in accordance with the Banking Law. At the start of 2001, the Bank was converted into a corporate entity engaged in (a) all commercial banking operations allowed under the Banking Law; (b) international banking operations; (c) overseas branch operations as authorized by the respective foreign governments; and (d) other operations as authorized by the central authority-in-charge.

The Bank's shares have been listed on the Taiwan Stock Exchange since November 17, 2004.

The Bank merged with the Farmers Bank of China (FBC) on May 1, 2006, with the Bank as the survivor entity.

On June 24, 2011, the Bank's stockholders approved the establishment of Taiwan Cooperative Financial Holding Company, Ltd. (TCFHC) by swapping the Bank's shares with those Co-operative Asset Management Co., Ltd. (CAM) and Taiwan Cooperative Bills Finance Corporation Ltd. (TCBF) in accordance with the "Financial Holding Company Act" and other regulations. The boards of directors of the Bank, CAM and TCBF designated December 1, 2011 as the effective date of the share swap. After the shares transfer, the Bank became a 100% subsidiary of TCFHC. Also on December 1, 2011, the trading of the Bank's stock on the Taiwan Stock Exchange (TSE) was stopped, and TCFHC's stock started to be traded on the TSE.

On December 2, 2011, the Bank reduced its capital by NT$3 billion and spun off its Security Department to incorporate Taiwan Cooperative Securities Corp. (TCS), which became a 100% subsidiary of TCFHC.

In order to integrate resources and enhance operating effectiveness, the board of directors of the Bank and Cooperative Insurance Brokers Co., Ltd. (CIB) decided to merge the Bank and CIB on April 25, 2016. The effective date of the merger was June 24, 2016. In this merger, the Bank was the surviving entity.

The Bank has its Head Office in Taipei. It had a Business, International Banking, Finance, Credit Card, Trust and Insurance Agent Departments as well as 269 domestic branches, an offshore banking unit (OBU), 12 overseas branches and 2 representative office as of December 31, 2017.

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

As of December 31, 2017 and 2016, the Bank had 8,059 and 8,262 employees, respectively.

The operating units of the Bank maintain their accounts in their respective functional currencies. The financial statements are presented in New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the Bank's board of directors on March 23, 2018.

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

a. Effects of initial application of the amended Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

   The Bank applies Order No. 1050026834 issued by the FSC, the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the International Accounting Standards Board (IASB) and endorsed and issued into effect by the FSC for application starting from 2017, and the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks, and Regulations Governing the Preparation of Financial Reports by Securities Firms.

   Except for the following, the initial application of the above New IFRSs in 2017 and related amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks, and Regulations Governing the Preparation of Financial Reports by Securities Firms did not have any material impact on the Bank's accounting policies:

   <u>Amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms</u>

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

   The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Bank are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists.

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

b. Effects of the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Bank's accounting policies, except for the following:

- IFRS 9 "Financial Instruments" and related amendments

  Classification, measurement and impairment of financial assets

  With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value.

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

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

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

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

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

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

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

3) Debt investments classified as available-for-sale financial assets, held-to-maturity financial assets and debt investments with no active market that are measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect the contractual cash flows. Debt investments classified as available-for-sale financial assets, held-to-maturity financial assets and debt investments with no active market will be classified as at fair value through other comprehensive income under IFRS 9 because on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is achieved both by collecting the contractual cash flows and selling the financial assets.

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

For purchased or originated credit-impaired financial assets, the Bank takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

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

Transition of classification, measurement and impairment of financial assets

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

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss	$ 12,862,843	$ 237,173	$ 13,100,016
Financial assets at fair value through other comprehensive income	-	240,695,527	240,695,527
Available-for-sale financial assets, net	154,441,496	(154,441,496)	-
Held-to-maturity financial assets	513,789,325	(513,789,325)	-
Financial assets measured at amortized cost	-	516,350,907	516,350,907
Financial assets carried at cost	4,092,383	(4,092,383)	-
Debt investments with no active market - current	82,438,716	(82,438,716)	-
Receivables, net	18,593,582	(24,128)	18,569,454
Investments accounted for using equity method	2,073,809	(86)	2,073,723
Total effect on assets	$ 788,292,154	$ 2,497,473	$ 790,789,627
Provisions	$ 7,624,197	$ 155,129	$ 7,779,326
Total effect on liabilities	$ 7,624,197	$ 155,129	$ 7,779,326
Retained earnings	$ 52,986,510	$ (314,712)	$ 52,671,798
Other equity	425,598	2,657,056	3,082,654
Total effect on equity	$ 53,412,108	$ 2,342,344	$ 55,754,452

Except for the above impact, as of the date the financial statements were authorized for issue, the Bank has assessed that application of other standards and interpretations will not have material impact on the Bank's financial position and financial performance.

c. The Bank has not yet applied the new IFRSs announced by IASB but not yet endorsed and issued into effect by the FSC

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

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

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

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

Note 4: The Group 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.

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

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

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

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 entity expects to better predict the resolution of the uncertainty. The Bank has to reassess its judgments and estimates if facts and circumstances change.

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

Except for the above impact, as of the date the 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 and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c. Level 3 inputs are unobservable inputs for the asset or liability.

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

The financial statements also include accounts of the Bank's Head Office, OBU, and all branches. All interoffice account balances and transactions have been eliminated.

Foreign-currency Transactions

The Bank records foreign-currency transactions in the respective currencies in which these are denominated. Every month-end, foreign currency income and expenses are translated into New Taiwan dollars at the prevailing exchange rates. At month-end, monetary assets and liabilities denominated in foreign currencies are reported using the prevailing exchange rates, and exchange differences are recognized in profit or loss. Nonmonetary assets and liabilities measured at fair value are translated using the prevailing exchange rates at month-end. Translation differences on nonmonetary assets and liabilities measured at fair value are recognized in profit or loss, except for translation difference arising from nonmonetary items of which the change in fair values is recognized in other comprehensive income, in which case, the translation differences are also recognized directly in other comprehensive income. Nonmonetary assets and liabilities that are classified as carried at cost are recognized at the exchange rate on the transaction date.

In preparing the financial statements, foreign operations' financial statements are translated at the following rates: Assets and liabilities - the prevailing exchange rates on the balance sheet date; and income and expenses - at the average exchange rate for the year. Translation difference net of income tax is recorded as "other comprehensive income" and accumulated in equity.

Classification of Current and Noncurrent Assets and Liabilities

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the Bank's financial statements are not classified as current or noncurrent. Nevertheless, these accounts are properly categorized in accordance with the nature of each account and sequenced by liquidity.

Cash and Cash Equivalents

In the balance sheet, cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. In the statement of cash flows, cash and cash equivalents comprise cash and cash equivalents defined in the balance sheet, due from the Central Bank and call loans to other banks, securities purchased under resell agreements, and call loans to securities firms that correspond to the definition of cash and cash equivalents in IAS 7 "Cash Flow Statements," as endorsed by the FSC.

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

<u>Financial assets</u>

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

a. Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss (FVTPL), available-for-sale (AFS) financial assets, held-to-maturity financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Financial assets at FVTPL

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

A financial asset is classified as designated as at FVTPL upon initial recognition if:

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

- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is 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

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

Financial assets at 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 dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 38.

2) Available-for-sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss. AFS financial assets are stated at fair value at each balance sheet date. Fair value is determined in the manner described in Note 38.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed or is determined to be impaired.

Cash dividends on AFS equity instruments are recognized in profit or loss when the Bank's right to receive the dividends is established. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of investee's shares held.

AFS financial assets that do not have a quoted market price in an active market and have a fair value that 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 losses at the balance sheet date and are recognized in a separate line item as financial assets carried at cost. These financial assets are measured at fair values if the fair values can be reliably measured subsequently. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income. When an AFS financial asset is considered impaired, the losses are recognized to profit or loss.

3) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity.

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

4) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and cash equivalents, due from the Central Bank and call loans to other banks, receivables, debt instruments with no active markets) are measured at amortized cost using the effective interest method less any impairment.

b. Impairment of financial assets

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

- Significant financial difficulty of the asset issuer and debtor;
- The financial assets becoming overdue;
- Probability that the debtor will enter into bankruptcy or undergo financial reorganization.

Amortized cost of the presentation of financial assets (loans and receivables) that are individually assessed had no objective evidence of impairment are further assessed collectively for impairment. Objective evidence of impairment of a portfolio of receivables could include the Bank's past difficulty in collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on financial assets.

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 with consideration to the collaterals and guarantees, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if 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 the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For AFS equity instruments, 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 AFS financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

For AFS equity instruments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. For AFS debt instruments, impairment losses are 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 carried at cost, the impairment loss is measured as the difference between the 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. This impairment loss will not be reversed in subsequent periods.

Impairment loss on financial asset is recognized by reducing its carrying amount through the use of an allowance account. When financial assets are considered uncollectable, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss.

Under FSC guidelines, the Bank should classify credit assets as sound credit assets or unsound credit assets, with the unsound assets further categorized as special mention, substandard, with collectability highly doubtful and uncollectable, on the basis of the customers' financial position, valuation of collaterals and the length of time the principal repayments or interest payments have become overdue.

The Bank made 100%, 50%, 10%, 2% and 1% provisions for credits deemed uncollectable, with collectability highly doubtful, substandard, special mention and sound credit assets (excluding assets that represent claims against an ROC government agency), respectively, as minimum provisions. In addition, the Bank was required to make provisions of at least 1.5% each for the sound credit assets on loans granted to Mainland China clients (including short-term trading financing) and for mortgage loans granted for housing acquisition, renovation and construction.

Credits deemed uncollectable may be written off if the write-off is approved by the board of directors.

c. Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amounts and the sum of the consideration received, receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Equity instruments

The Bank classifies the debt and equity instruments issued either as financial liabilities or as equity in accordance with the substance of the contractual agreements and the definitions of a financial liability or an equity instrument.

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

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

Financial liabilities

a. Subsequent measurement

   Except for the cases stated below, all financial liabilities are measured at amortized cost using the effective interest method:

   1) Financial liabilities at FVTPL

      Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or designated as at FVTPL.

      A financial liability is classified as designated as at FVTPL upon initial recognition if:

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

      - The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is 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

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

      Financial liabilities 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 interest paid on the financial liability. For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and it will not be subsequently reclassified to profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss. Fair value is determined in the manner described in Note 38.

   2) Financial guarantee contracts

      Financial guarantee contracts issued by the Bank are not designated as at FVTPL and are subsequently measured at the higher of (a) the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; or (b) the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with revenue recognition policies.

b. Derecognition of financial liabilities

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

Derivatives

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognized in profit or loss immediately. If the fair value of a derivative is a positive number, the derivative is carried as a financial asset and if the fair value is a negative number, the derivative is carried as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

Overdue Loans

Loans and other credits (including accrued interest) that are overdue for at least six months are classified as overdue loans in accordance with the guideline issued by the FSC.

Overdue loans (except other credits) are classified as discounts and loans, and the remaining are classified as other financial assets.

Securities Purchased/Sold Under Resell/Repurchase Agreements

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

Investments Accounted for Using Equity Method

Investments in subsidiaries, associates and joint ventures are accounted for by the equity method.

Investment in subsidiaries

Subsidiaries (including structured entities) are the entities controlled by the Bank.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Bank's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Bank also recognizes the Bank's share of the change in other equity of the subsidiary.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Bank's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by 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.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

When the Bank ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, 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 and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and sidestream transactions between subsidiaries are recognized in the Bank's financial statements only to the extent of interests in the subsidiary that are not related to the Bank.

Investment in associates and joint ventures

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. Joint venture is a joint arrangement whereby the Bank and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Bank uses the equity method to account for investments in associates and joint ventures. Under the equity method, investment in an associate or a joint ventures entity 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 associate or jointly controlled entity. The Bank also recognizes the changes in the Bank's share of equity of associates or joint ventures.

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

When the Bank's share of losses of an associate or a joint ventures equals or exceeds its interest in that associate or joint ventures, which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Bank's net investment in the associate or joint ventures, 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 or joint ventures.

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 ventures recognized 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.

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

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

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

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the year in which the property is derecognized.

Properties and Equipment

Properties and equipment are initially recognized at cost and subsequently measured at costs less accumulated depreciation and accumulated impairment losses.

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

Any gain or loss recognized on the disposal or retirement of an item of property and equipment is the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the asset is derecognized.

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.

<u>The Bank as a lessor</u>

Rental income from operating leases is recognized in revenues over the lease periods on a straight-line basis. Contingent rents arising under operating leases are recognized as income in the year in which they are incurred.

Lease incentives offered in the 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 over the lease term.

The Bank as a lessee

Finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

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

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 year.

Lease incentives received for operating leases are recognized under liabilities. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term.

When the Bank sells and leases back a property, the excess of sales proceeds over the carrying amount that resulted from the sale of the property is deferred and amortized over the lease term regardless of whether operating lease or finance lease. For indefinite lease term, the excess is amortized over 10 years.

Goodwill

Goodwill (part of intangible assets) from business combination is recorded at acquisition cost and subsequently measured at cost less accumulated impairment.

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 (CGU)) that is expected to benefit from the synergies of the combination.

In testing assets for impairment, the Bank compares the carrying amounts of operating segments (CGUs with allocated goodwill) to their recoverable amounts on a yearly basis (or when impairment indicators exist). CGUs with allocated goodwill arise from the current year should be tested for impairment before the end of the year. When the recoverable amount of CGUs is below the carrying amount, an impairment loss should be recognized to reduce first the carrying amount of goodwill of the CGU and then the carrying amounts of other assets of the CGU proportionately. Any impairment loss should be directly recognized as loss in the current year, and subsequent reversal of impairment loss is not allowed.

On disposal of the relevant cash-generating unit, the amount attributable to goodwill is included in the determination of the profit or loss on disposal.

Intangible Assets Other Than Goodwill

Separate acquisition

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. At year-end, the Bank examines its estimates of the useful lives, residual values and amortization method of the assets, and any changes in estimates are accounted for prospectively. Unless the Bank expects to dispose of an intangible asset before the end of its useful life, the residual value of an intangible asset with limited useful life is estimated to be zero. The effect of any changes in estimates accounted for on a prospective basis.

Acquisition as part of a business combination

Intangible asset acquired through business combination is measured at its fair value on the acquisition date, and is recognized separately from goodwill. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

Derecognition

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the assets is derecognized.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets (except goodwill) for any indication of 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. Corporate assets are allocated to the individual cash-generating units or a reasonable and consistent basis of allocation. The recoverable amount is the higher of fair value less selling costs or 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 is reduced to its recoverable amount. If asset impairment loss reverses, the increase in the carrying amount resulting from reversal is credited to earnings. However, loss reversal should not be more than the carrying amount (net of depreciation or amortization) had the impairment loss not been recognized.

Foreclosed Collaterals

Foreclosed collaterals (part of other assets) are recorded at the fair value on recognition and recorded at the lower of cost or net fair value as of the balance sheet dates. Net fair value falling below book value indicates impairment, and impairment loss should be recognized. If the net fair value recovers, the recovery of impairment loss is recognized in gains. For foreclosed collaterals that should have been disposed of in the statutory term, unless the disposal period is prolonged, additional provision for losses should be made and impairment loss should be recognized, as required under a FSC directive.

Provisions

Provisions are the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties on the obligation. A provision is measured using the cash flows estimated to settle the present 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.

Recognition of Revenue

Interest revenue on loans is recorded on an accrual basis. Under the guidance of the FSC, no interest revenue is recognized on loans that are classified as overdue loans. The interest revenue on these loans is recognized upon collection of the loans and credits.

Service fees are recognized when a major part of the earnings process is completed and cash is collected.

Dividend income from investments is recognized when the stockholder’s right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Service that results in award credits for customers, under the Bank's award scheme, is accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the service rendered and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value. Such consideration is not recognized as revenue at the time of the initial sale transaction but is deferred and recognized as revenue when the award credits are redeemed and the Bank's obligations have been fulfilled.

Employee Benefits

Short-term employee benefits

Short-term and non-discounted employee benefits are recognized as expenses in the current year as services are rendered.

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 and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

Preferential interest deposits for employees

The Bank provides preferential interest deposits to current and retired employees, and these deposits, including payments of the preferential interest deposits, are within certain amounts. The preferential rates for employees' deposits in excess of market rate should be treated as employee benefits.

Under the Guidelines Governing the Preparation of Financial Reports by Public Banks, the Bank should follow the requirement of IAS 19 "Employee Benefits" endorsed by FSC to determine the excess interest on the preferential interest deposits of retired employees by applying an actuarial valuation method when the employees retire. The actuarial assumptions should be in accordance with the requirements set by the authorities.

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.

Share-based Payment

The Bank's employees subscribed for the reserved shares of Taiwan Cooperative Financial Holding Company, Ltd. (TCFHC) in accordance with the Financial Holding Company Act, and the Bank recognized the fair value of the stock options under salary expenses and under capital surplus for share-based payment on the grant date, i.e., the date when the Bank and its employees made an agreement for the employees to subscribe for TCFHC's shares.

Taxation

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

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.

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 differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which these deductible temporary differences can be used. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from the initial recognition of goodwill.

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 is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized 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 each balance sheet date 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 each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current and deferred tax for the year

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 tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred taxes arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

TCFHC and its subsidiaries elected to file consolidated tax returns for periods starting in 2012. However, since the Bank applied the accounting treatment mentioned in the preceding paragraph to income tax, any distribution of cash payments and receipts among the consolidated group members is recorded as current tax assets or current tax liabilities.

Business Combination

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized as expense as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Business combination involving entities under common control is not accounted for by acquisition method but accounted for at the carrying amounts of the entities. Prior period comparative information in the financial statements is restated as if a business combination involving entities under common control had already occurred in that period.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 4, the Bank's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

Unless stated in other notes, the following are the critical judgments, assumptions and estimation uncertainty estimations that the Bank's management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

a. Impairment losses on loans

The Bank monthly assesses loans collectively. When determining whether an impairment loss should be recognized, the Bank mainly seeks for observable evidence that indicates impairment. Objective evidence of impairment of a portfolio of loans and receivables could include the Bank's past difficulty in collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on loans and receivables. The management uses past loss experience on assets that have similar credit risk characteristics to estimate the expected future cash flows. The Bank reviews the methods and assumptions of cash flow estimation regularly to eliminate the difference between expected and actual loss.

b. Fair values of financial instruments

Fair values of financial instruments in an inactive market or with no quoted market prices are determined by valuation techniques. Under these circumstances, fair values are derived from observable market data of other similar financial assets. When there are no observable inputs in the market, the fair values of financial instruments are estimated by making appropriate assumptions. The Bank applies appropriate valuation models to determine the fair values of financial instruments subjective to valuation techniques. All models are fine-tuned to ensure the valuation results fairly reflect actual market information and prices. The Bank's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

For the fair value determination of financial instruments, refer to Note 38 to the financial statements.

c. Income tax

The Bank assesses income tax based on the calculation of taxable income earned from domestic and foreign sources. The assessment of tax on both domestic and foreign sourced income requires summarizing, analyzing and calculating of multiple transactions. When the final tax amount differs from the amount originally recognized, the difference affects the recognition of both current and deferred income tax. In addition, the realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

d. Employment benefits

The calculation of the present value of post-employment benefits and preferential rates for retired employees' deposits is based on the actuarial result under several assumptions. Any change in these assumptions may affect the carrying amount of post-employment benefits and preferential rates interest deposits plan for retired employees.

One of the estimates used for determining the net pension costs (revenues) is discount rate. The Bank determines appropriate discount rates at the end of each year and estimates the present values of future cash outflows resulting from fulfilling the post-employment obligation by the discount rates. To better determine the discount rates, the Bank takes into account the interest rates of high-quality corporate bonds or government bonds, with currencies the same as those of post-employment benefit payments, and with durations that match those of the corresponding pension liabilities.

Other significant assumptions for post-employment obligation are subject to current market condition. Significant assumptions for the obligation of preferential interest deposits for retired employee are determined by the authorities.

e. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

f. Impairment assessment of available-for-sale equity investment

Objective evidences of the impairment of an available-for-sale equity investment include the fair value of that investment falling significantly or constantly below the cost. Subjective judgments are required when assessing the impairment. The Bank's management considers past market fluctuation, historical prices of the investment and other factors that affect the performance of the industries to which the investees belong to make the subjective judgments.

g. The valuation of provision for financial guarantee contracts

Except for the minimum standards under certain laws, the Bank's main basis for deciding the amounts of provisions is whether there is any observable evidence that the Bank has payment obligations to compensate the losses of guarantee holders. The Bank regularly reviews the economic situation in terms of defaults on debt repayments to reduce the difference between the estimated and the actual amounts of loss.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	$ 22,458,545	$ 21,107,244
Notes and checks in clearing	23,198,709	21,179,639
Due from banks	17,905,201	11,777,943
	$ 63,562,455	$ 54,064,826

Reconciliations of cash and cash equivalents between the statements of cash flows and the balance sheets as of December 31, 2017 and 2016 are shown in the statements of cash flows.

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

	December 31	
	2017	2016
Reserves for deposits - account A	$ 36,817,723	$ 34,750,975
Reserves for deposits - account B	68,849,178	67,264,263
Reserves for deposits - community financial institutions	56,667,002	54,742,220
Reserves for deposits - foreign-currency deposits	370,594	354,002
Deposits in the Central Bank	39,200,000	39,200,000
Negotiable certificates of deposit in the Central Bank	800,000	1,435,000
Due from the Central Bank - others	10,732,126	8,958,457
Due from the Central Bank - central government agencies' deposits	2,498,012	4,246,259
Call loans to banks	58,406,917	91,066,262
	$ 274,341,552	$ 302,017,438

The deposit reserves are determined monthly at prescribed rates based on the average balances of various types of deposit accounts held by the Bank. The deposit reserves are subject to withdrawal restrictions, but deposit reserve - account A and foreign-currency deposit reserves may be withdrawn anytime.

Under the guideline issued by the Central Bank of the Republic of China (CBC), the Bank should deposit 60 percent of the deposits of central government agencies in the CBC, and the deposits are subject to withdrawal restrictions.

8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Held-for-trading financial assets		
Commercial paper	$ 8,348,633	$ 18,918,778
Listed stocks	1,078,689	902,142
Corporate bonds	755,666	753,787
Convertible bonds	136,488	-
Government bonds	-	3,741,272
Currency swap contracts	2,089,967	3,122,206

(Continued)

	December 31	
	2017	2016
Interest rate swap contracts	$ 158,184	$ -
Forward contracts	116,003	256,258
Foreign-currency margin contracts	112,946	81,509
Futures exchange margins	26,197	3,736
Cross-currency swap contracts	21,764	13,294
Currency option contracts - buy	18,306	73,155
Financial assets at fair value through profit or loss	$ 12,862,843	$ 27,866,137
Held-for-trading financial liabilities		
Currency swap contracts	$ 2,701,991	$ 1,809,972
Currency option contracts - sell	18,304	74,734
Interest rate swap contracts	16,021	234,441
Cross-currency swap contracts	15,108	15,078
Forward contracts	10,907	160,751
Foreign-currency margin contracts	229	-
	2,762,560	2,294,976
Financial liabilities designated as at fair value through profit or loss		
Bank debentures (Note 24)	11,688,291	12,336,035
Financial liabilities at fair value through profit or loss	$ 14,450,851	$ 14,631,011
		(Concluded)

As of December 31, 2017 and 2016, financial assets at fair value through profit or loss amounting to $3,050,092 thousand and $4,500,805 thousand, respectively, had been sold under repurchase agreements.

The Bank enters into derivative transactions mainly to accommodate customers' needs and to manage its exposure to adverse changes in exchange rates and interest rates. The Bank's strategy for hedging against risk is to reduce most of the market price risk or cash flow risk.

As of December 31, 2017 and 2016, the contract (notional) amounts of derivative transactions of Bank were as follows:

	December 31	
	2017	2016
Currency swap contracts	$ 389,028,378	$ 386,643,205
Interest rate swap contracts	16,987,717	14,928,007
Forward contracts	10,061,815	21,618,774
Currency option contracts - sell	4,936,507	6,939,285
Currency option contracts - buy	4,936,507	6,718,188
Cross-currency swap contracts	1,910,603	1,387,092
Foreign-currency margin contracts	1,555,713	1,162,522

As of December 31, 2017, the open position of futures transactions of the Bank were as follows:

		December 31, 2017			
		Open Position		Contract Amounts or Premium Paid (Charged)	
Items	Products	Buy/Sell	Number of Contracts		Fair Values
Futures contracts	TAIEX Futures 201801	Sell	10	$ 21,050	$ 21,266
	10-Year U.S. Treasury Note Futures 201803	Sell	30	110,808	110,270

9. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

Securities acquired for $249,463 thousand under resell agreements as of December 31, 2017, will subsequently be sold for $249,533 thousand.

10. RECEIVABLES, NET

	December 31	
	2017	2016
Accrued interest	$ 7,521,346	$ 6,396,248
Acceptances	4,119,715	3,289,300
Credit cards	3,214,061	2,932,579
Accounts receivable factored without recourse	1,843,856	561,785
Receivable from merchant accounts in credit cards business	1,031,825	693,721
Credits receivable	463,578	468,946
Accounts receivable	445,631	532,904
Refundable deposits receivable in leasehold agreements	183,993	272,993
Receivable on securities	153,075	94,877
Others	347,745	269,028
	19,324,825	15,512,381
Less: Allowance for possible losses	731,243	703,687
	$ 18,593,582	$ 14,808,694

Credits receivable due to the merger with the Farmers Bank of China on May 1, 2006 were recognized at fair value of credits written off by the Farmers Bank of China in the past. The fair values were evaluated by PricewaterhouseCoopers Financial Advisory Service Co., Ltd.

The allowances for possible losses on receivables (except spot exchange receivable - foreign currencies, which amounted to $21 thousand and $0 thousand, respectively) assessed for impairment as of December 31, 2017 and 2016 were as follows:

Items		December 31, 2017		December 31, 2016	
		Receivables	**Allowance for Possible Losses**	**Receivables**	**Allowance for Possible Losses**
With objective evidence of impairment	Assessment of individual impairment	$ 854,629	$ 595,821	$ 963,217	$ 558,168
	Assessment of collective impairment	116,033	31,979	115,996	37,125
With no objective evidence of impairment	Assessment of collective impairment	18,354,142	103,443	14,433,168	78,394
Total		19,324,804	731,243	15,512,381	703,687

The changes in allowance for possible losses are summarized below:

	For the Year Ended December 31	
	2017	**2016**
Balance, January 1	$ 703,687	$ 596,764
Provision for possible losses	168,772	123,594
Write-offs	(143,049)	(17,110)
Recovery of written-off receivables	5,059	661
Effects of exchange rate changes	(3,226)	(222)
Balance, December 31	$ 731,243	$ 703,687

11. DISCOUNTS AND LOANS, NET

	December 31	
	2017	**2016**
Bills discounted	$ 1,446,384	$ 1,624,550
Overdraft		
Unsecured	136,988	144,492
Secured	63,885	89,017
Import and export negotiations	663,775	581,716
Short-term loans		
Unsecured	249,778,666	222,846,953
Accounts receivable financing	869,022	560,979
Secured	190,622,135	174,550,850
Medium-term loans		
Unsecured	296,049,415	290,839,159
Secured	299,366,082	309,946,717

(Continued)

	December 31	
	2017	**2016**
Long-term loans		
Unsecured	$ 27,915,371	$ 29,959,231
Secured	946,289,312	944,395,557
Overdue loans	6,075,410	6,768,785
	2,019,276,445	1,982,308,006
Less: Allowance for possible losses	25,040,509	23,347,544
Less: Adjustment of discount	416,502	452,050
	$ 1,993,819,434	$ 1,958,508,412

(Concluded)

As of December 31, 2017 and 2016, accrual of interest on the above overdue loans had stopped. Thus, the unrecognized interest revenue was $138,512 thousand and $118,803 thousand in 2017 and 2016, respectively, based on the average loan interest rate for the year.

The allowances for possible losses on discounts and loans assessed for impairment as of December 31, 2017 and 2016 were as follows:

Items		**December 31, 2017**		**December 31, 2016**	
		Discounts and Loans	**Allowance for Possible Losses**	**Discounts and Loans**	**Allowance for Possible Losses**
With objective evidence of impairment	Assessment of individual impairment	$ 19,115,109	$ 3,765,681	$ 18,864,113	$ 4,711,710
	Assessment of collective impairment	11,295,185	1,910,062	10,715,491	1,817,649
With no objective evidence of impairment	Assessment of collective impairment	1,988,866,151	19,364,766	1,952,728,402	16,818,185
Total		2,019,276,445	25,040,509	1,982,308,006	23,347,544

The changes in allowance for possible losses are summarized below:

	For the Year Ended December 31	
	2017	**2016**
Balance, January 1	$ 23,347,544	$ 21,252,865
Provisions for possible losses	4,095,817	3,377,104
Write-offs	(3,569,009)	(3,630,920)
Recovery of written-off receivables	1,398,189	2,415,490
Effects of exchange rate and other changes	(232,032)	(66,995)
Balance, December 31	$ 25,040,509	$ 23,347,544

The details of bad-debt expenses and provision for losses on guarantees in 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Provision for possible losses on discounts and loans	$ 4,095,817	$ 3,377,104
Provision for possible losses on receivables	168,772	123,594
Provision for possible losses on overdue receivables	818,853	250,498
Provision for possible losses on guarantees	219,052	51,466
	$ 5,302,494	$ 3,802,662

As of December 31, 2017 and 2016, The Bank was in compliance with the FSC-required provision for credit assets.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET

	December 31	
	2017	2016
Government bonds	$ 87,996,767	$ 75,321,048
Bank debentures	36,665,414	29,457,223
Corporate bonds	25,331,812	14,349,335
Listed stocks and emerging market stocks	4,316,380	4,230,764
Beneficiary certificates	131,123	282,576
	$ 154,441,496	$ 123,640,946

The Bank evaluated its available-for-sale financial assets and recognized a reversal of impairment loss of $3,221 thousand because of the change in credit rating of the bond issuer in 2016.

As of December 31, 2017 and 2016, available-for-sale financial assets amounting to $6,867,946 thousand and $6,870,688 thousand, respectively, had been sold under repurchase agreements.

13. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2017	2016
Negotiable certificates of deposit in the Central Bank	$ 402,675,000	$ 431,410,000
Government bonds	76,495,807	52,658,934
Corporate bonds	28,440,163	19,770,568
Bank debentures	5,902,331	5,410,938
Certificates of deposit	276,024	299,646
Treasury bills	-	498,878
	$ 513,789,325	$ 510,048,964

The Bank evaluated its held-to-maturity financial assets and recognized a reversal of impairment loss of $7,895 thousand and $3,130 thousand on some bonds because of the change in credit ratings of the bond issuers in 2017 and 2016, respectively.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	2016
Investment in subsidiary	$ 1,949,463	$ 1,760,886
Investment in associate	124,346	121,381
	$ 2,073,809	$ 1,882,267

a. Investment in subsidiary

	December 31			
	2017		2016	
	Amount	Percentage of Ownership	Amount	Percentage of Ownership
United Taiwan Bank S.A	$ 1,949,463	90.02	$ 1,760,886	90.02

b. Investment in associate

	December 31			
	2017		2016	
	Amount	Percentage of Ownership	Amount	Percentage of Ownership
United Real Estate Management Co., Ltd.	$ 124,346	30.00	$ 121,381	30.00

Aggregate information of associate that is not individually material:

	For the Year Ended December 31	
	2017	2016
The Bank's share of:		
Net income	$ 4,998	$ 5,383
Other comprehensive income	4,036	(299)
Total comprehensive income for the year	$ 9,034	$ 5,084

The Bank received $6,069 thousand and $5,726 thousand dividends from United Real Estate Management Co., Ltd. for the years ended December 31, 2017 and 2016, respectively. The dividends are recognized as a reduction of investments accounted for using equity method.

The investments accounted for using equity method and the share of profit or loss and other comprehensive income of the investments for the years ended December 31, 2017 and 2016 were based on the financial statements audited by the auditors for the same years.

15. OTHER FINANCIAL ASSETS, NET

	December 31	
	2017	2016
Overdue receivables	$ 987,653	$ 593,863
Less: Allowance for possible losses	958,408	551,226
Overdue receivables, net	29,245	42,637
Debt instruments with no active market	82,438,716	78,619,317
Due from banks	20,145,645	17,133,396
Financial assets carried at cost	4,092,383	4,092,383
Call loans to securities firms	296,800	-
	$ 107,002,789	$ 99,887,733

Debt instruments with no active market are summarized as follows:

	December 31	
	2017	2016
Corporate bonds	$ 67,217,840	$ 63,551,958
Bank debentures	15,220,876	15,067,359
	$ 82,438,716	$ 78,619,317

Financial assets carried at cost are summarized as follows:

	December 31			
	2017		2016	
	Amount	Percentage of Ownership	Amount	Percentage of Ownership
Taiwan Asset Management Co., Ltd.	$ 2,370,934	17.03	$ 2,370,934	17.03
Taipei Financial Center Corp.	669,600	1.63	669,600	1.63
Taiwan Power Company	631,153	0.24	631,153	0.24
Financial Information Service Co., Ltd.	135,405	2.89	135,405	2.89
Taiwan Financial Asset Service Co., Ltd.	101,125	5.88	101,125	5.88
Others	184,166		184,166	
	$ 4,092,383		$ 4,092,383	

Management believed that the above equity investments held by the Bank have fair value that cannot be reliably measured because the range of reasonable fair value estimates was so significant; therefore, they were measured at cost less impairment at the end of reporting period.

Due from banks (part of other financial assets, net) held by the Bank were demand deposits and time deposits could not be withdrawn and had maturity periods of more than three months and could not be used before maturity.

16. PROPERTIES AND EQUIPMENT, NET

	December 31	
	2017	2016
Carrying amount		
Land	$ 21,102,803	$ 24,325,945
Buildings	11,893,308	7,861,100
Machinery and equipment	519,325	689,312
Transportation equipment	90,089	92,258
Other equipment	113,111	101,008
Leasehold improvements	92,254	116,903
Leased assets	11,604	-
Prepayments for equipment, land and buildings and construction in progress	104,269	4,776,321
	$ 33,926,763	$ 37,962,847

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Leasehold Improvements	Leased Assets	Prepayments	Total
Cost									
Balance, January 1, 2017	$ 24,341,122	$ 14,409,984	$ 4,553,709	$ 618,973	$ 1,149,262	$ 816,725	$ -	$ 4,776,321	$ 50,666,096
Additions	98,254	145,607	101,256	29,251	49,318	36,015	13,352	520,247	993,300
Disposals	-	(8,672)	(375,535)	(16,225)	(69,094)	(31,725)	-	-	(501,251)
Reclassification	-	5,120,506	48,943	165	5,775	572	-	(5,177,681)	(1,720)
Transferred to investment properties	(3,321,179)	(996,091)	-	-	-	-	-	-	(4,317,270)
Transferred to intangible assets	-	-	-	-	-	-	-	(14,618)	(14,618)
Effects of exchange rate changes	(217)	(460)	(9,261)	(1,462)	(3,062)	(12,707)	-	-	(27,169)
Balance, December 31, 2017	$ 21,117,980	$ 18,670,874	$ 4,319,112	$ 630,702	$ 1,132,199	$ 808,880	$ 13,352	$ 104,269	$ 46,797,368
Balance, January 1, 2016	$ 24,834,146	$ 14,648,512	$ 5,019,163	$ 623,196	$ 1,159,021	$ 817,062	$ -	$ 4,789,767	$ 51,890,867
Additions	-	17,221	51,234	15,953	30,188	20,523	-	84,747	219,866
Disposals	-	(860)	(563,267)	(21,194)	(40,858)	(21,872)	-	-	(648,051)
Reclassification	-	19,973	49,009	1,470	1,654	3,320	-	(83,063)	(7,637)
Transferred to investment properties	(492,967)	(296,674)	-	-	-	-	-	-	(789,641)
Transferred from investment properties	-	21,931	-	-	-	-	-	-	21,931
Transferred to intangible assets	-	-	-	-	-	-	-	(15,130)	(15,130)
Effects of exchange rate changes	(57)	(119)	(2,430)	(452)	(743)	(2,308)	-	-	(6,109)
Balance, December 31, 2016	$ 24,341,122	$ 14,409,984	$ 4,553,709	$ 618,973	$ 1,149,262	$ 816,725	$ -	$ 4,776,321	$ 50,666,096

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Leasehold Improvements	Leased Assets	Total
Accumulated depreciation and impairment								
Balance, January 1, 2017	$ 15,177	$ 6,548,884	$ 3,864,397	$ 526,715	$ 1,048,254	$ 699,822	$ -	$ 12,703,249
Disposals	-	(8,435)	(374,138)	(16,207)	(68,866)	(31,725)	-	(499,371)
Depreciation expenses	-	430,747	318,928	32,337	40,547	51,626	1,748	875,933
Transferred to investment properties	-	(193,309)	-	-	-	-	-	(193,309)
Effects of exchange rate changes	-	(321)	(9,400)	(2,232)	(847)	(3,097)	-	(15,897)
Balance, December 31, 2017	$ 15,177	$ 6,777,566	$ 3,799,787	$ 540,613	$ 1,019,088	$ 716,626	$ 1,748	$ 12,870,605
Balance, January 1, 2016	$ 15,177	$ 6,302,337	$ 4,067,010	$ 513,598	$ 1,043,883	$ 657,267	$ -	$ 12,599,272
Disposals	-	-	(562,589)	(21,174)	(40,721)	(21,872)	-	(646,356)
Depreciation expenses	-	370,717	361,913	36,382	45,761	65,248	-	880,021
Transferred to investment properties	-	(129,212)	-	-	-	-	-	(129,212)
Transferred from investment properties	-	5,115	-	-	-	-	-	5,115
Effects of exchange rate changes	-	(73)	(1,937)	(2,091)	(669)	(821)	-	(5,591)
Balance, December 31, 2016	$ 15,177	$ 6,548,884	$ 3,864,397	$ 526,715	$ 1,048,254	$ 699,822	$ -	$ 12,703,249

The Bank revalued its properties five times in 1979, 1998, 2007, 2011 and 2012. As December 31, 2017, the reserve for land revaluation increment tax (part of deferred tax liabilities) was $2,596,230 thousand.

Properties and equipment are depreciated on the straight-line method over service lives estimated as follows:

Buildings	
Main buildings	50 years
Equipment installed in buildings	10 to 15 years
Machinery and equipment	3 to 10 years
Transportation equipment	5 to 10 years
Other equipment	4 to 20 years
Leasehold improvements	3 to 5 years
Leased assets	7 years

As of December 31, 2016, the Bank's prepayments for equipment, land and buildings and construction in progress pertained to the construction of the head office. Constructions of the head office have been completed and accepted in 2017, and the property under construction has been transferred to accounting items such as buildings.

In testing assets for impairment, the Bank defined each operating unit or operating segment as a cash-generating unit (CGU). The recoverable amount of a CGU was determined at its value in use for the properties and equipment. The discount rates for the CGUs' value in use were 9.34% and 8.84% as of December 31, 2017 and 2016, respectively.

17. INVESTMENT PROPERTIES, NET

	December 31	
	2017	2016
Land	$ 5,568,323	$ 2,247,144
Buildings	1,416,086	639,219
	$ 6,984,409	$ 2,886,363

	Land	Buildings	Total
Cost			
Balance, January 1, 2017	$ 2,247,144	$ 1,062,523	$ 3,309,667
Transferred from properties and equipment	3,321,179	996,091	4,317,270
Balance, December 31, 2017	$ 5,568,323	$ 2,058,614	$ 7,626,937
Balance, January 1, 2016	$ 1,754,257	$ 793,051	$ 2,547,308
Disposals	(80)	(5,271)	(5,351)
Transferred from properties and equipment	492,967	296,674	789,641
Transferred to properties and equipment	-	(21,931)	(21,931)
Balance, December 31, 2016	$ 2,247,144	$ 1,062,523	$ 3,309,667
Accumulated depreciation and impairment			
Balance, January 1, 2017	$ -	$ 423,304	$ 423,304
Depreciation expenses	-	25,915	25,915
Transferred from properties and equipment	-	193,309	193,309
Balance, December 31, 2017	$ -	$ 642,528	$ 642,528
Balance, January 1, 2016	$ -	$ 277,808	$ 277,808
Depreciation expenses	-	22,955	22,955
Disposal	-	(1,556)	(1,556)
Transferred from properties and equipment	-	129,212	129,212
Transferred to properties and equipment	-	(5,115)	(5,115)
Balance, December 31, 2016	$ -	$ 423,304	$ 423,304

Investment properties (except for land) are depreciated through 50 years on a straight-line basis.

As of December 31, 2017 and 2016, the fair value of investment properties was $21,128,687 thousand and $7,738,382 thousand, respectively. The fair value was determined through calculations using the market value method.

The revenues generated from the investment properties are summarized as follows:

	For the Year Ended December 31	
	2017	2016
Rental income from investment properties	$ 216,874	$ 171,737
Direct operating expenses for investment properties that generate rental income	(61,962)	(48,088)
	$ 154,912	$ 123,649

18. INTANGIBLE ASSETS

	December 31	
	2017	2016
Goodwill	$ 3,170,005	$ 3,170,005
Computer software	343,487	375,307
	$ 3,513,492	$ 3,545,312

	Goodwill	Computer Software	Total
Balance, January 1, 2017	$ 3,170,005	$ 375,307	$ 3,545,312
Separate acquisition	-	111,389	111,389
Amortization expenses	-	(156,147)	(156,147)
Transferred from properties and equipment	-	14,618	14,618
Effect of exchange rate changes	-	(1,680)	(1,680)
Balance, December 31, 2017	$ 3,170,005	$ 343,487	$ 3,513,492
Balance, January 1, 2016	$ 3,170,005	$ 458,901	$ 3,628,906
Separate acquisition	-	75,452	75,452
Amortization expenses	-	(172,959)	(172,959)
Transferred from properties and equipment	-	15,130	15,130
Effect of exchange rate changes	-	(1,217)	(1,217)
Balance, December 31, 2016	$ 3,170,005	$ 375,307	$ 3,545,312

The computer software with limited useful life is amortized on a straight-line basis over the useful life of 5 years.

In testing assets for impairment, the Bank defined each operating unit or operating segment as a cash-generating unit (CGU). The recoverable amount of a CGU was determined at its value in use for the goodwill impairment test. The discount rates for the CGUs' value in use were 9.34% and 8.84% as of December 31, 2017 and 2016, respectively.

Goodwill resulting from merger of the Bank with the Farmers Bank of China was allocated to operating units or operating segment (cash-generating units with allocated goodwill). There was no impairment loss on goodwill as of December 31, 2017 and 2016.

19. OTHER ASSETS

	December 31	
	2017	2016
Refundable deposits	$ 291,328	$ 388,230
Prepaid expenses	254,752	262,449
Operating deposits	48,000	48,000
Others	12,439	12,452
	$ 606,519	$ 711,131

20. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2017	2016
Due to banks	$ 123,632,527	$ 127,053,225
Call loans from banks	78,964,960	83,018,325
Bank overdraft	5,355,483	9,482,741
Deposits from Chunghwa Post Co., Ltd.	3,920,100	5,815,108
Due to the Central Bank	426,995	299,512
	$ 212,300,065	$ 225,668,911

21. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold for $10,377,142 thousand and $12,000,831 thousand under repurchase agreements as of December 31, 2017 and 2016, respectively, would subsequently be purchased for $10,382,135 thousand and $12,006,077 thousand, respectively.

22. PAYABLES

	December 31	
	2017	2016
Checks for clearing	$ 23,198,709	$ 21,179,639
Accrued interest	4,388,767	3,752,969
Accrued expenses	4,289,330	4,253,905
Acceptances	4,147,242	3,396,401
Collections payable	4,143,416	5,886,095
Collections of notes and checks for various financial institutions in other cities	627,378	1,441,353
Tax payable	488,463	457,468
Payables on notes and checks collected for others	257,935	533,563
Dividends payable	170,524	170,524
Factored accounts payable	107,321	385,123
Payable on securities	90,526	688,648
Others	3,270,018	1,974,537
	$ 45,179,629	$ 44,120,225

23. DEPOSITS AND REMITTANCES

	December 31	
	2017	2016
Deposits		
Checking	$ 46,935,009	$ 46,844,220
Demand	526,285,176	481,256,965
Savings - demand	805,892,649	796,973,550
Time	490,679,464	477,016,603
Negotiable certificates of deposit	12,392,500	1,622,800
Savings - time	647,817,790	669,211,936
Treasury	93,750,404	90,797,579
Remittances	845,343	433,539
	$ 2,624,598,335	$ 2,564,157,192

24. BANK DEBENTURES

	December 31	
	2017	2016
First subordinated bonds in 2010: The bank's floating interest rate for 1-year time deposit plus 0.25%; maturity - June 21, 2017	$ -	$ 8,000,000
Second subordinated bonds in 2010, Type A: Reuters' fixing rate for 90 day's New Taiwan dollar commercial paper refers to the Taipei Interbank Offered Rate (TAIBOR) plus 0.15%; maturity - October 25, 2017	-	3,000,000
Second subordinated bonds in 2010, Type B: Fixed rate of 1.45%; maturity - October 25, 2017	-	1,000,000
First subordinated bonds in 2011, Type A: Reuters' fixing rate for 90 day's New Taiwan dollar commercial paper refers to the TAIBOR plus 0.15%; maturity - May 25, 2018	7,300,000	7,300,000
First subordinated bonds in 2011, Type B: Fixed rate of 1.65%; maturity - May 25, 2018	2,700,000	2,700,000
Second subordinated bonds in 2011, Type A: Reuters' fixing rate for 90 day's New Taiwan dollar commercial paper refers to the TAIBOR plus 0.25%; maturity - July 28, 2018	1,200,000	1,200,000
Second subordinated bonds in 2011, Type B: Fixed rate of 1.70%; maturity - July 28, 2018	3,410,000	3,410,000
First subordinated bonds in 2012: Fixed rate of 1.65%; maturity - June 28, 2022	11,650,000	11,650,000
Second subordinated bonds in 2012, Type A: Fixed rate of 1.43%; maturity - December 25, 2019	1,000,000	1,000,000
Second subordinated bonds in 2012, Type B: Fixed rate of 1.55%; maturity - December 25, 2022	7,350,000	7,350,000
First subordinated bonds in 2013, Type A: Reuters' fixing rate for 90 day's New Taiwan dollar commercial paper refers to the TAIBOR plus 0.43%; maturity - March 28, 2020	4,000,000	4,000,000
First subordinated bonds in 2013, Type B: Fixed rate of 1.48%; maturity - March 28, 2020	3,500,000	3,500,000
Second subordinated bonds in 2013, Type A: Fixed rate of 1.72%; maturity - December 25, 2020	900,000	900,000

(Continued)

	December 31	
	2017	2016
Second subordinated bonds in 2013, Type B: Reuters' fixing rate for 90 day's New Taiwan dollar commercial paper refers to the TAIBOR plus 0.45%; maturity - December 25, 2023	$ 4,600,000	$ 4,600,000
First subordinated bonds in 2014, Type A: Fixed rate of 1.70%; maturity - May 26, 2021	1,500,000	1,500,000
First subordinated bonds in 2014, Type B: Fixed rate of 1.85%; maturity - May 26, 2024	2,700,000	2,700,000
First subordinated bonds in 2014, Type C: Fixing rate for 90 day's New Taiwan dollar commercial paper refers to the Taiwan Bills Index Rate 02 plus 0.43%; maturity - May 26, 2024	5,800,000	5,800,000
First subordinated bonds in 2016, Type A: Fixed rate of 1.09%; maturity - September 26, 2023	950,000	950,000
First subordinated bonds in 2016, Type B: Fixed rate of 1.20%; maturity - September 26, 2026	4,050,000	4,050,000
First subordinated bonds in 2017, Type A: Fixed rate of 1.32%; maturity - September 26, 2024	600,000	-
First subordinated bonds in 2017, Type B: Fixed rate of 1.56%; maturity - September 26, 2027	1,400,000	-
	$ 64,610,000	$ 74,610,000

(Concluded)

To expand its long-term USD capital, the Bank applied for the issuance of unsecured bank debentures amounting to US$1,000,000 thousand. The application was approved by the Financial Supervisory Commission (FSC) on January 22, 2015. The Bank issue unsecured bank debentures with an aggregate face value of US$400,000 thousand, consisting of type A bonds worth US$300,000 thousand with 0% interest rate and type B bonds worth US$100,000 thousand with 0% interest rate; the Bank may exercise its redemption rights at an agreed price after two years and three years, respectively, from the issue dates. If the Bank do not exercise its redemption rights during issue period, all unsecured bank debentures will be refunded on settlement date, March 30, 2045. To lower exposure to adverse changes in interest rates, the Bank enters into interest rate swap contracts measured at fair value through profit or loss and to eliminate a measurement or recognition inconsistency, the unsecured bank debentures are reclassified as designated as at FVTPL upon initial recognition. They were as follows:

	December 31	
	2017	2016
Unsecured bank debentures bonds issued in 2015, Type A	$ 8,766,846	$ 9,253,296
Unsecured bank debentures bonds issued in 2015, Type B	2,921,445	3,082,739
	$ 11,688,291	$ 12,336,035

The Bank has been approved by the FSC to issue unsecured subordinated bonds amounting to $6,000,000 thousand on May 18, 2017. As of December 31, 2017, the amount of unissued unsecured subordinated bonds was $4,000,000 thousand.

25. OTHER FINANCIAL LIABILITIES

	December 31 2017	December 31 2016
Structured products - host contracts	$ 2,133,279	$ 1,208,004
Guarantee deposits received	1,557,688	1,051,443
Appropriation for loans	46,770	354,678
Lease payable	11,808	-
	$ 3,749,545	$ 2,614,125

26. PROVISIONS

	December 31 2017	December 31 2016
Provision for employee benefits		
Net defined benefit liability	$ 2,727,448	$ 2,531,665
Present value of retired employees' preferential interest deposits obligation	4,008,321	3,970,127
	6,735,769	6,501,792
Provision for losses on guarantees	888,428	669,886
	$ 7,624,197	$ 7,171,678

27. EMPLOYEE BENEFITS PLAN

a. Defined contribution plan

The pension plan under the Labor Pension Act (the Act) is a defined contribution plan. Based on the Act, the Bank's monthly contributions to individual pension accounts of employees covered by the defined contribution plan is at 6% of monthly salaries and wages. The funds are deposited in individual labor pension accounts at the Bureau of Labor Insurance.

The Bank recognized expense of $126,777 thousand and $120,402 thousand in the statement of comprehensive income in 2017 and 2016, respectively in accordance with the defined contribution plan.

b. Defined benefit plan

The defined benefit plan adopted by the Bank in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Bank contributes amounts equal to 15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the Bureau); the Bank has no right to influence the investment policy and strategy. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Bank assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year.

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

	December 31	
	2017	**2016**
Present value of defined benefit obligation	$ 12,724,492	$ 12,363,665
Fair value of plan assets	(9,997,044)	(9,832,000)
Net defined benefit liability	$ 2,727,448	$ 2,531,665

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liability**
Balance at January 1, 2016	$ 11,800,882	$ (7,142,748)	$ 4,658,134
Service cost			
Current service cost	851,311	-	851,311
Net interest expense (income)	157,828	(114,323)	43,505
Recognized in profit or loss	1,009,139	(114,323)	894,816
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	50,490	50,490
Actuarial loss - changes in financial assumptions	64,421	-	64,421
Actuarial gain - experience adjustments	(68,322)	-	(68,322)
Recognized in other comprehensive income	(3,901)	50,490	46,589
Contributions from the employer	-	(3,067,874)	(3,067,874)
Benefits paid	(442,455)	442,455	-
Balance at December 31, 2016	12,363,665	(9,832,000)	2,531,665
Service cost			
Current service cost	820,277	-	820,277
Net interest expense (income)	148,120	(120,602)	27,518
Recognized in profit or loss	968,397	(120,602)	847,795
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	26,659	26,659
Actuarial loss - changes in financial assumptions	256,168	-	256,168
Actuarial loss - experience adjustments	66,136	-	66,136
Recognized in other comprehensive income	322,304	26,659	348,963
Contributions from the employer	-	(1,000,975)	(1,000,975)
Benefits paid	(929,874)	929,874	-
Balance at December 31, 2017	$ 12,724,492	$ (9,997,044)	$ 2,727,448

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 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 government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2017	**2016**
Discount rate(s)	1.10%	1.30%
Expected rate(s) of salary increase	2.00%	2.00%
Expected rate(s) of return on plan asset	1.10%	1.30%

Assuming a possible reasonable change in each of the significant actuarial assumptions and all other assumptions remaining constant, the present value of the defined benefit obligation would have increased (decreased) as follows:

	December 31	
	2017	**2016**
Discount rate(s)		
0.25% increase	$ (318,994)	$ (317,116)
0.25% decrease	$ 331,506	$ 329,843
Expected rate(s) of salary increase		
0.25% increase	$ 314,089	$ 313,518
0.25% decrease	$ (304,032)	$ (303,191)

The sensitivity analysis presented above shows the effect on the present value of the defined benefit obligations of a change in single assumption while all other assumptions remain unchanged. The sensitivity analysis presented above might not be representative of the actual change in the present value of the defined benefit obligation as it was unlikely that the change in assumptions would occur independently of each other because some of the assumptions might be correlated.

	December 31	
	2017	**2016**
The expected contributions to the plan for the next year	$ 987,973	$ 927,134
The average duration of the defined benefit obligation	10.29 years	10.53 years

c. Employees' preferential deposit plan

The Bank's payment obligations on fixed-amount preferential interest deposits for retired employees and current employees after retirement are in compliance with the Bank's internal rules. Under the Guidelines Governing the Preparation of Financial Reports by Public Banks, the Bank should determine the excess interest from the preferential interest deposits of employees by applying an actuarial valuation method when the employees retire.

The amounts included in the balance sheet arising from the Bank's obligation in the employees' preferential interest deposits plan were as follows:

	December 31	
	2017	**2016**
Present value of retired employees' preferential interest deposits obligation (part of provisions)	$ 4,008,321	$ 3,970,127

The changes in present value of retired employees' preferential interest deposits obligation were as follows:

	For the Year Ended December 31	
	2017	**2016**
Present value of retired employees' preferential interest deposits obligation, January 1	$ 3,970,127	$ 4,009,952
Interest expense	154,647	152,392
Actuarial losses	707,934	624,670
Benefits paid	(824,387)	(816,887)
Present value of retired employees' preferential interest deposits obligation, December 31	$ 4,008,321	$ 3,970,127

Amounts recognized in profit or loss in employee preferential deposit plans for retired employees in the statement of comprehensive income were as follows:

	For the Year Ended December 31	
	2017	**2016**
Interest expense	$ 154,647	$ 152,392
Actuarial losses	707,934	624,670
Excessive interest of retired employees' preferential interest deposits	$ 862,581	$ 777,062

Under Order No. 10110000850 issued by the Financial Supervisory Commission, effective March 15, 2012, the actuarial assumptions for calculating the expense for the retired employees' preferential interest deposit benefit are as follows:

	December 31	
	2017	**2016**
Discount rate	4.00%	4.00%
Return on deposit	2.00%	2.00%
Account balance decrease rate per year	1.00%	1.00%
Rate of probability of change in the preferential deposit system	50.00%	50.00%

Assuming a possible reasonable change in each of the significant actuarial assumptions and all other assumptions remaining constant, the present value of the retired employees' preferential interest deposit benefit obligation would have increased (decreased) as follows:

	December 31	
	2017	2016
Discount rate(s)		
1% increase	$ (284,568)	$ (285,210)
1% decrease	$ 327,672	$ 328,890
Return on deposit		
1% increase	$ (837,761)	$ (765,126)
1% decrease	$ 837,761	$ 765,126
Account balance decrease rate per year		
1% increase	$ (300,762)	$ (301,428)
1% decrease	$ 341,798	$ 343,079
Rate of probability of change in the preferential deposit system		
20% increase	$ (1,603,328)	$ (1,588,051)
20% decrease	$ 1,603,328	$ 1,588,051

The sensitivity analysis presented above shows the effect on the present value of the retired employees' preferential interest deposit benefit obligation of a change in single assumption while all other assumptions remain unchanged. The sensitivity analysis presented above might not be representative of the actual change in the present value of the retired employees' preferential interest deposit benefit obligation because it was unlikely that the change in assumptions would occur independently of each other because some of the assumptions might be correlated.

28. NET INTEREST

	For the Year Ended December 31	
	2017	2016
Interest revenue		
From discounts and loans	$ 39,512,388	$ 39,554,733
From investments	8,253,067	6,094,278
From due from banks and call loans to other banks	2,307,591	3,602,820
Others	666,359	858,266
	50,739,405	50,110,097
Interest expense		
From deposits	(15,772,469)	(16,478,829)
From funds borrowing from the Central Bank and other banks	(1,212,968)	(646,697)
From subordinated bank debentures	(940,562)	(967,582)
From due to the Central Bank and other banks	(426,043)	(519,820)
From structure products	(39,636)	(26,965)
From securities sold under repurchase agreements	(23,401)	(34,304)
Others	(25,629)	(33,498)
	(18,440,708)	(18,707,695)
	$ 32,298,697	$ 31,402,402

29. SERVICE FEE INCOME, NET

	For the Year Ended December 31	
	2017	2016
Service fee income		
From insurance service	$ 1,832,793	$ 2,778,901
From trust business	1,473,845	1,119,367
From loans	767,883	652,356
From guarantee	670,098	572,232
From credit cards	554,683	555,384
From remittance	311,440	317,548
From cross-bank transactions	268,095	252,459
From trust affiliated business	244,656	195,565
From import/export service	107,998	115,844
Others	551,690	511,566
	6,783,181	7,071,222
Service charge		
From cross-bank transactions	(306,334)	(278,749)
From credit cards	(205,054)	(194,469)
From credit cards acquiring	(132,709)	(120,298)
From custody	(67,785)	(50,002)
Others	(146,407)	(160,176)
	(858,289)	(803,694)
	$ 5,924,892	$ 6,267,528

30. GAINS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31, 2017				
	Interest Revenue (Expense)	Gain (Loss) on Disposal	Loss on Valuation	Dividend Income	Total
Held-for-trading financial assets	$ 80,975	$ 9,639,346	$ (872,150)	$ 14,787	$ 8,862,958
Held-for-trading financial liabilities	-	(9,490,555)	(514,043)	-	(10,004,598)
Financial liabilities designated as at fair value through profit or loss	(545,865)	-	(336,172)	-	(882,037)
	$ (464,890)	$ 148,791	$ (1,722,365)	$ 14,787	$ (2,023,677)

	For the Year Ended December 31, 2016				
	Interest Revenue (Expense)	Gain (Loss) on Disposal	Gain (Loss) on Valuation	Dividend Income	Total
Held-for-trading financial assets	$ 101,383	$ 14,973,464	$ (867,159)	$ 9,286	$ 14,216,974
Held-for-trading financial liabilities	-	(14,022,902)	(298,962)	-	(14,321,864)
Financial liabilities designated as at fair value through profit or loss	(558,154)	-	70,698	-	(487,456)
	$ (456,771)	$ 950,562	$ (1,095,423)	$ 9,286	$ (592,346)

31. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

a. Employee benefits expenses

	For the Year Ended December 31	
	2017	2016
Salaries	$ 7,552,310	$ 7,652,957
Incentives	2,624,014	2,802,056
Excessive interest from preferential interest deposits	1,283,477	1,205,494
Post-employment benefits, termination benefits and compensation	1,126,676	1,045,549
Overtime	397,510	394,757
Others	1,630,069	1,656,788

To comply with the Company Act amended in May 2015, the Bank's board of directors amended its Articles of Incorporation on March 28, 2016. Under the amended Articles, The Bank will distribute employees' compensation at percentages from 1% to 8% of its annual profit (pretax income which exclude compensation of employees). However, the actual appropriation of the bonus should be made only from the annual net income less any accumulated deficit. For the year ended December 31, 2017 and 2016, the compensation of employees was $836,689 thousand and $845,561 thousand, respectively, based on the amended Company Act and the amended Articles.

Material differences between such estimated amounts and the amounts resolved by the board of directors on or before the annual financial statements are authorized for issue are adjusted in the year the compensation were recognized. If there is a change in the resolved amounts after the annual financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

The appropriations of employees' compensation for 2017 and 2016 resolved by the board of directors on March 23, 2018 and March 27, 2017, respectively, were as follows:

	For the Year Ended December 31	
	2017	2016
Employees' compensation - cash	$ 836,689	$ 845,561

There was no difference between the amounts of the employees' compensation resolved by the board of directors and the amount recognized in the financial statements.

Information on the employees' compensation resolved by the Bank's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange (http://emops.tse.com.tw).

b. Depreciation and amortization expenses

	For the Year Ended December 31	
	2017	2016
Depreciation expenses	$ 901,848	$ 902,976
Amortization	156,177	173,000

32. INCOME TAX

a. Income tax recognized in profit or loss

Main components of income tax expense were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
Current year	$ 2,341,180	$ 1,911,490
Prior year's adjustments	1,715	(19,742)
	2,342,895	1,891,748
Deferred tax		
Current year	(356,495)	130,884
Income tax expense recognized in profit or loss	$ 1,986,400	$ 2,022,632

A reconciliation of accounting profit and current income tax expenses were as follows:

	For the Year Ended December 31	
	2017	2016
Income before income tax	$ 14,885,594	$ 14,546,233
Income tax expense at the 17% statutory rate	$ 2,530,551	$ 2,472,860
Nondeductible expenses in determining taxable income	892	1,729
Tax-exempt income	(806,636)	(731,422)
Unrecognized deductible temporary differences	19,307	21,234
Effect of different tax rate of overseas branches operating in other jurisdictions	240,571	277,973
Adjustments for prior year's tax	1,715	(19,742)
Income tax expense recognized in profit or loss	$ 1,986,400	$ 2,022,632

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 2017 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by $155,220 thousand in 2018.

b. Income tax recognized in other comprehensive loss (income)

	For the Year Ended December 31	
	2017	2016
Deferred tax		
Recognized in other comprehensive income - items that may be reclassified subsequently to profit or loss		
Exchange differences on the translation of financial statements of foreign operations	$ (250,412)	$ (34,521)
Unrealized gains on available-for-sale financial assets	1,563	577
Share of other comprehensive income of subsidiary accounted for using the equity method	13,519	(16,964)
Total income tax recognized in other comprehensive income	$ (235,330)	$ (50,908)

c. Current tax assets and liabilities

	December 31 2017	December 31 2016
Current tax assets		
Tax receivable - consolidated tax return	$ 1,071,039	$ 951,196
Tax refund receivable	287	55,229
Others	330,806	180,983
	$ 1,402,132	$ 1,187,408
Current tax liabilities		
Tax payable - consolidated tax return	$ 560,958	$ 129,356
Tax payable	426,211	78,996
Others	198,727	120,023
	$ 1,185,896	$ 328,375

d. Deferred tax assets and liabilities

Movements in deferred tax assets and liabilities were as follows:

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				
Financial instruments at fair value through profit or loss	$ -	$ 40,905	$ -	$ 40,905
Available-for-sale financial assets	3,877	-	(1,628)	2,249
Properties and equipment	9,447	(548)	-	8,899
Payable for annual leave	71,740	(2,213)	-	69,527
Defined benefit obligation	26,069	(26,040)	-	29
Employee's preferential interest deposits obligation	674,922	6,493	-	681,415
Other liabilities	5,220	(265)	-	4,955
Exchanges difference on foreign operations	-	-	217,549	217,549
Unrealized interests expense	163,696	92,798	-	256,494
	$ 954,971	$ 111,130	$ 215,921	$ 1,282,022
Deferred tax liabilities				
Temporary differences				
Financial instruments at fair value through profit or loss	$ 267,748	$ (267,748)	$ -	$ -

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com-prehensive Income	Closing Balance
Available-for-sale financial assets	$ 65	$ -	$ (65)	$ -
Investments accounted for using equity method	3,112	18,539	-	21,651
Intangible assets	364,322	-	-	364,322
The reserve for land revaluation increment tax	2,596,230	-	-	2,596,230
Exchanges difference on foreign operations	19,344	-	(19,344)	-
Others	10,343	3,844	-	14,187
	$ 3,261,164	$ (245,365)	$ (19,409)	$ 2,996,390

(Concluded)

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com-prehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Available-for-sale financial assets	$ 5,218	$ -	$ (1,341)	$ 3,877
Investments accounted for using equity method	14,194	(14,194)	-	-
Properties and equipment	9,994	(547)	-	9,447
Payable for annual leave	66,761	4,979	-	71,740
Defined benefit obligation	374,255	(348,186)	-	26,069
Employee’s preferential interest deposits obligation	681,692	(6,770)	-	674,922
Other liabilities	6,355	(1,135)	-	5,220
Unrealized interests expense	68,810	94,886	-	163,696
	$ 1,227,279	$ (270,967)	$ (1,341)	$ 954,971
Deferred tax liabilities				
Temporary differences				
Financial instruments at fair value through profit or loss	$ 415,781	$ (148,033)	$ -	$ 267,748
Available-for-sale financial assets	829	-	(764)	65
Investments accounted for using equity method	-	3,112	-	3,112
Intangible assets	364,322	-	-	364,322
The reserve for land revaluation increment tax	2,596,230	-	-	2,596,230
Exchanges difference on foreign operations	70,829	-	(51,485)	19,344
Others	5,505	4,838	-	10,343
	$ 3,453,496	$ (140,083)	$ (52,249)	$ 3,261,164

e. Unused deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2017	2016
Deductible temporary differences	$ 1,153,149	$ 804,185

f. Imputed tax credits are summarized as follows:

	December 31	
	2017	2016
Balances of stockholders' imputed tax credit	$ 27,369	$ 30,914

	For the Year Ended December 31	
	2017	2016
Creditable ratio for distribution of earnings	Note	0.34%

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

g. Under the Income Tax Law, the unappropriated retained earnings of $19,985 thousand generated by the Bank until December 31, 1997 were included in the unappropriated retained earnings as of December 31, 2017 and 2016.

h. The income tax returns of the Bank through 2011 had been examined by tax authorities. For the Bank's income tax returns (ITRs) from 2006 to 2011, the Taipei National Tax Administration (TNTA) claimed that the appraisal of goodwill was not reasonable and that there were no unrecognized losses on the sale of nonperforming loans in the Bank's records on the date of the merger with the Farmers Bank of China (FBC). Thus, TNTA denied the expenses for the goodwill amortization of $3,170,005 thousand and the deferred loss amortization of $3,105,522 thousand on the sale of nonperforming loans. The Bankdisagreed with the TNTA's decision and initiated administrative litigations. On December 30, 2014, TNTA allowed the partial amortization of goodwill expenses and of the losses the on sales of nonperforming loans in the tax returns of 2006 to 2011 after the negotiation with the Bank. The Bank recognized related income tax expenses of $228,990 thousand in 2014. On August 5, 2016, February 25, 2015 and April 9, 2015, respectively, TNTA had reexamined and corrected the Bank's 2006 to 2011 ITRs based on the result of the negotiation with the Bank. The Bank had received $705,861 thousand of the tax refund after TNTA's reexamination and correction decision.

33. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share were as follows:

	Net Income (Numerator)	Shares (Denominator in Thousands)	Earnings Per Share (NT$)
For the year ended December 31, 2017			
Basic earnings per share	$ 12,899,194	8,699,342	$ 1.48
For the year ended December 31, 2016			
Basic earnings per share	$ 12,523,601	8,469,743	$ 1.48

The number of shares outstanding was retrospectively adjusted to reflect the effects of the stock dividends distributed in the year following earnings appropriation.

34. EQUITY

a. Capital stock

Common stocks

	December 31	
	2017	2016
Number of shares authorized (in thousands)	10,000,000	10,000,000
Authorized capital	$ 100,000,000	$ 100,000,000
Number of shares issued and fully paid (in thousands)	8,808,130	8,586,300
Common stocks issued	$ 88,081,300	$ 85,863,000

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

On May 23, 2016, the Bank's board of directors resolved to increase its capital by issuing 237,000 thousand shares of common stocks at NT$22.365 per share. TCFHC subscribed for all the new shares and this capital increase transaction was approved by the Financial Supervisory Commission (FSC) and the Ministry of Economic Affairs (MOEA).

On May 22, 2017, the Bank's board of directors resolved to increase its capital by issuing 221,830 thousand shares of common stocks at NT$22.54 per share. TCFHC subscribed for all the new shares and this capital increase transaction was approved by FSC and MOEA.

b. Capital surplus

Under related regulations, capital surplus may be used to offset a deficit. Capital surplus arising from the issuance of shares in excess of par value (including additional paid-in capital from the issuance of common shares and capital surplus from mergers and treasury stock transactions) and donations may be distributed as cash dividends or transferred to common stock on the basis of the percentage of shares held by the stockholders. Any capital surplus transferred to common stock should be within a certain percentage prescribed by law.

Under related regulations, the capital surplus from equity investments under the equity method cannot be distributed for any purpose.

c. Special reserve

Under FSC guidelines, the Bank reclassified to special reserve $165,255 thousand, the sum of trading loss reserve and reserve for loss on branch of purchase commitments, which were in place until December 31, 2010. The reclassified special reserve is unavailable to be used unless: (1) offset a deficit or (2) when the special reserve reaches 50% of the Bank's paid-in capital, 50% of the excess may be used to issue new capital or (3) the FSC has approved that excess may be reversed to unappropriated earnings when special reserve has exceeded the Bank's paid-in capital.

As of December 31, 2017, the special reserve from equity investments under the equity method was $14,944 thousand.

For the first-time adoption of IFRSs, the Bank should appropriate to a special reserve of an amount that was the same as these of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the Bank's use of exemptions under IFRS 1. However, at the date of transitions to IFRSs, if the increase in retained earnings that resulted from all IFRSs adjustments is not enough for this appropriation, only the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. The special reserve appropriated as above may be reversed in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed. The special reserve appropriated on the first-time adoption of IFRSs may be used to offset deficits in subsequent years. No appropriation of earnings shall be made until any shortage of the aforementioned special reserve is appropriated in subsequent years if the Bank has earnings and the original need to appropriate a special reserve is not eliminated.

The increase in retained earnings that resulted from all IFRSs adjustments was not enough for this appropriation; therefore, the Bank appropriated to the special reserve an amount of $1,132,019 thousand on January 1, 2013, the increase in retained earnings that resulted from all IFRSs adjustments on transitions to IFRSs.

Information regarding the above special reserve appropriated or reversed on elimination of the original need to appropriate a special reserve was as follows:

	For the Year Ended December 31	
	2017	**2016**
Balance on January 1	$ 1,037,384	$ 1,037,384
Reversed on elimination of the original need to appropriate a special reserve:		
Disposal of properties and equipment	-	-
Balance on December 31	$ 1,037,384	$ 1,037,384

Under Order No. 10510001510 issued by FSC, the appropriation of special reserve should be 0.5% to 1% of net income (net of income tax) when the Bank appropriates the earnings of 2016 to 2018. Since 2017, the Bank is allowed to make special reserve at the amount of the cost of employee transfer and arrangement in connection with the development of financial technology. As of December 31, 2017, the special reserve appropriated under the stipulation amounted to $62,618 thousand.

d. Appropriation of earnings

From the annual net income less any deficit, an amount equal to 30% thereof should be appropriated as legal reserve and a certain amount, depending on regulations and operating needs, as special reserve. The remaining net income and unappropriated earnings of prior years may be distributed as dividends to shareholders or retained according to the distribution plan to be proposed by the board of directors and submitted to the shareholders' meeting for approval. Unless otherwise restricted by related regulations, the cash dividends must be 10% or above of the total dividends and bonus distributed. If the cash dividend per share is less than NT$0.1, the cash dividend will not be distributed unless the distribution is resolved in the stockholders' meetings.

If the legal reserve reaches the amount of paid-in capital or the Bank is sound in both its finance and business operations and have set aside a legal reserve in compliance with the Company Law, the legal reserve is not subject to the limitation of 30% set under the Banking Law and related regulations.

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 Bank will make consequential amendments to the Bank's Articles of Incorporation. For information about the appropriation policy, accrual basis and actual appropriations for the employees' compensation, please refer to Note 31.

Under related regulations, a special reserve is appropriated from the balance of the retained earnings at an amount from the net income and unappropriated earnings that is equal to the debit balance of accounts in the stockholders' equity section (such as exchange differences in translation of financial statements of foreign operations and unrealized gains or losses on available-for-sale financial assets). The special reserve should be appropriated from the prior years' unappropriated earnings to the extent of the debit balance accumulated from prior years and such special reserve should not be appropriated. The balance of the special reserve is adjusted to reflect any changes in the debit balance of the related accounts. If there is difference between appropriation of special reserve and net amount of deduction in other stockholder's equity, the Bank should appropriate on additional amount of special reserve in the first-time adoption of IFRSs. Afterwards, if there is any reversal in of the deduction in other stockholder's equity, the Bank is allowed to appropriating retained earnings from the reversal amount.

Under the Company Law, legal reserve should be appropriated until the reserve equals the Bank's paid-in capital. This reserve should only be used to offset a deficit. When the reserve exceeds 25% of the Bank's paid-in capital, the excess may be used to issue new shares or distribute cash dividends.

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

The appropriations from the earnings of 2016 and 2015 were approved in the stockholders' meetings on May 22, 2017 and May 23, 2016, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 3,757,080	$ 3,638,845		
Special reserve	62,618	-		
Cash dividends	8,703,900	8,490,630	$1.013696	$1.016927

Information on the appropriation of earnings or deficit offsetting can be accessed through the website of the Taiwan Stock Exchange (http://emops.tse.com.tw).

35. RELATED-PARTY TRANSACTIONS

Taiwan Cooperative Financial Holding Co., Ltd. is the ultimate parent of the Bank, and the Ministry of Finance is the major government stockholder. Based on IAS 24 "Related Party Disclosures" the Company's transactions with government-related parties are exempt from disclosure requirements. In addition to those mentioned in other notes, the related-party transactions are summarized as follows:

a. Related parties

Related Party	Relationship with the Bank
Taiwan Cooperative Financial Holding Company, Ltd. (TCFHC)	Parent company
United Taiwan Bank S.A	Subsidiary
Co-operative Assets Management Co., Ltd.	Sister company
Taiwan Cooperative Bills Finance Co., Ltd.	Sister company
Taiwan Cooperative Securities Co., Ltd.	Sister company
BNP Paribas Cardif TCB Life Insurance Co., Ltd. (BPCTLI)	Sister company

(Continued)

Related Party	Relationship with the Bank
Taiwan Cooperative Securities Investment Trust Co., Ltd	Sister company
Taiwan Cooperative Venture Capital Co., Ltd. (TCVC)	Sister company
United Real Estate Management Co., Ltd.	Associated enterprise
TCB Global High Yield Bond Fund	Fund managed by Taiwan Cooperative Securities Investment Trust Co., Ltd.
TCB Global Emerging Markets Equity Fund	Fund managed by Taiwan Cooperative Securities Investment Trust Co., Ltd.
Tamshui First Credit Bank	The director of Tamshui First Credit Bank is also the Company's director.
Giga Solution Tech. Co., Ltd.	Giga's independent director is also the parent company's independent director (before October 15, 2016).
Others	Main management of the parent company and other related parties

(Concluded)

b. Significant transactions between the Bank and related parties:

1) Due from banks (part of cash and cash equivalents)

	December 31	
	2017	2016
Subsidiary	$ 573,480	$ 560,413

2) Call loans to banks

	Highest Balance	Ending Balance	Interest Revenue	Interest Rate (%)
For the year ended December 31, 2017				
Subsidiary	$ 10,937,782	$ 6,645,722	$ 37,631	0.001-2.700
Sister companies	3,500,000	2,100,000	3,223	0.330-0.560
Others	7,500,000	3,454,900	16,373	0.270-4.150
	$ 21,937,782	$ 12,200,622	$ 57,227	
For the year ended December 31, 2016				
Subsidiary	$ 8,319,902	$ 7,194,172	$ 22,689	0.001-2.800
Sister companies	4,900,000	3,500,000	12,831	0.280-0.560
Others	3,500,000	3,500,000	9,436	0.280-0.560
	$ 16,719,902	$ 14,194,172	$ 44,956	

3) Call loans to securities firms (part of other financial assets, net)

	Highest Balance	Ending Balance	Interest Revenue	Interest Rate (%)
For the year ended December 31, 2017				
Sister company				
TCS	$ 300,000	$ 296,800	$ 3,533	1.100-2.300

4) Due to banks

	For the Year Ended December 31			
	2017		2016	
	Ending Balance	Interest Expense	Ending Balance	Interest Expense
Subsidiary	$ 3,618	$ -	$ 2,552	$ -
Main management	240,738	1,237	212,703	1,242
Others				
Tamshui First Credit Bank	25,245,826	251,236	24,909,609	262,353
Others	5,417	-	-	106
	$ 25,495,599	$ 252,473	$ 25,124,864	$ 263,701

5) Call loans from banks

	Highest Balance	Ending Balance	Interest Expense	Interest Rate (%)
For the year ended December 31, 2017				
Others	$ 4,484,000	$ -	$ 864	0.170-1.240

6) Loans

	Highest Balance	Ending Balance	Interest Revenue	Interest Rate (%)
For the year ended December 31, 2017				
Sister company	$ 280,333	$ -	$ 43	2.265
Main management	170,998	125,007	1,469	1.245-2.428
Others	81,033	55,375	836	1.137-2.465
	$ 532,364	$ 180,382	$ 2,348	

	Highest Balance	Ending Balance	Interest Revenue	Interest Rate (%)
For the year ended December 31, 2016				
Sister companies	$ 84,120	$ -	$ 24	2.265-2.405
Main management	155,972	132,988	1,975	1.260-2.428
Others	118,063	66,814	985	1.260-2.360
	$ 358,155	$ 199,802	$ 2,984	

Under the Banking Law, except for customer loans and government loans, credits extended by the Bank to any related party should be 100% secured, and the terms of credits extended to related parties should be similar to those for third parties.

7) Securities purchased under resell agreements

	Ending Balance	Interest Revenue	Interest Rate (%)
For the year ended December 31, 2017			
Sister companies			
TCBF	$ 199,521	$ 1,145	0.350-0.450
Others	-	2	0-0.300
	$ 199,521	$ 1,147	
For the year ended December 31, 2016			
Sister company			
TCBF	$ -	$ 6,139	0.300-0.460

8) Deposits

	Ending Balance	Interest Expense	Interest Rate (%)
For the year ended December 31, 2017			
Parent company	$ 59,315	$ 95	0-0.080
Sister companies	1,533,971	7,564	0-2.900
Associates	232,996	452	0-0.775
Main management	525,325	9,900	0-13.000
Others	9,508,635	25,482	0-13.000
	$ 11,860,242	$ 43,493	

	Ending Balance	Interest Expense	Interest Rate (%)
For the year ended December 31, 2016			
Parent company	$ 33,612	$ 97	0-0.110
Sister companies	2,328,509	21,631	0-1.360
Associates	173,263	519	0-1.130
Main management	438,049	9,877	0-13.000
Others	10,868,943	50,662	0-13.000
	$ 13,842,376	$ 82,786	

	December 31 2017	December 31 2016
9) Accrued income (part of receivables)		
Sister companies	$ 48,405	$ 62,675
10) Accrued interest (part of receivables)		
Subsidiary	$ 1,965	$ 1,760
Sister companies	378	415
Others	7,154	549
	$ 9,497	$ 2,724
11) Receivable on securities (part of receivables)		
Sister company		
TCS	$ 153,075	$ 93,507
12) Tax receivable - consolidated tax return (part of current tax assets)		
Parent company	$ 1,071,039	$ 951,196
13) Accrued interest (part of payables)		
Sister companies	$ 9	$ 20
14) Accrued expense (part of payables)		
Sister companies	$ 3,691	$ 6,220
15) Payable on securities (part of payables)		
Sister company		
TCS	$ 90,526	$ 12,040

	December 31	
	2017	**2016**
16) Tax payable - consolidated tax return (part of current tax liabilities)		
Parent company	$ 560,958	$ 129,356
17) Guarantee deposits received (part of other financial liabilities)		
Parent company	$ 6,012	$ 1,773
Sister companies	15,425	15,386
	$ 21,437	$ 17,159

	For the Year Ended December 31	
	2017	**2016**
18) Service fee income (part of service fee income, net)		
Sister companies		
BPCTLI	$ 751,688	$ 906,735
Others	23,680	27,177
Associates	55	45
Main management	223	173
Others	1,242	340
	$ 776,888	$ 934,470
19) Service charge (part of service fee income, net)		
Sister companies	$ 5,101	$ 9,072
Main management	34	26
Others	4	7,893
	$ 5,139	$ 16,991
20) Rental income (part of other noninterest gain, net)		
Parent company	$ 14,405	$ 6,671
Sister companies		
TCS	27,791	26,763
Others	33,736	32,212
Others	-	12,228
	$ 75,932	$ 77,874
21) Information service fee (part of general and administration)		
Sister companies	$ 20,160	$ 40,812

	For the Year Ended December 31	
	2017	2016
22) Investigation fee (part of general and administration)		
Sister companies	$ 172	$ 230
23) Other income (part of other noninterest gain, net)		
Parent company	$ 1,519	$ 1,519
Others	3,482	4,855
	$ 5,001	$ 6,374
24) Donation (part of other noninterest gain, net)		
Main management	$ 3,700	$ 2,900

Terms of other transactions with related parties were similar to those for third parties, except for the more favorable interest rate for managers' savings within a prescribed limit. The Bank has operating lease contracts with related parties, which cover certain office spaces within the Bank's building. The monthly rentals were based on rentals for buildings near the Bank.

25) Purchases and sales of securities

	For the Year Ended December 31, 2017			
Related Party	Purchases	Sales	Sales Under Repurchase Agreements	Purchases Under Resell Agreements
Sister companies	$ 49,755	$ 249,968	$ -	$ 3,997,582

	For the Year Ended December 31, 2016			
Related Party	Purchases	Sales	Sales Under Repurchase Agreements	Purchases Under Resell Agreements
Sister companies	$ 1,498,666	$ -	$ -	$ 34,070,318

26) Derivatives

	For the Year Ended December 31, 2017					
					Amounts on the Balance Sheet	
Related Party	Type of Derivatives	Contract Period	Nominal Amounts	Valuation Gain (Loss)	Account	Amounts
Sister company - BPCTLI	Currency swap	2017.12.22-2018.01.22	US$ 4,935	$ (1,559)	Financial liabilities at fair value through profit or loss	$ (1,559)
	Currency swap	2017.12.22-2018.01.22	US$10,033	(3,169)	Financial liabilities at fair value through profit or loss	(3,169)
	Currency swap	2017.12.22-2018.01.22	US$13,000	(4,107)	Financial liabilities at fair value through profit or loss	(4,107)

(Continued)

Related Party	For the Year Ended December 31, 2017					
	Type of Derivatives	Contract Period	Nominal Amounts	Valuation Gain (Loss)	Amounts on the Balance Sheet	
					Account	Amounts
	Currency swap	2017.12.8-2018.01.08	US$ 3,187	$ (1,030)	Financial liabilities at fair value through profit or loss	$ (1,030)
	Currency swap	2017.09.19-2018.03.19	US$ 1,699	(559)	Financial liabilities at fair value through profit or loss	(559)
	Currency swap	2017.09.19-2018.03.19	US$ 3,129	(1,029)	Financial liabilities at fair value through profit or loss	(1,029)
	Currency swap	2017.09.19-2018.03.19	US$ 3,129	(1,029)	Financial liabilities at fair value through profit or loss	(1,029)
	Currency swap	2017.09.19-2018.03.19	US$ 4,850	(1,595)	Financial liabilities at fair value through profit or loss	(1,595)
	Currency swap	2017.09.19-2018.03.19	US$10,488	(3,450)	Financial liabilities at fair value through profit or loss	(3,450)
	Currency swap	2017.10.16-2018.01.16	US$ 5,030	(2,230)	Financial liabilities at fair value through profit or loss	(2,230)
	Currency swap	2017.10.16-2018.01.16	US$ 5,001	(2,218)	Financial liabilities at fair value through profit or loss	(2,218)
	Currency swap	2017.10.16-2018.01.16	US$10,012	(4,439)	Financial liabilities at fair value through profit or loss	(4,439)
	Currency swap	2017.10.16-2018.01.16	US$ 9,989	(4,429)	Financial liabilities at fair value through profit or loss	(4,429)
	Currency swap	2017.10.16-2018.01.16	US$ 5,006	(2,220)	Financial liabilities at fair value through profit or loss	(2,220)
	Currency swap	2017.10.16-2018.01.16	US$10,483	(4,648)	Financial liabilities at fair value through profit or loss	(4,648)
	Currency swap	2017.10.16-2018.01.16	US$ 1,920	(851)	Financial liabilities at fair value through profit or loss	(851)
	Currency swap	2017.10.13-2018.01.16	US$ 3,299	(1,582)	Financial liabilities at fair value through profit or loss	(1,582)
	Currency swap	2017.12.08-2018.01.08	US$ 2,002	(647)	Financial liabilities at fair value through profit or loss	(647)
	Currency swap	2017.12.08-2018.01.08	US$ 9,977	(3,224)	Financial liabilities at fair value through profit or loss	(3,224)
	Currency swap	2017.09.19-2018.03.19	US$ 5,165	(1,699)	Financial liabilities at fair value through profit or loss	(1,699)
	Currency swap	2017.09.19-2018.03.19	US$ 4,814	(1,584)	Financial liabilities at fair value through profit or loss	(1,584)
Other - TCB Global Emerging Markets Equity Fund	Currency swap	2017.12.13-2018.03.13	US$ 7,000	(2,116)	Financial liabilities at fair value through profit or loss	(2,116)
	Currency swap	2017.12.13-2018.03.13	US$ 1,000	(302)	Financial liabilities at fair value through profit or loss	(302)
Other - TCB Global High Yield Bond Fund	Currency swap	2017.12.13-2018.03.13	US$ 4,000	(1,209)	Financial liabilities at fair value through profit or loss	(1,209)
	Currency swap	2017.12.13-2018.03.13	US$ 3,000	(907)	Financial liabilities at fair value through profit or loss	(907)

(Concluded)

	For the Year Ended December 31, 2016					
	Type of	Contract	Nominal	Valuation	Amounts on the Balance Sheet	
Related Party	Derivatives	Period	Amounts	Gain (Loss)	Account	Amounts
	Currency swap	2017.12.13-2018.03.13	US$ 9,500	$ (2,871)	Financial liabilities at fair value through profit or loss	$ (2,871)
	Currency swap	2017.12.04-2018.01.10	US$ 5,550	(1,587)	Financial liabilities at fair value through profit or loss	(1,587)
	Currency swap	2017.12.06-2018.03.06	US$15,250	(5,011)	Financial liabilities at fair value through profit or loss	(5,011)
	Currency swap	2017.12.06-2018.01.08	US$ 2,500	(833)	Financial liabilities at fair value through profit or loss	(833)
	Currency swap	2017.12.06-2018.01.08	US$ 4,000	(1,332)	Financial liabilities at fair value through profit or loss	(1,332)
	Currency swap	2017.12.18-2018.03.19	US$ 4,100	(1,197)	Financial liabilities at fair value through profit or loss	(1,197)
Sister company - BPCTLI	Currency swap	2016.12.22-2017.02.22	US$ 4,936	1,317	Financial assets at fair value through profit or loss	1,317
	Currency swap	2016.12.22-2017.02.22	US$10,033	2,677	Financial assets at fair value through profit or loss	2,677
	Currency swap	2016.12.22-2017.02.22	US$13,000	3,469	Financial assets at fair value through profit or loss	3,469
	Currency swap	2016.07.06-2017.01.06	US$ 3,187	242	Financial assets at fair value through profit or loss	242
	Currency swap	2016.11.14-2017.01.17	US$ 6,981	5,077	Financial assets at fair value through profit or loss	5,077
	Currency swap	2016.04.11-2017.04.11	US$ 3,499	(360)	Financial liabilities at fair value through profit or loss	(360)
	Currency swap	2016.11.14-2017.01.17	US$ 1,699	1,236	Financial assets at fair value through profit or loss	1,236
	Currency swap	2016.07.15-2017.01.17	US$ 3,129	336	Financial assets at fair value through profit or loss	336
	Currency swap	2016.07.15-2017.01.17	US$ 4,850	521	Financial assets at fair value through profit or loss	521
	Currency swap	2016.07.15-2017.01.17	US$ 3,129	336	Financial assets at fair value through profit or loss	336
	Currency swap	2016.03.15-2017.03.15	US$10,488	(5,367)	Financial liabilities at fair value through profit or loss	(5,367)
	Currency swap	2016.12.14-2017.03.14	US$ 5,030	1,597	Financial assets at fair value through profit or loss	1,597
	Currency swap	2016.12.14-2017.03.14	US$ 5,001	1,588	Financial assets at fair value through profit or loss	1,588
	Currency swap	2016.12.14-2017.03.14	US$10,012	3,179	Financial assets at fair value through profit or loss	3,179
	Currency swap	2016.12.14-2017.03.14	US$ 9,989	3,172	Financial assets at fair value through profit or loss	3,172
	Currency swap	2016.12.14-2017.03.14	US$ 5,006	1,590	Financial assets at fair value through profit or loss	1,590

(Continued)

Related Party	Type of Derivatives	Contract Period	Nominal Amounts	Valuation Gain (Loss)	Amounts on the Balance Sheet: Account	Amounts on the Balance Sheet: Amounts
	For the Year Ended December 31, 2017					
	Currency swap	2016.12.14-2017.03.14	US$10,483	$ 3,329	Financial assets at fair value through profit or loss	$ 3,329
	Currency swap	2016.12.14-2017.03.14	US$ 1,920	610	Financial assets at fair value through profit or loss	610
Other - TCB Global High Yield Bond Fund	Currency swap	2016.12.28-2017.02.10	US$ 7,000	790	Financial assets at fair value through profit or loss	790
	Currency swap	2016.12.19-2017.01.19	US$ 2,020	520	Financial assets at fair value through profit or loss	520
	Currency swap	2016.12.28-2017.02.10	US$ 1,000	113	Financial assets at fair value through profit or loss	113
	Currency swap	2016.12.30-2017.02.10	US$ 4,000	(161)	Financial liabilities at fair value through profit or loss	(161)

(Concluded)

The realized profit on the currency swaps transactions with related parties were as follows:

	For the Year Ended December 31: 2017	For the Year Ended December 31: 2016
Financial assets and liabilities at fair value through profit or loss		
Sister company		
BPCTLI	$ (200,452)	$ 60,439
Others	(30,115)	(3,127)
	$ (230,567)	$ 57,312

27) Loans

December 31, 2017

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2017 (Note)	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction Compared with Those for Unrelated Parties
Consumer loans	44	$ 70,662	$ 49,598	$ 49,598	$ -	Land and buildings	None
Self-used housing mortgage loans	40	181,369	130,784	130,784	-	Land and buildings	None
Other	Taiwan Cooperative Securities Co., Ltd.	280,333	-	-	-	Bonds	None

December 31, 2016

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2016 (Note)	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction Compared with Those for Unrelated Parties
Consumer loans	44	$ 108,562	$ 66,599	$ 66,599	$ -	Land and buildings	None
Self-used housing mortgage loans	34	165,474	133,203	133,203	-	Land and buildings	None
Other	Taiwan Cooperative Securities Co., Ltd.	84,120	-	-	-	Bonds	None

Note: The highest balance is the largest sum in the year of all daily accounts for each type.

28) The Bank sold machinery and equipment to TCS in 2017; the selling price and carrying amounts were both $60 thousand.

c. Salaries, bonuses and remunerations to main management

	For the Year Ended December 31	
	2017	2016
Salaries and other short-term employment benefits	$ 129,266	$ 126,415
Post-employment benefits	12,922	12,918
Interest arising from the employees' preferential rate in excess of normal rates	3,885	4,370
	$ 146,073	$ 143,703

36. PLEDGED ASSETS

a. In addition to those mentioned in other notes, the face values of the pledged bonds and certificates of deposit are summarized as follows:

	December 31	
	2017	2016
Collaterals for call loans of foreign currency	$ 40,000,000	$ 40,000,000
Collaterals for day-term overdraft	30,000,000	30,000,000
Collaterals for overdraft of domestic U.S. dollar settlement	11,000,000	11,000,000
Collaterals for overdraft of domestic RMB settlement	1,455,680	2,312,000
Guarantee deposits for provisional collateral seizure for loan defaults and others	1,385,300	1,125,300
Collaterals for overdraft of domestic JPY settlement	500,000	500,000
Overseas branches' capital adequate reserve	362,859	360,864
Guarantee deposits for the trust business compensation reserve	220,000	200,000
Guarantee deposits for bills finance business	50,000	50,000
Guarantee deposits for securities operation	50,000	50,000
Collaterals for overseas branch U.S. dollar settlement	31,786	43,497
Overseas branches' guarantee deposits for operation	5,936	6,444
Others	200	1,400
	$ 85,061,761	$ 85,649,505

To comply with the Central Bank of the Republic of China's (CBC) Interbank Funds Transfer and Settlement System for real-time gross settlement (RTGS), the Bank provided certificates of deposit as collateral for day-term overdraft (part of due from the Central Bank and call loans to other banks). The pledged amount may be adjusted anytime, and the unused overdraft amount at the end of a day can also be treated as the Bank's liquidity reserve.

b. To expand their capital sourcing and enhance their liquidity position, the Bank's Seattle Branch, Los Angeles Branch, and New York Branch obtained access privileges at the Discount Window Account of the Federal Reserve Bank. For this access, the three branches pledged the following assets:

(In Thousands of U.S. Dollars)

Date	Outstanding Balance			Collateral
	Loan	Bond	Total	Value
December 31, 2017	$ 308,429	$ -	$ 308,429	$ 230,474
December 31, 2016	$ 304,786	$ 5,000	$ 309,786	$ 234,525

37. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those mentioned in other notes, the significant contingencies and commitments were as follows:

a. Lease agreements on premises occupied by the Bank's branches are operating lease. Rentals are calculated on the basis of the leased areas and are payable monthly, quarterly or semiannually. As of December 31, 2017, refundable deposits on these leases totaled $126,451 thousand (part of refundable deposits). Minimum future annual rentals are as follows:

	December 31	
	2017	2016
Within one year	$ 588,831	$ 631,700
One to five years	1,192,276	1,312,200
Over five years	127,766	112,219
	$ 1,908,873	$ 2,056,119

The lease payments recognized as expenses are as follows:

	For the Year Ended December 31	
	2017	2016
Minimum lease payments	$ 658,626	$ 658,976
Contingent rentals	1,274	1,103
	$ 659,900	$ 660,079

b. Lease agreements on investment properties owned by the Bank and rent to others are operating lease. Rentals are calculated on the basis of the leased areas and are receivable monthly, quarterly or semiannually. The lessees have no preemptive rights to buy properties at the end of the lease agreements. As of December 31, 2017, guarantee deposits on these leases totaled $55,568 thousand (part of guarantee deposits received). Minimum future annual rentals are as follows:

	December 31	
	2017	2016
Within one year	$ 264,670	$ 179,312
One to five years	656,465	252,438
Over five years	12,195	18,372
	$ 933,330	$ 450,122

c. As of December 31, 2017, the Bank's outstanding major construction and procurement contracts amounted to $5,764,141 thousand, of which $667,121 thousand was still unpaid.

d. According to the joint venture contract signed with BNP Paribas Assurance (BNPPA), the Bank signed the tri-party agreement with BNP Paribas Cardif TCB Life Insurance Co., Ltd. (BPCTLI) and Cooperative Insurance Brokers Co., Ltd. (CIB) on April 13, 2010, which identified BPCTLI as the sole supplier of life insurance products for the Bank and CIB, also applying the Bank's marketing channels to sell life insurance products exclusively. However, the rights and obligations were assumed by TCB since merger on June 24, 2016.

38. FINANCIAL INSTRUMENTS

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

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

	December 31			
	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Held-to-maturity financial assets	$ 513,789,325	$ 515,472,990	$ 510,048,964	$ 509,455,600
Debt instruments with no active market	82,438,716	84,237,164	78,619,317	79,825,032
Financial liabilities				
Bank debentures	64,610,000	65,621,526	74,610,000	75,636,377

Fair value hierarchy as at December 31, 2017

	Total	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity financial assets	$ 515,472,990	$ 7,371,150	$ 508,101,840	$ -
Debt investments with no active market	84,237,164	-	84,237,164	-
Financial liabilities				
Bank debentures	65,621,526	-	65,621,526	-

Fair value hierarchy as at December 31, 2016

	Total	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity financial assets	$ 509,455,600	$ 6,173,804	$ 503,281,796	$ -
Debt investments with no active market	79,825,032	-	79,825,032	-
Financial liabilities				
Bank debentures	75,636,377	-	75,636,377	-

b. The valuation techniques and assumptions the Bank uses for determining fair values are as follows:

The fair values of financial instruments traded on active markets are based on quoted market prices. However, in many instances where there are no quoted market prices for the Bank's various financial instruments, fair values are based on estimates using other financial data and appropriate valuation methodologies. The financial data obtained by the Bank for making estimations and assumptions for financial instrument valuation is consistent with those used by other market participants to price financial instruments. Fair values of forward contracts, currency swap contracts, foreign-currency margin contracts, cross-currency swap contracts and interest rate swap contracts are calculated using the discounted cash flow method, unless the fair values are provided by counterparties. Fair values of option contracts are based on estimates using the Black Scholes pricing model.

The Bank estimates the fair value of each forward contract on the basis of the swap points quoted by Reuters on each settlement date. Fair values of interest rate swap contracts and cross-currency swap contracts are calculated using the Bloomberg information system, unless the fair values are provided by counterparties. The calculation of the fair value of each option contract is based on the mid-price (the average of bid and ask prices) quoted by Reuters and applied consistently

For debt instruments with no active market, if there are theoretical prices from GreTai Securities Market (GTSM, an over-the-counter securities exchange) on the balance sheet date, they are used as the basis for evaluating the fair value of debt instruments with no active market. Otherwise, the latest trade prices and quoted prices by major markets are used. The fair values of bank debentures are recorded as follows: (a) debentures with no maturity dates - at book values; (b) debentures with floating interest rates - at theoretical prices quoted by the GTSM; and (c) debentures with fixed interest rates - at estimates reached using the discounted cash flow method. The discount rates used were between 0.7211% and 1.1545%, between 0.7325% and 1.3754% as of December 31, 2017 and 2016, respectively, and were comparable with interest rates for loans with similar terms and characteristics.

c. The hierarchies of the financial instruments measured at fair value on a recurring basis as of December 31, 2017 and 2016 were as follows:

Financial Instrument Measured at Fair Value	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets				
Stocks	$ 1,078,689	$ 1,078,689	$ -	$ -
Debt instruments	892,154	136,488	755,666	-
Others	8,348,633	-	8,348,633	-
Available-for-sale financial assets				
Stocks	4,316,380	4,316,380	-	-
Debt instruments	149,993,993	4,978,739	145,015,254	-
Others	131,123	131,123	-	-
Liabilities				
Financial liabilities at FVTPL	(11,688,291)	-	(11,688,291)	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	2,543,367	26,197	2,517,170	-
Liabilities				
Financial liabilities at FVTPL	(2,762,560)	-	(2,762,560)	-

Financial Instrument Measured at Fair Value	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets				
Stocks	$ 902,142	$ 902,142	$ -	$ -
Debt instruments	4,495,059	2,321,235	2,173,824	-
Others	18,918,778	-	18,918,778	-

(Continued)

Financial Instrument Measured at Fair Value	December 31, 2016 Total	Level 1	Level 2	Level 3
Available-for-sale financial assets				
Stocks	$ 4,230,764	$ 4,230,764	$ -	$ -
Debt instruments	119,127,606	9,170,976	109,956,630	-
Others	282,576	282,576	-	-
Liabilities				
Financial liabilities at FVTPL	(12,336,035)	-	(12,336,035)	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	3,550,158	3,736	3,546,422	-
Liabilities				
Financial liabilities at FVTPL	(2,294,976)	-	(2,294,976)	-

(Concluded)

d. Information on financial liabilities designated as at fair value through profit or loss is as follows:

	December 31 2017	2016
Difference between carrying amount and contractual amount at maturity:		
Fair value	$ 11,688,291	$ 12,336,035
Amount payable at maturity	11,872,000	12,888,000
	$ (183,709)	$ (551,965)

	Change in Fair Values Resulting from Credit Risk Variations
Change in amount in the year	
2017	$ (32,084)
2016	$ 32,330
Accumulated amount of change	
As of December 31, 2017	$ 2,414
As of December 31, 2016	$ 34,498

The change in fair value attributable to change in credit risk was calculated as the difference between total change in fair value of bank debentures and the change in fair value due to change in market risk factors alone. The change in fair value due to market risk factors was calculated using benchmark interest yield curves as at the end of the reporting period holding. The fair value of bank debentures was estimated by discounting future cash flows using quoted benchmark interest yield curves as at the end of the reporting period and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

f. Information on financial risk management

1) Risk management

The objective of risk management is to develop a sound risk management mechanism, and on the basis of the risk tolerance level and the expected return level, pursue the maximum value of stockholders' investments. The main risks faced by the Bank include the business credit risk in- and off- balance-sheet, market risks (including interest, exchange, equity security, and commodity risks) and liquidity risk.

The Bank has risk management policies and risk monitoring procedures, which have been reviewed and approved by the Board and are used to effectively identify, measure, monitor and control credit, market, and operating and liquidity risks.

The Board, the highest decision-making unit for the risk management, takes charge of approving the risk management policy and system and building the risk management culture. It also takes ultimate responsibility for overall risk management.

Under the risk management decision approved by the Board, the risk management committee takes charge of and reviews all the Bank's risk management implementation, capital adequacy assessment, and risk exposure management. It also communicates and the inter-departmental risk management issues and coordinates issue handling and continually monitor the execution of risk management procedures. The risk management department is responsible for planning and designing the risk management system, deliberating capital allocation, setting up the instruments for risk measurement and capital provision, and monitoring risk control. This department also regularly prepares reports for submission to senior management, the risk management committee and the Board.

Under the business management regulation and risk policy, the business supervising unit manages and oversees each business unit toward proper risk management and carries out risk review and control. In addition, the Audit Department independently audits at least once a year all risk-related businesses and timely provides suggestions for improvement.

2) Credit risk

Credit risk refers to a borrower, a financial instrument issuer or a transaction counterparty undergoing financial difficulty or other adverse situations (such as a dispute between the borrower and its business partner), which could result in loss due to breach of contract. Credit risk can come from on- and off-balance-sheet items. On-balance sheet items are mainly lending, due from bank and call loans to other banks, security investment and derivatives. Off-balance sheet items are mainly guarantees, acceptance, letters of credit and loan commitments.

The risk management policy, which is founded on the basic principles of safety, liquidity, profitability, welfare and growth, is implemented by the credit risk management division toward the cultivation of a risk management culture. All on- and off- balance sheet transactions are should be detailed analyzed in detail to identify existing and potential credit risk. Based on the Bank's business characteristics and the principle of risk diversification, risk status is analyzed and evaluated, centralized limits are set, and a risk monitoring and alert mechanism has been developed and operated. For a more effective credit risk evaluation, an internal rating system has been created to enhance the ability to quantify risk.

The Bank's main business items that are measured and managed for credit risks are as follows:

a) Loans business (including loan commitment and guarantees):

   Credit assets are classified into five categories. In addition to normal credit assets that are classified as sound assets, the unsound assets are classified, on the basis of the valuation of collaterals and the length of time the payments become overdue, as special mention, substandard, with collectability high doubtful and uncollectable. The Bank also sets up policies for the management of doubtful credits and the collection of overdue debts to deal with collection problems.

   The Bank applies to its credit business the so-called "5Ps of credit analysis" as the basis for lending approval and evaluation of its counterparties. These 5Ps are: People (know customers' background and their credit status well); purpose (what will the fund be used for); payment (the borrower's ability to repay an obligation when it falls due); protection (the Bank' recourse on repayment defaults); and perspective (how the credit is seen in light of rewards and risks). After a loan is granted, the transaction is reviewed and monitored to ensure creditor's rights of the Bank.

   To quantify credit risk, the Bank applies statistical methods using with customers' qualitative data and lending history to develop a rating module for corporate finance and consumer finance. This module is used to create an internal credit rating system for risk evaluation, in which 9 is the base grade of the credit quality of corporate customers, and 9 or 10 on the business segment consumer customers.

   The 5P credit analysis and the module rating specifically apply to corporate customers. Micro credits and residential mortgages are assessed by using the credit rating model, and consumer loans are assessed individually for default risks.

b) Due from and call loans to other banks

   The Bank evaluates the credit status of counterparties before closing deals. The Bank grants different limits to the counterparties on the basis of their respective credit ratings as suggested by domestic and foreign credit rating agencies.

c) Investments in debt instruments and derivatives

   The Bank identifies and manages credit risks from debt instruments through the use of external credit ratings of the debt instruments along with the evaluation of credit qualities of bonds, regional conditions and counterparty risks.

   The Bank conducts derivative transactions with other banks and sets the credit limits (including lending limits) at their credit rating and the ranking given by the Banker magazine. The credits extended to general customers are monitored in accordance with the related contract terms and conditions and the credit limits for derivatives established through normal credit granting processes.

The Bank has a series of measures for credit granting to reduce credit risks. One of the procedures is asking for collaterals from the borrowers. To secure a debt, the Bank manages and assesses the collaterals following the procedures that determine the scope of collateralization and valuation of collaterals and the process of disposition. In credit contracts, the Bank stipulates the security mechanism for debts; the conditions and terms for collaterals; and the terms and conditions of offsetting to state clearly that the Bank reserves the right to reduce the granted quota, to reduce the repayment period, to demand immediate settlement or to offset the debts of the borrowers by their deposits in the Bank in order to reduce the credit risks.

To avoid the concentration of credit risks, the Bank sets up centralized credit limits for business segments, countries, collaterals, groups, and construction financing. Monthly, or more frequently, as needed, the Bank reviews credit limits, monitors the actual risk-exposure condition and whether the usage rate of limits meets relevant regulations and reports the review results to superior management, risk management committee and the Board periodically. If there is a possibility of breach of the credit limits, the related department or division will apply appropriate procedures to ensure that the credit limits are followed.

The Bank settles most of its transactions at gross amounts. For further reduction of credit risks, settlement netting is used for some counterparties or in some circumstances where the transactions are terminated because of counterparty’s default.

The maximum exposures to credit risks of assets on the balance sheets without consideration of guarantees or other credit enforcement instruments approximate the assets’ carrying amounts. The maximum exposures of off-balance sheet items to credit risks without consideration of guarantees or other credit enforcement instruments are as follows:

	December 31	
	2017	**2016**
Irrevocable loan commitments issued	$ 93,831,572	$ 100,916,991
Irrevocable credit card commitments	45,082,276	41,895,556
Letters of credit issued yet unused	18,727,577	21,152,739
Other guarantees	79,802,266	78,348,294

The Bank’ management believes its ability to minimize credit risk exposures on off-balance sheet items is mainly due to its rigorous evaluation of credit extended and the periodic reviews of these credits.

Concentration of credit risk exists when counterparties to financial transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The profile by group or industry, regions and collaterals of obligations that were 10% or more of total outstanding loans is as follows:

	December 31			
Credit Risk Profile by	**2017**		**2016**	
Group or Industry	**Amount**	**%**	**Amount**	**%**
Natural person	$ 819,375,254	41	$ 809,134,142	39
Manufacturing	383,995,457	19	327,044,724	16

Some financial assets held by the Bank, such as cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, securities purchased under resell agreements, call loans to securities firms and refundable deposits, are exposed to low credit risks because the counterparties have high credit ratings.

In addition to the above assets, credit quality analysis of other financial assets are as follows:

a) Credit quality analysis of discounts, loans and receivables

December 31, 2017	Neither Past Due Nor Impaired (A)	Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
					With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables							
Credit cards	$ 3,114,017	$ 43,409	$ 56,635	$ 3,214,061	$ 19,868	$ 17,208	$ 3,176,985
Others	15,161,836	34,901	914,027	16,110,764	607,932	86,235	15,416,597
Discounts and loans	1,976,328,352	12,537,799	30,410,294	2,019,276,445	5,675,743	19,364,766	1,994,235,936

December 31, 2016	Neither Past Due Nor Impaired (A)	Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
					With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables							
Credit cards	$ 2,832,619	$ 38,059	$ 61,942	$ 2,932,620	$ 25,376	$ 17,420	$ 2,889,824
Others	11,538,084	24,406	1.017,271	12,579,761	599,917	60,974	11,918,870
Discounts and loans	1,945,179,121	7,549,281	29,579,604	1,982,308,006	6,529,359	16,818,185	1,958,960,462

b) Credit quality analysis of discounts and loans not past due and not impaired

Items	December 31, 2017	December 31, 2016
Loans		
Secured	$ 1,409,387,398	$ 1,407,436,657
Unsecured	566,940,954	537,742,464
Total	$ 1,976,328,352	$ 1,945,179,121

c) Credit quality analysis of securities

December 31, 2017	Neither Past Due Nor Impaired (A)	Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)	Net (A)+(B)+(C)-(D)
Available-for-sale financial assets						
Debt instruments	$ 149,993,993	$ -	$ -	$ 149,993,993	$ -	$ 149,993,993
Equities	4,316,380	-	-	4,316,380	-	4,316,380
Others	131,123	-	-	131,123	-	131,123
Held-to-maturity financial assets						
Debt instruments	110,841,605	-	-	110,841,605	3,304	110,838,301
Others	402,951,024	-	-	402,951,024	-	402,951,024
Other financial assets						
Debt instruments	82,438,716	-	-	82,438,716	-	82,438,716
Equities	4,092,383	-	-	4,092,383	-	4,092,383
Others	20,145,645	-	-	20,145,645	-	20,145,645

December 31, 2016	Neither Past Due Nor Impaired (A)	Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)	Net (A)+(B)+(C)-(D)
Available-for-sale financial assets						
Debt instruments	$ 119,127,606	$ -	$ -	$ 119,127,606	$ -	$ 119,127,606
Equities	4,230,764	-	-	4,230,764	-	4,230,764
Others	282,576	-	-	282,576	-	282,576
Held-to-maturity financial assets						
Debt instruments	77,851,299	-	-	77,851,299	10,859	77,840,440
Others	432,208,524	-	-	432,208,524	-	432,208,524
Other financial assets						
Debt instruments	78,619,317	-	-	78,619,317	-	78,619,317
Equities	4,092,383	-	-	4,092,383	-	4,092,383
Others	17,133,396	-	-	17,133,396	-	17,133,396

The processing delays by the borrowers and other administrative reasons may cause financial assets to become past due but not impaired. As defined in the internal rules governing the Bank's risk management, financial asset that are past due within 90 days are not deemed as impaired, unless there are evidences that indicate impairment.

The vintage analysis of financial assets that are past due but not impaired is as follows:

Items	December 31, 2017		
	Past Due Up to 1 Month	Past Due by Over 1 Month-3 Months	Total
Receivables			
Credit cards	$ 34,314	$ 9,095	$ 43,409
Others	18,318	16,583	34,901
Loans			
Secured	8,416,499	2,867,567	11,284,066
Unsecured	1,132,174	121,559	1,253,733
Available-for-sale financial assets			
Debt instruments	-	-	-
Others	-	-	-
Held-to-maturity financial assets			
Debt instruments	-	-	-
Others	-	-	-
Other financial assets			
Debt instruments	-	-	-
Others	-	-	-

Items	December 31, 2016		
	Past Due Up to 1 Month	Past Due by Over 1 Month-3 Months	Total
Receivables			
Credit cards	$ 25,302	$ 12,757	$ 38,059
Others	13,000	11,406	24,406
Loans			
Secured	4,878,706	1,446,303	6,325,009
Unsecured	975,989	248,283	1,224,272
Available-for-sale financial assets			
Debt instruments	-	-	-
Others	-	-	-
Held-to-maturity financial assets			
Debt instruments	-	-	-
Others	-	-	-
Other financial assets			
Debt instruments	-	-	-
Others	-	-	-

3) Market risks

Market risk refers to the risk of losses in positions arising from adverse movements of market prices. It refers to interest rates, exchange rates, equity security prices, commodity prices, etc.

The main market risks that the Bank faces are equity security, interest rate, and exchange rate risks. The market risk position of equity security mainly includes domestic listed and OTC stocks, domestic stock index options and stock market index futures; the position of interest rate mainly includes short-term bills, bonds and interest rate derivative instruments; and the instruments exposed to exchange rate risk mainly include spot contracts and forward contracts and derivatives denominated in foreign currency.

Under the market risk management policies approved by the board of directors, the new Basel Capital Accord and regulations implemented by relevant authorities and in consideration of the Bank's own market risk management system and its overall risk management goals and product features, the Bank has set all types of investment authorization limits and stop-loss rules, regularly reviews the customers' credit status and compiles management information reports to control all types of market risks effectively.

The Bank's market risk management procedures include risk identification, measurement, and assessment as well as risk monitoring and reporting. Every units' risk management personnel analyze data on market risk position and evaluate measurement methods, including the statistical basic measurement method, sensitivity analysis, and situational analysis. Monitoring content includes trading processes, collective and individual, of all transaction units and all financial instruments, such as change of position, change of profit and loss, trading pattern, and if trading objects are transacted within the authorized scope and limits.

The Bank's business units and risk management unit have established market risk factors for identifying risk exposure positions and use these factors to measure market risks. The market risk factors refer to the components of financial instruments' position, such as profit and loss and sensitivity to risk, which might be affected by interest rates, exchange rates and equity security market prices.

The Bank's risk management unit reports to management periodically the execution status of measures on market risk management, investment positions, and profit and loss control so that management can fully understand the status of market risk management. The Bank also has cleared reporting procedures and rules for all types of transaction limits and the stop-loss order. If any transaction amount reaches the limit, the stop-loss order is executed immediately; if the stop-loss order is not executed, the transaction unit is required to explain the reasons for non-execution and prepare a response plan for management's approval.

The Bank applies market risk sensitivity as a risk control instrument. Market risk sensitivity position refers to the change in the value of a position due to a change in a certain market risk factor. Market risk factors include interest rates, exchange rates, and equity security prices. The Bank's position sensitivity exposure trading book contains all types of positions exposed to market risk and the range of change to which sensitivity analysis applied under various pressure scenarios for all types of risk factors.

Assuming all other factors are held constant, the effects of risks within defined change scenarios are shown below:

Main Risk	**Change Scenario**	**December 31, 2017**	**December 31, 2016**
Interest rate risk	Interest rate curve increased 100 basis points	$ (39,258)	$ (338,493)
	Interest rate curve fell 100 basis points	39,988	363,546
Exchange rate risk	USD/NT$, EUR/NT$ increased 3%	(195,579)	(132,789)
	USD/NT$, EUR/NT$ fell 3%	195,579	132,789
	Others (RMB, AUD etc.)/NT$ increased 5%	(9,514)	220,149
	Others (RMB, AUD etc.)/NT$ fell 5%	9,514	(220,149)
Equity security price risk	Equity security price increased by 15%	165,096	120,054
	Equity security price fell by 15%	(162,501)	(120,054)

Average amount and average interest rate of interest-earning assets and interest-bearing liabilities are as follows:

Average balance is calculated by the daily average balances of interest-earning assets and interest-bearing liabilities.

	For the Year Ended December 31			
	2017		2016	
	Average Balance	**Average Rate (%)**	**Average Balance**	**Average Rate (%)**
Interest-earning assets				
Due from banks and other financial assets - due from banks	$ 30,526,712	2.23	$ 26,939,023	1.82
Due from the Central Bank	163,470,160	0.36	363,032,312	0.54
Call loans to banks and other financial assets - call loans to securities firms	70,515,192	1.48	120,352,203	0.96
Held-for-trading financial assets	12,765,648	0.63	19,652,234	0.50
Securities purchased under resell agreements	610,384	0.32	1,945,294	0.34
Discounts and loans	1,970,325,763	2.01	1,964,562,393	2.01
Available-for-sale financial assets	136,654,032	1.92	101,153,901	2.07
Held-to-maturity financial assets	514,022,532	0.73	478,884,429	0.48
Debt instruments with no active market	81,465,943	2.31	81,841,417	2.07
Interest-bearing liabilities				
Due to the Central Bank and other banks	224,358,551	0.73	212,433,189	0.55
Financial liabilities designated as at fair value through profit or loss	12,120,592	4.50	12,887,847	4.33
Securities sold under repurchase agreements	10,337,481	0.23	12,526,955	0.27
Demand deposits	489,195,961	0.12	487,840,156	0.12
Savings - demand deposits	811,456,768	0.27	766,805,420	0.32
Time deposits	468,497,554	1.15	491,914,674	1.04
Time savings deposits	658,949,831	1.06	677,825,139	1.15
Treasury deposits	84,055,258	0.65	82,155,852	0.70
Negotiable certificates of deposits	5,392,127	0.35	4,834,141	0.31
Structured products	2,720,350	1.46	4,347,486	0.62
Bank debentures	70,144,247	1.34	70,935,137	1.36

The exchange rate risk is as follows:

December 31, 2017

(In Thousands)

	Foreign Currencies	**Exchange Rate**	**Carrying Amount**
Financial assets			
USD	$ 11,001,049	29.6800	$ 326,511,122
RMB	12,538,702	4.5490	57,038,555
AUD	945,865	23.1350	21,882,580
JPY	41,602,226	0.2633	10,953,866
EUR	305,602	35.4500	10,833,599
HKD	1,714,624	3.7960	6,508,711
ZAR	1,831,692	2.3900	4,377,743
GBP	59,936	39.9300	2,393,249

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
CAD	$ 29,282	23.6300	$ 691,945
NZD	20,386	21.0700	429,537
CHF	11,219	30.3350	340,330
SGD	2,144	22.2000	47,601
THB	10,337	0.9129	9,437
SEK	2,327	3.6000	8,378
KHR	782,844	0.0073	5,715
PHP	3,855	0.5938	2,289
Investment accounted for using equity method			
EUR	54,992	35.4500	1,949,463
Financial liabilities			
USD	11,796,573	29.6800	350,122,274
RMB	11,437,152	4.5490	52,027,606
AUD	775,205	23.1350	17,934,368
JPY	54,569,470	0.2633	14,368,141
ZAR	2,875,459	2.3900	6,872,348
EUR	171,238	35.4500	6,070,378
NZD	210,686	21.0700	4,439,155
HKD	1,006,936	3.7960	3,822,329
CAD	58,801	23.6300	1,389,460
GBP	31,502	39.9300	1,257,861
CHF	17,122	30.3350	519,385
SGD	9,853	22.2000	218,734
SEK	16,506	3.6000	59,423
THB	12,133	0.9129	11,076
PHP	1,999	0.5938	1,187
KHR	2,889	0.0073	21
MYR	-	7.3020	2

(Concluded)

December 31, 2016

(In Thousands)

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
USD	$ 10,121,373	32.2200	$ 326,110,627
RMB	11,012,099	4.6240	50,919,947
AUD	810,359	23.3450	18,917,825
EUR	351,827	33.9800	11,955,070
JPY	45,455,324	0.2771	12,595,670
HKD	1,363,517	4.1540	5,664,050
GBP	109,062	39.6100	4,319,963
ZAR	1,530,864	2.3700	3,628,149

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
CAD	$ 127,698	23.9200	$ 3,054,547
NZD	29,023	22.4600	651,851
CHF	8,722	31.6050	275,669
SGD	5,439	22.3100	121,342
SEK	2,920	3.5500	10,368
THB	7,357	0.9042	6,652
KHR	736,959	0.0080	5,869
PHP	4,412	0.6510	2,872
Investment accounted for using equity method			
EUR	51,821	33.9800	1,760,886
<u>Financial liabilities</u>			
USD	10,991,611	32.2200	354,149,711
RMB	10,097,452	4.6240	46,690,618
AUD	829,637	23.3450	19,367,867
JPY	38,008,073	0.2771	10,532,037
EUR	219,707	33.9800	7,465,648
ZAR	2,773,328	2.3700	6,572,788
HKD	833,999	4.1540	3,464,432
GBP	67,639	39.6100	2,679,161
NZD	88,911	22.4600	1,996,935
CAD	69,130	23.9200	1,653,596
SGD	16,146	22.3100	360,211
CHF	8,466	31.6050	267,562
SEK	18,496	3.5500	65,662
THB	14,106	0.9042	12,754
PHP	1,573	0.6510	1,024
KHR	2,888	0.0080	23
MYR	-	7.1840	2

(Concluded)

4) Liquidity risk

Liquidity risk is inherent in all bank operations and might be affected by specific or general industry and environmental events. These events include credit-related events, mergers or acquisitions, systemic changes and natural disasters. The Bank defines liquidity risk as the inability to realize assets or to obtain financing for meeting obligations when they fall due, resulting in loss.

The liquidity risk management strategy is based on the overall risk management objectives and involves liquidity risk, identification, measurement, monitoring and control to maintain the Bank's appropriate liquidity and ensure adequate funding for meeting liability obligations or for capital growth.

The liquidity risk management procedures involve identification, measurement, monitoring and report of risk. Each business unit should identify the existing liquidity risk in business activities and financial products.

For adequate liquidity for all types of deposits, the Bank follows the relevant regulations issued by the Central Bank to estimate the liquidity reserves and calculates and controls daily liquidity reserve ratios.

For the Bank's operating liquidity, the fund disbursement unit performs daily cash flow management and monitoring of the payments schedule on the basis of detailed reports by different departments and relevant rules.

The risk management department regularly generates risk reports, which include the liquidity reserve ratios and the maturity analysis of instruments and transactions denominated in major foreign currencies, and submits them to the Asset and Liability Management Committee and the Board as reference for decision making.

The Bank stipulates liquidity risk limits, which are regularly monitored and reviewed by the risk management department. If a liquidity risk limit is exceeded or other exception situations occur, the business supervising unit immediately develops appropriate contingency measures and submits them to the Asset and Liability Management Committee for approval and implementation.

The Bank contingency measures for business emergency or sudden liquidity crisis are aimed at quick crisis resolution and resumption of normal operations.

The Bank's liquidity reserve ratios were 24.49% and 25.51% in December 2017 and 2016, respectively.

The Bank disclosed the analysis of cash outflows on non-derivative financial liabilities by their 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 shown in the balance sheets.

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and other banks	$ 159,727,083	$ 43,182,766	$ 9,108,939	$ 281,277	$ -	$ 212,300,065
Financial liabilities at fair value through profit or loss	-	-	-	-	11,872,000	11,872,000
Securities sold under repurchase agreements	5,864,963	2,724,763	1,787,416	-	-	10,377,142
Payables	35,880,764	1,246,909	3,837,151	2,055,960	1,670,382	44,691,166
Deposits and remittances	269,307,534	372,239,027	358,146,507	617,273,614	1,007,631,653	2,624,598,335
Bank debentures	-	-	10,000,000	4,610,000	50,000,000	64,610,000
Other items of cash outflow on maturity	3,682,515	28,407	1,367	2,736	34,520	3,749,545

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and other banks	$ 155,478,478	$ 58,665,170	$ 10,705,464	$ 819,799	$ -	$ 225,668,911
Financial liabilities at fair value through profit or loss	-	-	-	-	12,888,000	12,888,000
Securities sold under repurchase agreements	7,099,872	2,993,323	1,765,115	142,521	-	12,000,831
Payables	35,193,871	1,438,491	3,875,492	1,793,774	1,361,129	43,662,757
Deposits and remittances	252,935,486	358,035,917	351,403,740	595,384,842	1,006,397,207	2,564,157,192
Bank debentures	-	-	8,000,000	4,000,000	62,610,000	74,610,000
Other items of cash outflow on maturity	2,229,703	61,082	12,886	44,146	266,308	2,614,125

In the above table, the maturity analysis of deposits and remittances by residual-maturity period was based on the Bank's historical experience. Assuming that all demand deposits as of December 31, 2017 and 2016 must be repaid soon, the capital expenditure will be increased by $1,382,433,220 thousand and $1,332,990,997 thousand, respectively, within 30 days these balance sheet dates.

The Bank assesses the maturity dates of contracts to understand the basic elements of all derivative financial instruments shown in the balance sheets. The amounts used in the maturity analyses of derivative financial liabilities are based on contractual cash flows, so some of these amounts may not correspond to the amounts shown in the balance sheets. The maturity analysis of derivative financial liabilities is as follows:

a) Derivative financial liabilities to be settled at net amounts

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss						
Currency	$ 621	$ 483	$ 418	$ 138	$ -	$ 1,660
Interest	(3,677)	(401)	(2,430)	(9,393)	(1,657)	(17,558)

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss						
Currency	$ 12	$ 1,104	$ 512	$ 328	$ -	$ 1,956
Interest	(2,597)	-	(2,572)	(4,433)	(7,996)	(17,598)

b) Derivative financial liabilities to be settled at gross amounts

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss						
Currency derivatives						
Cash outflow	$ 99,247,171	$ 65,867,834	$ 54,369,486	$ 36,184,259	$ -	$ 255,668,750
Cash inflow	57,779,732	66,617,923	55,079,076	36,673,161	-	216,149,892
Interest derivatives						
Cash outflow	586,432	302,851	5,283	183,819	598,882	1,677,267
Cash inflow	478,036	408,408	-	178,024	604,980	1,669,448
Total cash outflow	99,833,603	66,170,685	54,374,769	36,368,078	598,882	257,346,017
Total cash inflow	58,257,768	67,026,331	55,079,076	36,851,185	604,980	217,819,340
Net cash flow	(41,575,835)	855,646	704,307	483,107	6,098	(39,526,677)

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss						
Currency derivatives						
Cash outflow	$ 100,614,110	$ 48,649,694	$ 10,212,981	$ 5,547,481	$ 6,320	$ 165,030,586
Cash inflow	101,570,350	49,045,790	10,199,070	5,596,383	6,347	166,417,940
Interest derivatives						
Cash outflow	-	75,283	483,522	113,737	21,502,697	22,175,239
Cash inflow	-	594,624	419,155	-	30,163,544	31,177,323
Total cash outflow	100,614,110	48,724,977	10,696,503	5,661,218	21,509,017	187,205,825
Total cash inflow	101,570,350	49,640,414	10,618,225	5,596,383	30,169,891	197,595,263
Net cash flow	956,240	915,437	(78,278)	(64,835)	8,660,874	10,389,438

The Bank conducted maturity analysis of off-balance sheet items based on the residual maturities as of the balance sheet dates. For the financial guarantee contracts issued, the maximum amounts of the guarantees are included in the earliest periods that the guarantee obligation might have been required to be fulfilled. The amounts used in the maturity analysis of off-balance sheet items are based on contractual cash flows, so some of these amounts may not correspond to those shown in the balance sheets.

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 794,925	$ 830,041	$ 11,337,789	$ 39,720,416	$ 41,148,401	$ 93,831,572
Irrevocable credit card commitments	2,348,868	80,095	792,986	1,183,528	40,676,799	45,082,276
Letters of credit issued yet unused	4,460,709	9,501,553	1,866,932	732,598	2,165,785	18,727,577
Other guarantees	3,247,217	3,405,653	5,747,747	7,742,939	59,658,710	79,802,266

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 2,456,708	$ 6,528,417	$ 7,806,476	$ 8,640,285	$ 75,485,105	$ 100,916,991
Irrevocable credit card commitments	28,740	215,260	905,725	1,189,421	39,556,410	41,895,556
Letters of credit issued yet unused	4,003,758	11,034,135	2,257,950	887,836	2,969,060	21,152,739
Other guarantees	3,236,388	6,495,515	4,815,740	9,304,642	54,496,009	78,348,294

f. Transfers of financial assets

Under the Bank operations, most of derecognized financial assets are securities sold under repurchase agreements, and the contractual cash flows have been transferred to others. The Bank has the responsibility to repurchase transferred financial assets at fixed prices, and can not use, sell and pledge transferred financial assets. However, the Bank is still in the risk exposure of interest rate and credit, so the transferred financial assets can not be removed entirely. The information on derecognized financial assets and liabilities is as follows:

December 31, 2017					
Financial Assets	**Carrying Amount of Transferred Financial Assets**	**Carrying Amount of Related Financial Liabilities**	**Fair Value of Transferred Financial Assets**	**Fair Value of Related Financial Liabilities**	**Net Position of Fair Value**
Financial assets at FVTPL - securities sold under repurchase agreements	$ 3,050,092	$ 3,051,511	$ 3,050,092	$ 3,051,511	$ (1,419)
Available-for-sale financial assets - securities sold under repurchase agreements	6,867,946	7,325,631	6,867,946	7,325,631	(457,685)

December 31, 2016					
Financial Assets	**Carrying Amount of Transferred Financial Assets**	**Carrying Amount of Related Financial Liabilities**	**Fair Value of Transferred Financial Assets**	**Fair Value of Related Financial Liabilities**	**Net Position of Fair Value**
Financial assets at FVTPL - securities sold under repurchase agreements	$ 4,500,805	$ 4,502,898	$ 4,500,805	$ 4,502,898	$ (2,093)
Available-for-sale financial assets - securities sold under repurchase agreements	6,870,688	7,497,933	6,870,688	7,497,933	(627,245)

g. Offsetting financial assets and financial liabilities

The Bank is eligible to present in the balance sheet on a net basis certain derivative assets and derivative liabilities pertaining to transactions with counterparties under enforceable master netting arrangements or similar agreements and there is an intention either to make settlements on a net basis or to realize the asset and settle the liability simultaneously. A master netting agreement provides for a single net settlement of all financial instruments covered by the agreement if the counterparty defaults on any contract. Parties may also settle transactions at gross amounts if a single settlement results in cash flows being equivalent to a single net amount.

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

December 31, 2017

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Received	
Resell agreements	$ 249,463	$ -	$ 249,463	$ (249,463)	$ -	$ -

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Repurchase agreements	$ 10,377,142	$ -	$ 10,377,142	$ (9,918,038)	$ -	$ 459,104

December 31, 2016

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Repurchase agreements	$ 12,000,831	$ -	$ 12,000,831	$ (11,371,493)	$ -	$ 629,338

39. CAPITAL MANAGEMENT

In according to the authority's regulation for principles of capital adequacy management, the Bank lists all the risks into the capital adequacy evaluation scope. In accordance with the operation plans and budget targets, which approved by the board of directors, also considering the Bank's development strategy, capital adequacy, liabilities ratios, and dividend policy, the Bank proposes capital adequacy evaluation plan, which include stress testing, estimation for each season's capital adequacy ratio, etc. to ensure the capital adequacy ratio can be reached and capital structure is sound.

To monitor capital adequacy, the risk management department regularly reports capital adequacy ratios every month and also quarterly reviews the execution status of and actual operation data variation on the Bank's capital adequacy evaluation plan. When the actual capital adequacy ratio might go lower than target, the Bank immediately reviews the causes, prepares a report and proposes a response strategy to maintain the appropriate capital adequacy levels.

The Banking Law and related regulations require that the Bank maintain the minimum requirement for unconsolidated and consolidated capital adequacy ratios (CAR), including the common equity Tier 1 ratio, Tier 1 capital ratio, and total capital adequacy ratio.

Information on the Bank's CAR is as follows:

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

<table>
<tr><th colspan="3" rowspan="2">Items / Year</th><th colspan="2">December 31, 2017</th></tr>
<tr><th>Standalone</th><th>Consolidated</th></tr>
<tr><td rowspan="4">Eligible capital</td><td colspan="2">Common equity</td><td>$ 185,317,810</td><td>$ 186,356,482</td></tr>
<tr><td colspan="2">Other Tier 1 capital</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Tier 2 capital</td><td>55,956,433</td><td>56,994,138</td></tr>
<tr><td colspan="2">Eligible capital</td><td>241,274,243</td><td>243,350,620</td></tr>
<tr><td rowspan="9">Risk-weighted assets</td><td rowspan="3">Credit risk</td><td>Standardized approach</td><td>1,699,983,398</td><td>1,703,971,927</td></tr>
<tr><td>Internal ratings based approach</td><td>-</td><td>-</td></tr>
<tr><td>Securitization</td><td>4,869,832</td><td>4,869,832</td></tr>
<tr><td rowspan="3">Operational risk</td><td>Basic indicator approach</td><td>-</td><td>-</td></tr>
<tr><td>Standardized approach/alternative standardized approach</td><td>70,096,582</td><td>71,479,305</td></tr>
<tr><td>Advanced measurement approach</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Market risk</td><td>Standardized approach</td><td>20,860,263</td><td>20,860,338</td></tr>
<tr><td>Internal model approach</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Risk-weighted assets</td><td>1,795,810,075</td><td>1,801,181,402</td></tr>
<tr><td colspan="3">Capital adequacy ratio</td><td>13.44</td><td>13.51</td></tr>
<tr><td colspan="3">Ratio of the common equity to risk-weighted assets</td><td>10.32</td><td>10.35</td></tr>
<tr><td colspan="3">Ratio of Tier 1 capital to risk-weighted assets</td><td>10.32</td><td>10.35</td></tr>
<tr><td colspan="3">Ratio of leverage</td><td>5.51</td><td>5.53</td></tr>
</table>

<table>
<tr><th colspan="3" rowspan="2">Items / Year</th><th colspan="2">December 31, 2016</th></tr>
<tr><th>Standalone</th><th>Consolidated</th></tr>
<tr><td rowspan="4">Eligible capital</td><td colspan="2">Common equity</td><td>$ 176,691,923</td><td>$ 177,630,492</td></tr>
<tr><td colspan="2">Other Tier 1 capital</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Tier 2 capital</td><td>60,940,320</td><td>62,002,796</td></tr>
<tr><td colspan="2">Eligible capital</td><td>237,632,243</td><td>239,633,288</td></tr>
<tr><td rowspan="9">Risk-weighted assets</td><td rowspan="3">Credit risk</td><td>Standardized approach</td><td>1,749,949,669</td><td>1,751,849,566</td></tr>
<tr><td>Internal ratings based approach</td><td>-</td><td>-</td></tr>
<tr><td>Securitization</td><td>2,525,003</td><td>2,525,003</td></tr>
<tr><td rowspan="3">Operational risk</td><td>Basic indicator approach</td><td>-</td><td>-</td></tr>
<tr><td>Standardized approach/alternative standardized approach</td><td>67,055,930</td><td>68,376,295</td></tr>
<tr><td>Advanced measurement approach</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Market risk</td><td>Standardized approach</td><td>20,838,284</td><td>20,846,475</td></tr>
<tr><td>Internal model approach</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Risk-weighted assets</td><td>1,840,368,886</td><td>1,843,597,339</td></tr>
<tr><td colspan="3">Capital adequacy ratio</td><td>12.91</td><td>13.00</td></tr>
<tr><td colspan="3">Ratio of the common equity to risk-weighted assets</td><td>9.60</td><td>9.63</td></tr>
<tr><td colspan="3">Ratio of Tier 1 capital to risk-weighted assets</td><td>9.60</td><td>9.63</td></tr>
<tr><td colspan="3">Ratio of leverage</td><td>5.33</td><td>5.35</td></tr>
</table>

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 = The common equity + 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 the common equity to risk-weighted assets = The common equity ÷ Risk-weighted assets.

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

6) Ratio of leverage = Tier 1 capital ÷ Exposure measurement.

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

a. Asset quality: Table 1 (attached).

b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

Rank (Note 1)	December 31, 2017		
	Industry of Group Enterprise (Note 2)	**Total Amount of Credit Endorsement or Other Transactions (Note 3)**	**Percentage of Bank's Equity**
1	Group A Railway transportation	$ 41,951,293	20.95
2	Group B Petroleum and coal products manufacturing	18,052,998	9.01
3	Group C Harbor services	17,960,733	8.97
4	Group D Computers and computing peripheral equipment manufacturing	11,823,061	5.90
5	Group E Cotton and textile	11,454,110	5.72
6	Group F Cotton and textile	11,368,738	5.68
7	Group G Shipping agency	10,182,036	5.08
8	Group H Real estate development	9,809,249	4.90
9	Group I Iron and steel smelting	9,389,840	4.69
10	Group J Real estate development	8,049,397	4.02

(In Thousands of New Taiwan Dollars, %)

Rank (Note 1)	December 31, 2016		
	Industry of Group Enterprise (Note 2)	**Total Amount of Credit Endorsement or Other Transactions (Note 3)**	**Percentage of Bank's Equity**
1	Group A Railway transportation	$ 47,985,202	25.22
2	Group B Petroleum and coal products manufacturing	24,452,532	12.85
3	Group C Harbor services	20,117,499	10.57
4	Group D Computers and computing peripheral equipment manufacturing	12,475,052	6.56
5	Group G Shipping agency	10,468,922	5.50
6	Group F Cotton and textile	9,800,372	5.15
7	Group I Iron and steel smelting	8,507,430	4.47
8	Group K Liquid crystal panel and component manufacturing	8,473,972	4.45
9	Group L Other electronic parts and components manufacturing not classified elsewhere	8,156,172	4.29
10	Group E Cotton and textile	7,990,876	4.20

Note 1: The list shows rankings by total amount of credit, endorsement or other transactions but excludes government-owned or state-run enterprises. If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The industry of the group enterprise should be presented as the industry of the member firm with the highest risk exposure. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Group enterprise refers to a group of corporate entities as defined by Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: Total amount of credit, endorsement or other transactions is the sum of various loans (including import and export negotiations, discounts, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, accounts receivable factored without recourse, acceptances and guarantees.

c. Interest rate sensitivity information

Interest Rate Sensitivity
December 31, 2017

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 2,214,760,305	$ 84,152,971	$ 27,194,085	$ 242,089,018	$ 2,568,196,379
Interest rate-sensitive liabilities	900,687,788	1,294,547,469	108,676,697	47,908,620	2,351,820,574
Interest rate sensitivity gap	1,314,072,517	(1,210,394,498)	(81,482,612)	194,180,398	216,375,805
Net worth					183,339,996
Ratio of interest rate-sensitive assets to liabilities					109.20
Ratio of interest rate sensitivity gap to net worth					118.02

Interest Rate Sensitivity
December 31, 2016

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 2,226,291,870	$ 78,409,769	$ 20,003,190	$ 212,280,065	$ 2,536,984,894
Interest rate-sensitive liabilities	875,078,103	1,270,111,617	123,230,949	56,522,353	2,324,943,022
Interest rate sensitivity gap	1,351,213,767	(1,191,701,848)	(103,227,759)	155,757,712	212,041,872
Net worth					179,884,108
Ratio of interest rate-sensitive assets to liabilities					109.12
Ratio of interest rate sensitivity gap to net worth					117.88

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

Note 2: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities with revenues or costs that are affected by interest rate changes.

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

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

Interest Rate Sensitivity
December 31, 2017

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 12,611,033	$ 1,091,395	$ 197,117	$ 1,337,051	$ 15,236,596
Interest rate-sensitive liabilities	14,917,306	836,189	777,151	-	16,530,646
Interest rate sensitivity gap	(2,306,273)	255,206	(580,034)	1,337,051	(1,294,050)
Net worth					570,103
Ratio of interest rate-sensitive assets to liabilities					92.17
Ratio of interest rate sensitivity gap to net worth					(226.99)

Interest Rate Sensitivity
December 31, 2016

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 11,048,057	$ 880,553	$ 339,015	$ 889,296	$ 13,156,921
Interest rate-sensitive liabilities	13,248,760	613,323	660,986	10,000	14,533,069
Interest rate sensitivity gap	(2,200,703)	267,230	(321,971)	879,296	(1,376,148)
Net worth					321,380
Ratio of interest rate-sensitive assets to liabilities					90.53
Ratio of interest rate sensitivity gap to net worth					(428.20)

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

Note 2: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities with revenues or costs that 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).

d. Profitability

Unit: %

Items		December 31, 2017	December 31, 2016
Return on total assets	Before income tax	0.47	0.47
	After income tax	0.41	0.40
Return on equity	Before income tax	7.62	7.80
	After income tax	6.61	6.72
Net income ratio		30.45	30.67

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

e. Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2017

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity					
		0 to 10 Days	11 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Main capital inflow on maturity	$ 2,957,557,972	$ 448,397,991	$ 275,917,514	$ 165,743,918	$ 229,432,907	$ 322,971,713	$ 1,515,093,929
Main capital outflow on maturity	3,456,487,942	223,064,245	169,642,349	426,890,518	418,577,272	680,715,349	1,537,598,209
Gap	(498,929,970)	225,333,746	106,275,165	(261,146,600)	(189,144,365)	(357,743,636)	(22,504,280)

Maturity Analysis of Assets and Liabilities
December 31, 2016

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity					
		0 to 10 Days	11 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Main capital inflow on maturity	$ 2,912,579,303	$ 445,925,958	$ 325,498,497	$ 154,386,789	$ 168,278,402	$ 326,999,582	$ 1,491,490,075
Main capital outflow on maturity	3,411,972,205	220,472,557	179,964,509	430,399,837	414,230,546	658,707,019	1,508,197,737
Gap	(499,392,902)	225,453,401	145,533,988	(276,013,048)	(245,952,144)	(331,707,437)	(16,707,662)

Note: The above amounts included only New Taiwan dollar amounts held by the Bank.

Maturity Analysis of Assets and Liabilities
December 31, 2017

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		0 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Main capital inflow on maturity	$ 23,562,373	$ 8,293,946	$ 4,288,492	$ 2,800,333	$ 1,801,262	$ 6,378,340
Main capital outflow on maturity	26,730,431	13,132,116	5,222,834	2,654,535	3,498,091	2,222,855
Gap	(3,168,058)	(4,838,170)	(934,342)	145,798	(1,696,829)	4,155,485

Maturity Analysis of Assets and Liabilities
December 31, 2016

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		0 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Main capital inflow on maturity	$ 21,063,564	$ 8,535,847	$ 3,495,230	$ 2,346,722	$ 1,023,083	$ 5,662,682
Main capital outflow on maturity	24,305,052	12,029,919	4,509,979	2,179,696	3,191,626	2,393,832
Gap	(3,241,488)	(3,494,072)	(1,014,749)	167,026	(2,168,543)	3,268,850

Note: The above amounts included only U.S. dollar amounts held by the Bank.

41. TAIWAN COOPERATIVE BANK, LTD.'S TRUST BUSINESS UNDER THE TRUST LAW

a. Trust-related items are those shown in the following balance sheets, statements of income and trust property list

These items were managed by the Bank's Trust Department. However, these items were not included in the financial statements.

Balance Sheets of Trust Accounts
December 31, 2017 and 2016

Trust Assets	2017	2016	Trust Liabilities	2017	2016
Cash in banks	$ 3,319,755	$ 2,403,263	Payables		
			Accrued expense	$ 2,785	$ 4,250
Short-term investments			Others	2,290	2,477
Mutual funds	161,531,937	153,234,175	Mutual funds payable	-	200
Stocks	1,294,138	1,735,287		5,075	6,927
Bonds	2,698,757	1,364,377			
Structured products	243,571	300,778	Accounts payable on		
	165,768,403	156,634,617	securities under custody	112,915,054	75,487,067
Securities lending	304,154	833,745	Trust capital		
			Cash	166,811,638	157,272,789
Receivables	6,337	8,844	Real estate	62,103,419	55,568,875
			Securities	1,443,645	2,432,186
Real estate			Others	110,521	275,144
Land	49,423,289	46,493,613		230,469,223	215,548,994
Buildings	8,523	12,192			
Construction in process	11,784,267	9,255,459	Reserves and retained		
	61,216,079	55,761,264	earnings		
			Net income	158,119	140,587
Securities under custody	112,915,054	75,487,067	Appropriation	(200,645)	(161,502)
			Retained earnings	182,956	106,727
				140,430	85,812
Total	$ 343,529,782	$ 291,128,800	Total	$ 343,529,782	$ 291,128,800

Trust Property List
December 31, 2017 and 2016

Investment Items	2017	2016
Cash in banks	$ 3,319,755	$ 2,403,263
Short-term investments		
Mutual funds	161,531,937	153,234,175
Stocks	1,294,138	1,735,287
Bonds	2,698,757	1,364,377
Structured products	243,571	300,778
Securities lending	304,154	833,745
Receivables		
Accrued interest	4,972	3,353
Securities sold	-	200
Others	1,365	5,291
Real estate		
Land	49,423,289	46,493,613
Buildings	8,523	12,192
Construction in process	11,784,267	9,255,459
Securities under custody	112,915,054	75,487,067
Total	$ 343,529,782	$ 291,128,800

Statements of Income on Trust Accounts
For the Years Ended December 31, 2017 and 2016

	2017	2016
Revenues		
Interest revenue	$ 6,221	$ 5,117
Cash dividends	54,478	69,127
Realized gain on investment - stocks	12,205	18,077
Unrealized gain on investment - stocks	188,628	237,500
Realized gain on investment - mutual funds	299	59
Unrealized gain on investment - mutual funds	-	1,606
Rentals	15,198	27,840
Others	120	5
Total revenues	277,149	359,331
Expenses		
Management fees	6,434	8,848
Taxes	-	52
Service charge	483	751
Postage	26	28
Unrealized loss on investment - stocks	110,305	202,939
Realized loss on investment - mutual funds	669	18
Unrealized loss on investment - mutual funds	-	4,395
Others	1,113	1,713
Total expenses	119,030	218,744
Income before income tax	158,119	140,587
Income tax expense	-	-
Net income	$ 158,119	$ 140,587

b. Nature of trust business operations under the Trust Law: Note 1.

42. ALLOCATION OF REVENUE, COST AND EXPENSE THAT RESULTED FROM THE SHARING OF RESOURCES BETWEEN TAIWAN COOPERATIVE FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES

Under cooperation arrangements, the Bank and Taiwan Cooperative Securities (TCS) promoted securities brokerage business together; thus, related revenues received by the Bank were calculated as follows: (a) from the first year to fifth year, revenue based on 20% of the net revenue derived from security transactions; (b) related revenues from utilizing some operating sites and equipment by the TCS; and (c) receiving cross-selling service fees of $2,000 thousand annually.

To promote the credit card business together, the Bank and TCS signed cooperation arrangements, marketing expenses paid by the Bank were based on the arrangements.

As of December 31, 2017 and 2016, the accrued receivables were $3,144 thousand and $2,245 thousand (part of receivables), respectively. The revenues from cross-selling transactions were $8,394 thousand and $7,044 thousand (part of other noninterest gains, net) in 2017 and 2016, respectively.

To promote the insurance business together, the Bank and BNP Paribas Cardif TCB Life Insurance Co., Ltd. signed cooperation arrangements. The service fees earned by the Bank were based on the agreed percentage of the premiums from the insurance companies' products sold by the Bank.

As of December 31, 2017 and 2016, the accrued receivables were $2,499 thousand and $2,419 thousand, respectively (part of receivables). The revenues from cross-selling transactions were $36,295 thousand and $32,090 thousand (part of service fee income, net) in 2017 and 2016, respectively.

43. NON-CASH FINANCING ACTIVITIES

Undistributed cash dividends approved by stockholders' meetings are both $170,524 thousand as of December 31, 2017 and 2016, respectively.

44. OTHER SIGNIFICANT TRANSACTIONS

The Bank's application to set up the Changsha Branch in Mainland China was approved by the Financial Supervisory Commission on December 31, 2015. The Bank invested RMB600,000 thousand in the Changsha Branch, under the "Regulations Governing Approvals of Banks to Engage in Financial Activities between the Taiwan Area and the Mainland Area." The investment in the Changsha Branch was approved by the Investment Commission under Mainland China's Ministry of Economic Affairs and relevant authorities. Changsha Branch started operation on April 27, 2017.

45. ADDITIONAL DISCLOSURES

a. Related information of significant transactions and b. investees:

1) Financing provided: The Bank - not applicable; investee company - not applicable.

2) Endorsement/guarantee provided: The Bank - not applicable; investee company - not applicable.

3) Marketable securities held: The Bank - not applicable; investee company - not applicable.

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 10% of the paid-in capital (the Bank disclosed its investments acquired or disposed of): None.

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

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

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

8) Receivables from related parties amounting to at least NT$300 million or 10% of the paid-in capital: Table 2 (attached).

9) Sale of nonperforming loans: Table 3 (attached).

10) Financial asset securitization: None.

11) Other significant transactions which may affect the decisions of users of financial reports: Note 44 to the financial statements.

12) Percentage share in investees and related information: Table 4 (attached).

13) Derivative transactions: The Bank - Notes 8, 35 and 38 to the financial statements; investee company: None.

c. Investment in Mainland China:

Based on "Regulations Governing Approvals of Banks to Engage in Financial Activities between the Taiwan Area and the Mainland Area," the Bank set up the Suzhou Branch, Tianjin Branch, Fuzhou Branch and Changsha Branch in Mainland China. This investment had been approved by the Financial Supervisory Commission. The 4 branches' information - major operating items, capital stock, the way of investment, investment inflows and outflows, the holding percentage, the investment income or loss, the book value at year-end, the remitted investment profits and the limit on the amount of investment in Mainland China - can be seen in Table 5 (attached).

TAIWAN COOPERATIVE BANK, LTD.

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

Period			December 31, 2017					December 31, 2016				
Items			Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Credit 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		$ 3,080,261	$ 680,301,703	0.45	$ 7,827,645	254.12	$ 2,967,322	$ 678,321,953	0.44	$ 6,272,474	211.39
	Unsecured		1,543,799	554,801,261	0.28	6,864,342	444.64	2,668,904	525,514,607	0.51	7,160,343	268.29
Consumer banking	Housing mortgage (Note 4)		1,196,452	499,209,397	0.24	7,574,524	633.08	979,710	502,456,117	0.19	7,609,102	776.67
	Cash card		-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)		42,159	12,905,632	0.33	106,622	252.90	11,904	12,499,705	0.10	148,551	1,247.91
	Other (Note 6)	Secured	940,017	263,507,882	0.36	2,557,468	272.07	613,546	254,588,889	0.24	2,015,897	328.56
		Unsecured	31,656	8,550,570	0.37	109,908	347.19	25,980	8,926,735	0.29	141,177	543.41
Loan			6,834,344	2,019,276,445	0.34	25,040,509	366.39	7,267,366	1,982,308,006	0.37	23,347,544	321.27
			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			8,482	3,224,127	0.26	53,334	628.79	5,566	2,937,838	0.19	56,009	1,006.27
Accounts receivable factored without recourse (Note 7)			-	1,843,856	-	20,556	-	-	561,785	-	6,531	-
Amounts of executed contracts on negotiated debts not reported as nonperforming loans (Note 8)			1,426					2,363				
Amounts of executed contracts on negotiated debts not reported as nonperforming receivables (Note 8)			9,276					12,487				
Amounts of executed debt-restructuring projects not reported as nonperforming loans (Note 9)			15,968					19,918				
Amounts of executed debt-restructuring projects not reported as nonperforming receivables (Note 9)			46,319					53,335				

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 receivables: Nonperforming receivables ÷ Outstanding receivable balance.

Note 3: Coverage ratio of loans: Allowance for credit losses for loans ÷ Nonperforming loans.
Coverage ratio of receivables: Allowance for credit losses for receivables ÷ Nonperforming 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 consumers banking loans refer to secured or unsecured loans that exclude housing mortgage, cash and credit card, and small-scale credit loans.

(Continued)

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 0945000494), 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.

Note 8: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are disclosed to the public in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 9: Amounts of executed debt-restructuring projects not reported as nonperforming loans or receivables are disclosed to the public in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940) and letter dated September 20, 2016 (Ref. No. 10500134790).

(Concluded)

TAIWAN COOPERATIVE BANK, LTD.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$300 MILLION OR 10% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Taiwan Cooperative Bank, Ltd.	Taiwan Cooperative Financial Holding Company, Ltd.	Parent company	$ 1,071,039 (Note)	-	$ -	-	$ -	$ -

Note: Receivable - consolidated tax return.

TAIWAN COOPERATIVE BANK, LTD.

SALE OF NONPERFORMING LOANS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. Sale of nonperforming loans

Trade Date	Counterparty	Form of Nonperforming Loan	Book Value	Selling Price	Gain (Loss)	Term	Relationship Between the Bank and Counterparty
2017.7.12	The Hong Kong and Shanghai Banking Corporation Limited	Medium unsecured loans of business	$ - (Note 1)	$ 121,357 (US$ 3,975)	$ 120,883 (US$ 3,975)	None	None
2017.7.13	SC Lowy Primary Investments, Ltd.	International Syndicated Loan	- (Note 2)	121,620 (US$ 4,000)	121,643 (US$ 4,000)	None	None

Note 1: Book value equals the original loan amounting to US$5,108 thousand minus allowance for possible losses amounting US$5,108 thousand.

Note 2: Book value equals the original loan amounting to US$5,109 thousand minus allowance for possible losses amounting US$5,109 thousand.

2. The sale of a batch of nonperforming loans totaling over NT$1 billion (excluding those sold to related parties): None.

TAIWAN COOPERATIVE BANK, LTD.

PERCENTAGE SHARE IN INVESTEES AND RELATED INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

Investee Company (Note 1)	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain (Loss)	Percentage Share of the Bank and Its Affiliates in Investees (Note 1)				Note
						Shares	Pro Forma Shares (Note 2)	Total		
								Shares	Percentage of Ownership	
Finance-related business										
United Taiwan Bank S.A.	Belgium	Banking	90.02	$ 1,949,463	$ 109,052	2,639,659	-	2,639,659	90.02	
Taiwan Asset Management Co., Ltd.	Taipei City	Acquisition of delinquent loans	17.03	2,370,934	180,601	225,000,000	-	225,000,000	17.03	
Financial Information Service Co., Ltd.	Taipei City	Information service	2.89	135,405	39,281	15,107,985	-	15,107,985	2.89	
Taiwan Financial Asset Service Co., Ltd.	Taipei City	Property auction	5.88	101,125	200	10,000,000	-	10,000,000	5.88	
Taiwan Depository & Clearing Co., Ltd.	Taipei City	Custody of securities and short-term bills	0.84	60,694	4,426	3,624,195	-	3,624,195	1.00	
Taiwan Futures Exchange Co., Ltd.	Taipei City	Futures clearing	1.75	53,468	11,781	5,712,690	-	5,712,690	1.81	
Financial eSolution Co., Ltd.	Taipei City	Office machine wholesaling	9.92	24,934	469	2,181,617	-	2,181,617	9.92	
Taipei Forex Inc.	Taipei City	Foreign exchange brokering	7.06	19,198	5,600	1,400,000	-	1,400,000	7.06	
Sunny Asset Management Co., Ltd.	Taipei City	Acquisition of delinquent loans	0.72	431	50	43,088	-	43,088	0.72	
Taiwan Mobile Payment Company	Taipei City	IT software service	4.00	24,000	-	2,400,000	-	2,400,000	4.00	
Non-finance related business										
United Real Estate Management Co., Ltd.	Taipei City	Real estate appraisal	30.00	124,346	4,998	10,115,630	-	10,115,630	30.00	
Taiwan Power Company	Taipei City	Power development and supply	0.24	631,153	-	78,754,764	-	78,754,764	0.24	
Taiwan Sugar Company	Tainan City	Sugar manufacturing	0.08	-	4,657	4,233,752	-	4,233,752	0.08	
Lien-An Service Co., Ltd.	Taipei City	Leasing	5.00	1,250	125	125,000	-	125,000	5.00	
Taipei Rapid Transit Co., Ltd.	Taipei City	Public transportation	-	139	8	14,286	-	14,286	-	
China Daily News	Tainan City	Newspaper publishing	0.04	52	-	16,768	-	16,768	0.04	
Taipei Financial Center Corp.	Taipei City	Residence and buildings lease construction and development	1.63	669,600	31,392	24,000,000	-	24,000,000	1.63	
Taiwan High Speed Rail Cooperation	Taipei City	High speed railroad transportation business	0.95	1,252,550	31,980	53,308,000	-	53,308,000	0.95	

Note 1: Shares or pro forma shares held by the Bank, directors, supervisors, president, vice president and affiliates in accordance with the Company Law have been included.

Note 2:
a. Pro forma shares are shares that are assumed to be obtained through buying equity-based securities or entering into equity-linked derivative contracts for purposes defined in Article 74 of the Banking Law.
b. Equity-based securities, such as convertible bonds and warrants, are covered by Article 11 of the “Securities and Exchange Law Enforcement Rules.”
c. Derivative contracts, such as those on stock options, are those conforming to the definition of derivatives in Statement of International Accounting Standards No. 39 - “Financial Instruments.”

TAIWAN COOPERATIVE BANK, LTD.

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Investee Net Income (Loss)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2017	Accumulated Inward Remittance of Investment Earnings as of December 31, 2017
					Outflow	Inflow						
Suzhou Branch	Deposits, loans, import and export, exchange and foreign exchange business	$ 4,547,235 (US$ 154,395) (Note 1)	Direct	$ 4,547,235 (US$ 154,395) (Note 1)	$ -	$ -	$ 4,547,235 (US$ 154,395) (Note 1)	$ 519,556	100	$ 519,556	$ 5,390,387	$ -
Tianjin Branch	Deposits, loans, import and export, exchange and foreign exchange business	2,947,314 (US$ 97,387) (Note 1)	Direct	2,947,314 (US$ 97,387) (Note 1)	-	-	2,947,314 (US$ 97,387) (Note 1)	207,669	100	207,669	3,036,211	-
Fuzhou Branch	Deposits, loans, import and export, exchange and foreign exchange business	2,950,882 (US$ 97,549) (Note 1)	Direct	2,950,882 (US$ 97,549) (Note 1)	-	-	2,950,882 (US$ 97,549) (Note 1)	201,997	100	201,997	2,976,410	-
Changsha Branch	Deposits, loans, import and export, exchange and foreign exchange business	2,630,485 (US$ 87,232) (Note 1)	Direct	-	2,630,485 (US$ 87,232) (Note 1)	-	2,630,485 (US$ 87,232) (Note 1)	6,309	100	6,309	2,595,881	-

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amount Approved by the Investment Commission, MOEA	Maximum Investment Allowable (Note 2)
$ 13,075,916 (US$ 436,563) (Note 1)	$ 13,075,916 (US$ 436,563) (Note 1)	$ 120,286,003

Note 1: Translation into New Taiwan dollars at the exchange rates on the date of each outflow of investment.

Note 2: Based on the Investment Commission’s “Regulation on the Examination of Investment or Technical Cooperation in Mainland China,” investments are limited to the largest of 60% of the Bank’s net asset value or 60% of the Bank’s consolidated net asset value.