Taiwan Cooperative Bank, Ltd.

Financial Statements for the
Years Ended December 31, 2018 and 2017 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, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Taiwan Cooperative Bank, Ltd. as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of 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, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters in our audit of the financial statements for the year ended December 31, 2018 were as follows:

Impairment Assessment on Discounts and Loans

The discounts and loans of Taiwan Cooperative Bank, Ltd. as of December 31, 2018 were $2,076,762,717 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 discounts and loans performed by the Bank's management is based on expected credit losses models. The amount of impairment loss is recognized by the 12-month or lifetime expected credit losses models. In addition, the amount of provisions of impairment loss made should also be in accordance with the 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 13.

With respect to the critical judgements, estimations, and assumptions used in impairment loss, 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. Test the reasonableness of the main assumptions used in the expected credit losses valuation model.

3. Test the reasonableness of amounts of expected credit losses of selected samples from discounts and loans.

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 retired employees' preferential deposit benefits was identified as a key audit matter due to the application of critical judgements and estimations. For accounting policies and critical accounting judgements and estimations, refer to Notes 4 and 5 to the financial statements; for retired employees' preferential deposit benefits, refer to Notes 28 and 29.

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 the information used by the actuary and evaluate its completeness and accuracy.

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 20.

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, 2018 was $42,710,860 thousand, consisting 77% of total interest income. Of the amount, domestic loan interest income was $37,005,309 thousand, consisting 87% 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 30.

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 appropriate audit evidence of the financial information of the components of Taiwan Cooperative Bank, Ltd. to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of the most significance in the audit of the financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 25, 2019

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

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally 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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 37)	$ 53,883,846	2	$ 63,562,455	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Notes 4, 7, 37 and 38)	271,883,276	8	274,341,552	9
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 37)	9,490,716	-	12,862,843	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4 and 9)	256,663,367	8	-	-
INVESTMENT IN DEBT INSTRUMENTS AT AMORTIZED COST (Notes 4, 10 and 38)	554,882,807	17	-	-
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4, 11 and 37)	3,521,000	-	249,463	-
RECEIVABLES, NET (Notes 4, 12, 37 and 44)	18,429,376	1	18,593,582	1
CURRENT TAX ASSETS (Notes 4, 34 and 37)	1,509,126	-	1,402,132	-
DISCOUNTS AND LOANS, NET (Notes 4, 13, 37 and 38)	2,050,071,547	62	1,993,819,434	63
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 14 and 38)	-	-	154,441,496	5
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 4, 15 and 38)	-	-	513,789,325	16
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Notes 4 and 16)	2,116,666	-	2,073,809	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 17, 37 and 38)	18,727,650	1	107,002,789	3
PROPERTIES AND EQUIPMENT, NET (Notes 4 and 18)	33,630,953	1	33,926,763	1
INVESTMENT PROPERTIES, NET (Notes 4 and 19)	7,151,574	-	6,984,409	-
INTANGIBLE ASSETS (Notes 4 and 20)	3,551,969	-	3,513,492	-
DEFERRED TAX ASSETS (Notes 4 and 34)	1,388,293	-	1,282,022	-
OTHER ASSETS (Notes 4, 21 and 39)	1,101,315	-	606,519	-
TOTAL	$ 3,288,003,481	100	$ 3,188,452,085	100
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND OTHER BANKS (Notes 22 and 37)	$ 211,479,593	7	$ 212,300,065	7
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8, 26 and 37)	12,953,221	1	14,450,851	1
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 8, 9, 14 and 23)	9,602,141	-	10,377,142	-
PAYABLES (Notes 24 and 37)	43,885,780	1	45,179,629	2
CURRENT TAX LIABILITIES (Notes 4, 34 and 37)	1,120,604	-	1,185,896	-
DEPOSITS AND REMITTANCES (Notes 25 and 37)	2,728,608,123	83	2,624,598,335	82
BANK DEBENTURES (Note 26)	55,000,000	2	64,610,000	2
OTHER FINANCIAL LIABILITIES (Notes 27, 37 and 39)	3,166,974	-	3,749,545	-
PROVISIONS (Notes 4, 28 and 29)	8,022,491	-	7,624,197	-
DEFERRED TAX LIABILITIES (Notes 4, 18 and 34)	3,292,854	-	2,996,390	-
OTHER LIABILITIES	1,137,459	-	1,119,382	-
Total liabilities	3,078,269,240	94	2,988,191,432	94
EQUITY				
Capital stock				
Common stock	90,310,300	2	88,081,300	3
Capital surplus				
Additional paid-in capital from share issuance in excess of par value	58,664,088	2	58,664,088	2
From treasury stock transactions	103,157	-	103,157	-
Total capital surplus	58,767,245	2	58,767,245	2
Retained earnings				
Legal reserve	36,852,305	1	32,982,547	1
Special reserve	1,282,079	-	1,280,201	-
Unappropriated earnings	20,018,974	1	18,723,762	-
Total retained earnings	58,153,358	2	52,986,510	1
Other equity	2,503,338	-	425,598	-
Total equity	209,734,241	6	200,260,653	6
TOTAL	$ 3,288,003,481	100	$ 3,188,452,085	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, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
INTEREST REVENUE (Notes 4, 30 and 37)	$ 55,336,641	125	$ 50,739,405	120	9
INTEREST EXPENSE (Notes 30 and 37)	(21,511,337)	(49)	(18,440,708)	(44)	17
NET INTEREST	33,825,304	76	32,298,697	76	5
NET REVENUES AND GAINS OTHER THAN INTEREST					
Service fee income, net (Notes 4, 31, 37 and 44)	6,186,484	14	5,924,892	14	4
Gains (losses) on financial assets and liabilities at fair value through profit or loss (Notes 4, 32 and 37)	3,536,147	8	(2,023,677)	(5)	275
Realized gains on available-for-sale financial assets (Note 4)	-	-	923,358	2	(100)
Realized gains on financial assets at fair value through other comprehensive income (Notes 4 and 9)	1,701,355	4	-	-	-
Foreign exchange gains (losses), net (Note 4)	(1,726,835)	(4)	4,807,785	12	(136)
Reversal of impairment losses (impairment losses) on assets (Notes 4, 9, 10 and 15)	(18,718)	-	7,895	-	(337)
Share of gains of subsidiaries, associates and joint ventures accounted for using the equity method (Notes 4 and 16)	67,001	-	114,050	-	(41)
Gains on financial assets carried at cost, net (Note 4)	-	-	279,275	1	(100)
Other noninterest gains, net (Notes 19, 37 and 44)	757,714	2	29,428	-	2,475
Total net revenues and gains other than interest	10,503,148	24	10,063,006	24	4
TOTAL NET REVENUES	44,328,452	100	42,361,703	100	5

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TAIWAN COOPERATIVE BANK, LTD.

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

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
BAD-DEBT EXPENSES AND PROVISION FOR LOSSES ON COMMITMENT AND GUARANTEES (Notes 4 and 13)	$ (4,403,869)	(10)	$ (5,302,494)	(13)	(17)
OPERATING EXPENSES (Notes 4, 18, 19, 20, 29, 33 and 37)					
Employee benefits	(15,161,606)	(34)	(14,614,056)	(35)	4
Depreciation and amortization	(1,233,886)	(3)	(1,058,025)	(2)	17
General and administrative	(6,576,110)	(15)	(6,501,534)	(15)	1
Total operating expenses	(22,971,602)	(52)	(22,173,615)	(52)	4
INCOME BEFORE INCOME TAX	16,952,981	38	14,885,594	35	14
INCOME TAX EXPENSE (Notes 4 and 34)	(2,190,615)	(5)	(1,986,400)	(5)	10
NET INCOME	14,762,366	33	12,899,194	30	14
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss (Notes 4 and 29)					
Remeasurement of defined benefit plans	(277,249)	-	(348,963)	(1)	(21)
Unrealized losses on investments in equity instruments at fair value through other comprehensive income	(904,885)	(2)	-	-	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	13,252	-	(32,084)	-	141
Items that will not be reclassified subsequently to profit or loss, net of income tax	(1,168,882)	(2)	(381,047)	(1)	207

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TAIWAN COOPERATIVE BANK, LTD.

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

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
Items that may be reclassified subsequently to profit or loss (Notes 4, 16 and 34)					
Exchange differences on the translation of financial statements of foreign operations	$ 1,099,404	2	$ (1,473,014)	(4)	175
Unrealized gains on available-for-sale financial assets	-	-	2,361,509	6	(100)
Share of other comprehensive income (losses) of subsidiaries, associates and joint ventures accounted for using the equity method	(18,494)	-	83,561	-	(122)
Unrealized losses on investments in debt instruments at fair value through other comprehensive income	(923,759)	(2)	-	-	-
Income tax attributable to other comprehensive income	(169,391)	-	235,330	1	(172)
Items that may be reclassified subsequently to profit or loss, net of income tax	(12,240)	-	1,207,386	3	(101)
Other comprehensive income (losses), net of income tax	(1,181,122)	(2)	826,339	2	(243)
TOTAL COMPREHENSIVE INCOME	$ 13,581,244	31	$ 13,725,533	32	(1)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 35)					
Basic	$1.63		$1.45		

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

	Capital Stock (Note 36)			Retained Earnings (Notes 4 and 36)			Other Equity				
	Shares (In Thousands)	Common Stock	Capital Surplus (Notes 4 and 36)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences in Translation of Financial Statement of Foreign Operations (Note 4)	Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income (Notes 4 and 9)	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, 2017	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
Effect of retrospective application	-	-	-	-	-	(314,712)	-	4,200,311	(1,543,255)	-	2,342,344
BALANCE, JANUARY 1, 2018, AS RESTATED	8,808,130	88,081,300	58,767,245	32,982,547	1,280,201	18,409,050	(1,120,071)	4,200,311	-	2,414	202,602,997
Reversal of special reserve	-	-	-	-	(62,618)	62,618	-	-	-	-	-
Appropriation of the 2017 earnings											
Legal reserve	-	-	-	3,869,758	-	(3,869,758)	-	-	-	-	-
Special reserve	-	-	-	-	64,496	(64,496)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(6,450,000)	-	-	-	-	(6,450,000)
Stock dividends	222,900	2,229,000	-	-	-	(2,229,000)	-	-	-	-	-
Losses on disposal of investments in equity instruments at fair value through comprehensive income	-	-	-	-	-	(324,557)	-	324,557	-	-	-
Total comprehensive income											
Net income for the year ended December 31, 2018	-	-	-	-	-	14,762,366	-	-	-	-	14,762,366
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	(277,249)	905,546	(1,822,671)	-	13,252	(1,181,122)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	14,485,117	905,546	(1,822,671)	-	13,252	13,581,244
BALANCE, DECEMBER 31, 2018	9,031,030	$ 90,310,300	$ 58,767,245	$ 36,852,305	$ 1,282,079	$ 20,018,974	$ (214,525)	$ 2,702,197	$ -	$ 15,666	$ 209,734,241

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 16,952,981	$ 14,885,594
Adjustments for:		
Depreciation expenses	1,089,226	901,848
Amortization expenses	144,660	156,177
Expected credit losses/bad-debt expenses	4,292,019	5,083,442
Losses (gains) on financial assets and liabilities at fair value through profit or loss	(3,536,147)	2,023,677
Interest expense	21,511,337	18,440,708
Interest revenue	(55,336,641)	(50,739,405)
Dividend income	(617,800)	(470,513)
Provision for losses on guarantees	103,036	219,052
Net changes in reserves for other liabilities	8,814	-
Share of gains of subsidiaries, associates and joint ventures accounted for using equity method	(67,001)	(114,050)
Losses on disposal of properties and equipment	2,034	1,820
Gains on disposal of investment properties	(258)	-
Gains on disposal of investments	(1,083,555)	(762,845)
Impairment losses on financial assets	18,718	-
Reversal of impairment losses on financial assets	-	(7,895)
Net changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank and call loans to other banks	(27,373,863)	6,532,788
Decrease in financial assets at fair value through profit or loss	18,631,853	23,770,490
Increase in financial assets at fair value through other comprehensive income	(17,063,086)	-
Increase in investments in debt instruments at amortized cost	(39,052,478)	-
Decrease (increase) in receivables	1,402,242	(2,819,033)
Increase in discount and loans	(60,334,280)	(38,918,151)
Increase in available-for-sale financial assets	-	(30,603,291)
Increase in held-to-maturity financial assets	-	(4,464,203)
Decrease (increase) in other financial assets	1,713,336	(9,858,636)
Decrease (increase) in other assets	(52,882)	7,697
Decrease in due to the Central Bank and other banks	(820,472)	(13,368,846)
Decrease in financial liabilities at fair value through profit or loss	(12,893,386)	(9,537,014)
Decrease in securities sold under repurchase agreements	(775,001)	(1,623,689)
Increase (decrease) in payables	(2,273,022)	423,606
Increase in deposits and remittances	104,009,788	60,441,143
Increase (decrease) in other financial liabilities	(241,078)	629,175
Decrease in provision for employee benefits	(148,244)	(114,986)
Increase (decrease) in other liabilities	16,680	(55,369)
Cash used in operations	(51,772,470)	(29,940,709)
Interest received	55,422,572	50,531,515
Dividends received	639,178	491,369

(Continued)

TAIWAN COOPERATIVE BANK, LTD.

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

	2018	2017
Interest paid	$ (21,098,716)	$ (18,350,775)
Income tax paid	(2,344,864)	(1,681,550)
Net cash generated by (used in) operating activities	(19,154,300)	1,049,850
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties and equipment	(966,457)	(993,300)
Proceeds of the disposal of properties and equipment	-	60
Increase in refundable deposits	(441,938)	-
Decrease in refundable deposits	-	96,902
Acquisition of intangible assets	(194,214)	(111,389)
Acquisition of investment properties	(95)	-
Proceeds of the disposal of investment properties	379	-
Increase in other assets	(12)	-
Decrease in other assets	-	1,703
Net cash used in investing activities	(1,602,337)	(1,006,024)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issuance of bank debentures	5,000,000	2,000,000
Repayment of bank debentures	(14,610,000)	(12,000,000)
Increase in guarantee deposits received	-	506,245
Decrease in guarantee deposits received	(341,493)	-
Dividends paid	(6,450,000)	(8,703,900)
Capital increase	-	5,000,048
Net cash used in financing activities	(16,401,493)	(13,197,607)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	929,469	2,054,575
NET DECREASE IN CASH AND CASH EQUIVALENTS	(36,228,661)	(11,099,206)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	109,807,277	120,906,483
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 73,578,616	$ 109,807,277

(Continued)

TAIWAN COOPERATIVE BANK, LTD.

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

Cash and cash equivalent reconciliations:

	December 31	
	2018	**2017**
Cash and cash equivalents in the balance sheets	$ 53,883,846	$ 63,562,455
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"	15,866,420	45,698,559
Securities purchased under resell agreements in accordance with the definition of cash and cash equivalents under IAS 7 "Statement of Cash Flows"	3,521,000	249,463
Other items in accordance with the definition of cash and cash equivalents under IAS 7 "Statement of Cash Flows"	307,350	296,800
Cash and cash equivalents, end of the year	$ 73,578,616	$ 109,807,277

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, 2018 AND 2017
(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, 7 overseas sub-branches and 2 representative office as of December 31, 2018.

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, 2018 and 2017, the Bank had 8,273 and 8,059 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 25, 2019.

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)

Except for the following, the initial application of the above New IFRSs in 2018 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>IFRS 9 "Financial Instruments" and related amendments</u>

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

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

On the basis of the facts and circumstances that existed as at January 1, 2018, the Bank has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods. As of January 1, 2018, the changes of the measurement types and book values determined by IAS 39 and IFRS 9 for each category of financial assets are summarized as follows:

	IAS 39		IFRS 9	
Financial Assets	**Measurement Category**	**Carrying Amount**	**Measurement Category**	**Carrying Amount**
Cash and cash equivalents	Amortized cost	$ 63,562,455	Amortized cost	$ 63,562,455
Due from the Central Bank and call loans to other banks	Amortized cost (loans and receivables)	274,341,552	Amortized cost	274,341,552
Financial assets at fair value through profit or loss	Fair value through profit or loss	12,862,843	Fair value through profit or loss	12,862,843
Securities purchased under resell agreements	Amortized cost	249,463	Amortized cost	249,463
Receivables, net	Amortized cost (loans and receivables)	18,593,582	Amortized cost	18,569,454
Discounts and loans, net	Amortized cost (loans and receivables)	1,993,819,434	Amortized cost	1,993,819,434
Available-for-sale financial assets, net	Fair value through other comprehensive income	154,441,496	Fair value through profit or loss	237,173
			Fair value through other comprehensive income	150,547,965
			Amortized cost	3,576,817
Held-to-maturity financial assets, net	Amortized cost	513,789,325	Amortized cost	500,245,843
			Fair value through other comprehensive income	13,732,293

(Continued)

Financial Assets	IAS 39 Measurement Category	IAS 39 Carrying Amount	IFRS 9 Measurement Category	IFRS 9 Carrying Amount
Other financial assets, net	Financial assets measured at cost	$ 4,092,383	Fair value through other comprehensive income	$ 5,457,888
	Amortized cost (debt investments with no active market)	82,438,716	Amortized cost	12,528,247
			Fair value through other comprehensive income	70,957,381
	Amortized cost (due from banks and call loans to securities)	20,442,445	Amortized cost	20,442,445
Others, net	Amortized cost (refundable deposits and operating deposits)	339,328	Amortized cost	339,328

(Concluded)

The reclassifications and remeasurements of the book value of the Bank's financial assets from IAS 39 measurement categories to IFRS 9 measurement categories as of January 1, 2018 were as follows:

Financial Assets	IAS 39 Carrying Amount as of December 31, 2017	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ 12,862,843	$ -	$ -	$ 12,862,843	$ -	$ -	
Add: Reclassification and remeasurement from available-for-sale (IAS 39)	-	237,173	-	237,173	(19,236)	19,236	1)
Changes of financial assets through FVTPL	12,862,843	237,173	-	13,100,016	(19,236)	19,236	
FVTOCI	-	-	-	-	-	-	
Debt instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	146,337,635	-	146,337,635	(51,298)	51,298	2)
Add: Reclassification and remeasurement from held-to-maturity financial assets, net (IAS 39)	-	13,512,045	220,248	13,732,293	(3,737)	223,985	2)
Add: Reclassification and remeasurement from debt investments with no active market (IAS 39)	-	69,904,856	1,052,525	70,957,381	(23,036)	1,075,561	2)
Equity instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	4,210,330	-	4,210,330	-	-	1)
Add: Reclassification and remeasurement from financial assets measured at cost (IAS 39)	-	4,092,383	1,365,505	5,457,888	-	1,365,505	3)
Changes of financial assets through FVTOCI	-	238,057,249	2,638,278	240,695,527	(78,071)	2,716,349	
Amortized cost	-	-	-	-	-	-	
Add: Reclassification and remeasurement from available-for-sale (IAS 39)	-	3,656,358	(79,541)	3,576,817	(1,012)	(78,529)	4)
Add: Reclassification and remeasurement from held-to-maturity financial assets, net (IAS 39)	-	500,277,280	(31,437)	500,245,843	(31,437)	-	5)
Add: Reclassification and remeasurement from debt investments with no active market (IAS 39)	-	12,533,860	(5,613)	12,528,247	(5,613)	-	5)
Changes of amortized cost	-	516,467,498	(116,591)	516,350,907	(38,062)	(78,529)	
Reclassification and remeasurement of financial assets on January 1, 2018	$ 12,862,843	$754,761,920	$ 2,521,687	$770,146,450	$ (135,369)	$ 2,657,056	

1) The stock investment classified as available-for-sale financial assets under IAS 39 was reclassified under IFRS 9 as measured at fair value through profit or loss and at fair value through other comprehensive income, and the other equity-unrealized losses on available-for-sale financial assets of $3,803 thousand, was reclassified to retained earning.

The beneficial certificates originally classified under IAS 39 as available-for-sale financial asset that cash flow are not solely payment of principal amounts and interest on the outstanding principal amounts, and is not an equity instrument, hence, the financial asset was reclassified as at fair value through profit or loss under IFRS 9, and the other equity - unrealized losses on available-for-sale financial assets of $15,433 thousand, was reclassified to retained earnings.

2) Under IAS 39, financial assets classified as available for sale, financial assets classified as held-to-maturity and debt instruments with no active market were measured at amortized cost, were originally recognized that contractual cash flows are solely payment of principal amounts and interest on the outstanding principal amounts. The evaluation of the business model on the basis of the facts and circumstances existing on January 1, 2018 was aiming for holding financial assets to collect contractual cash flows and selling financial assets; therefore, the financial assets are classified as measured at fair value through other comprehensive income under IFRS 9 and assessed for expected credit losses (ECL). As a result of the retrospective application of IFRS 9, the remeasured amount of financial assets at fair value through other comprehensive income on January 1, 2018 increased by $1,272,773 thousand; retained earnings decreased by $78,071 thousand; other equity - unrealized gains or losses on financial assets at fair value through other comprehensive income increased by $1,350,844 thousand.

3) The unlisted company stock investments originally measured by IAS 39 on a cost basis are classified according to IFRS 9 at fair value through profit or loss and at fair value through other comprehensive income. The classification under IFRS 9 increased financial assets measured at fair value through other comprehensive income and other equity - unrealized gains or losses on financial assets at fair value through other comprehensive income on January 1, 2018 by $1,365,505 thousand.

4) The bond investment originally classified as available-for-sale financial assets under IAS 39, was evaluated based on the facts and circumstances existing on January 1, 2018, and reclassified under IFRS 9 as measured at amortized cost and assessed for expected credit losses due to the business model of receiving the contractual cash flow that are solely payments of principal amounts and interest on the outstanding principal amounts. As a result of retrospective application, the amount of investment in debt instruments at amortized cost as of January 1, 2018 decreased by $79,541 thousand, retained earnings decreased by $1,012 thousand, and the other equity - unrealized gains or losses on available-for-sale financial assets decreased by $78,529 thousand.

5) The bond investments originally classified under IAS 39 as held-to-maturity financial assets and debt instruments with no active market were measured at amortized cost and the contractual cash flows were solely payment of principal amounts and interest on the outstanding principal amounts. The evaluation of the facts and circumstances existing on January 1, 2018 showed that the business model is to collect contractual cash flows; hence, according to IFRS 9, the bond investments are measured at amortized cost, and assessed for expected credit losses. As a result of retrospective application, the allowance for loss on debt instruments at amortized cost on January 1, 2018 increased by $37,050 thousand, retained earnings decreased by $37,050 thousand.

The Bank's financial assets that meet the requirements of IAS 39 were converted to IFRS 9 measurement on December 31, 2018, the fair value of the financial assets reclassified to amortized cost and the profit or loss of the financial assets if its were not reclassified were as follows:

Reclassified at Amortized Cost	**December 31, 2018**
Reclassified at amortized cost from available-for-sale (IAS 39)	$ 3,656,358
At fair value on December 31, 2018	3,569,007
Unrealized gains or losses at FVTOCI if the FVTOCI was not reclassified in the current year	(40,827)

Reconciliation of allowance for impairment upon initial application of IFRS 9

The reconciliation of the amount of allowance for impairment measured by Loss Model under IAS 39 with the amount of allowance for impairment measured by Expected Loss Model under IFRS 9, on January 1, 2018 is as follows:

Category of measurement	**The Amount of Allowance for Impairment under IAS 39 and the Recognition under IAS 37**	**Reclassifications**	**Remea-surements**	**The Amount of Allowance for Impairment under IFRS 9**
Loans and receivables (IAS 39)/ financial assets at amortized cost (IFRS 9)				
Accounts receivable	$ 615,890	$ -	$ 42,465	$ 658,355
Discounts and loans	8,253,265	-	674,168	8,927,433
Other financial assets	958,555	-	(80)	958,475
Impairment loss under regulations	16,902,450	-	(692,425)	16,210,025
	26,730,160	-	24,128	26,754,288
Available-for-sale financial assets (IAS 39)/financial assets at FVTOCI (IFRS 9)				
Available-for-sale financial assets	-	-	51,298	51,298
Available-for-sale financial assets (IAS 39)/financial assets at amortized cost (IFRS 9)				
Available-for-sale financial assets	-	-	1,012	1,012
	-	-	52,310	52,310
Held-to-maturity financial assets (IAS 39)/financial assets at amortized cost (IFRS 9)				
Held-to-maturity financial assets	3,304	-	31,437	34,741
Held-to-maturity financial assets (IAS 39)/financial assets at FVTOCI (IFRS 9)				
Held-to-maturity financial assets	-	-	3,737	3,737
	3,304	-	35,174	38,478
Debt investments with no active market (IAS 39)/financial assets at FVTOCI (IFRS 9)				
Debt investments with no active market	-	-	23,036	23,036
Debt investments with no active market (IAS 39)/financial assets at amortized cost (IFRS 9)				
Debt investments with no active market	-	-	5,613	5,613
	-	-	28,649	28,649
Loan commitments and guarantee commitments				
Loans (loan commitments)	-	-	128,879	128,879
Credit card (loan commitments)	-	-	4,834	4,834
Guarantee receivable	88,270	-	299,628	387,898
Letters of credit	-	-	17,001	17,001
Impairment loss under regulations	800,158	-	(295,213)	504,945
	888,428	-	155,129	1,043,557
	$ 27,621,892	$ -	$ 295,390	$ 27,917,282

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 2019.

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

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

Note 3: The Bank shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

- IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

Definition of a lease

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

The Bank as lessee

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

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Bank will apply IAS 36 to all right-of-use assets.

The Bank expects to apply the following practical expedients:

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

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

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

d) The Bank will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

The Bank as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Property and equipment, net	$ 33,630,953	$ (21,298)	$ 33,609,655
Right-of-use assets	-	1,563,844	1,563,844
Other assets	1,101,315	(92,452)	1,008,863
Total effect on assets	$ 34,732,268	$ 1,450,094	$ 36,182,362
Lease liabilities	$ -	$ 1,484,323	$ 1,484,323
Accounts payable	43,885,780	(12,368)	43,873,412
Lease payables	21,861	(21,861)	-
Total effect on liabilities	$ 43,907,641	$ 1,450,094	$ 45,357,735
Retained earnings	$ 58,153,358	$ -	$ 58,153,358
Other equity	2,503,338	-	2,503,338
Total effect on equity	$ 60,656,696	$ -	$ 60,656,696

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 a 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 (Note1)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material	January 1, 2020 (Note3)

Note1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note2: The Bank shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note3: The Bank shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the financial statements were authorized for issue, the Bank assessed that the above amendments have no significant impact on the Bank. 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

   <u>2018</u>

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

   1) Financial asset at FVTPL

      Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL.

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

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

      Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 40.

   2) Financial assets at amortized cost

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

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

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

      Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, due from the Central Bank and call loans to other bank, call loans to securities firms, receivables and discounts and debt instruments are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

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

b) Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

3) Investments in debt instruments at FVTOCI

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

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

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

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

4) Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Financial assets at 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:

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

b) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and 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

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

Financial assets at 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 40.

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

AFS financial assets are nonderivatives 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 40.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency exchange 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 equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented 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 nonderivative financial assets with fixed or determinable payments and a fixed maturity date 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 nonderivative 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, call loans to securities firms, debt instruments with no active market) are measured at amortized cost using the effective interest method less any impairment.

b. Impairment of financial assets

2018

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

The Bank always recognizes lifetime Expected Credit Loss for receivables (excluding receivables of credits and credit cards and accrued interest from debt instruments), and lease receivables. For all other financial instruments, the Bank recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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

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

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 of 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.

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the asset 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 investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an 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 investments, impairment losses previously recognized in profit or loss cannot 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 or 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 neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and any associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

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 TCFHC’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:

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

      b) The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and 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

      c) 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 40.

   2) Financial guarantee contracts

      2018

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

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

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

      2017

      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 expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or 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 recognized as an asset and if the fair value is a negative number, the derivative is recognized as a liability.

Before 2017, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. From 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

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.

The Bank as a lessor

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.

<u>Current tax</u>

According to the Income Tax Law, an additional tax 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.

<u>Deferred tax</u>

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

   2018

   Estimated impairment losses on loans of the Bank is based on certain assumptions about percentage of default and expected losses. The Bank makes assumptions and decide the amount of impairment losses according to prior experience, current marketing situation and looking-forward information. The Bank will have a material impairment losses if cash flows are less than expected in the future.

2017

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 40 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. 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	
	2018	**2017**
Cash on hand	$ 22,724,658	$ 22,458,545
Notes and checks in clearing	21,869,459	23,198,709
Due from banks	9,289,729	17,905,201
	$ 53,883,846	$ 63,562,455

Reconciliations of cash and cash equivalents between the statements of cash flows and the balance sheets as of December 31, 2018 and 2017 are shown in the statements of cash flows.

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

	December 31	
	2018	**2017**
Reserves for deposits - account A	$ 62,508,712	$ 36,817,723
Reserves for deposits - account B	71,549,801	68,849,178
Reserves for deposits - community financial institutions	58,185,258	56,667,002
Reserves for deposits - foreign-currency deposits	393,676	370,594
Deposits in the Central Bank	39,200,000	39,200,000
Negotiable certificates of deposit in the Central Bank	-	800,000
Due from the Central Bank - others	12,494,330	10,732,126
Due from the Central Bank - central government agencies' deposits	4,211,689	2,498,012
Call loans to banks	23,339,810	58,406,917
	$ 271,883,276	$ 274,341,552

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 2018	December 31 2017
Financial assets mandatorily classified as at fair value through profit or loss		
Commercial paper	$ 4,238,682	$ -
Government bonds	1,801,704	-
Stocks	807,279	-
Corporate bonds	755,699	-
Convertible bonds	4,232	-
Currency swap contracts	1,644,083	-
Foreign-currency margin contracts	145,684	-
Futures exchange margins	59,339	-
Currency option contracts - buy	12,908	-
Forward contracts	11,509	-
Cross-currency swap contracts	9,597	-
	9,490,716	-
Held-for-trading financial assets		
Commercial paper	-	8,348,633
Stocks	-	1,078,689
Corporate bonds	-	755,666
Convertible bonds	-	136,488
Currency swap contracts	-	2,089,967
Interest rate swap contracts	-	158,184
Forward contracts	-	116,003
Foreign-currency margin contracts	-	112,946
Futures exchange margins	-	26,197
Cross-currency swap contracts	-	21,764
Currency option contracts - buy	-	18,306
	-	12,862,843
Financial assets at fair value through profit or loss	$ 9,490,716	$ 12,862,843
Held-for-trading financial liabilities		
Currency swap contracts	$ 912,942	$ 2,701,991
Interest rate swap contracts	407,850	16,021
Forward contracts	127,435	10,907
Currency option contract - sell	13,050	18,304
Cross-currency swap contracts	7,989	15,108
Foreign-currency margin contracts	-	229
	1,469,266	2,762,560
Financial liabilities designated as at fair value through profit or loss		
Bank debentures (Note 26)	11,483,955	11,688,291
Financial liabilities at fair value through profit or loss	$ 12,953,221	$ 14,450,851

As of December 31, 2018 and 2017, financial assets at fair value through profit or loss amounting to $1,538,793 thousand and $3,050,092 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, 2018 and 2017, the contract (notional) amounts of derivative transactions of the Bank were as follows:

	December 31	
	2018	**2017**
Currency swap contracts	$ 474,321,932	$ 389,028,378
Interest rate swap contracts	15,605,012	16,987,717
Forward contracts	9,483,058	10,061,815
Currency option contracts - sell	4,299,752	4,936,507
Currency option contracts - buy	4,299,752	4,936,507
Cross-currency swap contracts	2,150,028	1,910,603
Foreign-currency margin contracts	826,095	1,555,713

As of December 31, 2018 and 2017 the open position of futures transactions of the Bank were as follows:

		December 31, 2018			
		Open Position		**Contract Amounts or Premium Paid (Charged)**	
Items	**Products**	**Buy/Sell**	**Number of Contracts**		**Fair Values**
Futures contracts	TAIEX Futures 201901	Sell	50	$ 97,552	$ 96,690
	TAIEX Futures 201902	Sell	52	100,702	100,360
	10-Year U.S. Treasury Note Futures 201903	Sell	170	624,855	635,060

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

	December 31, 2018
Investment in equity instruments at FVTOCI	
Listed shares and emerging market shares	$ 6,354,937
Unlisted shares	4,259,767
	10,614,704
Investments in debt instruments at FVTOCI	
Government bonds	113,769,704
Corporate bonds	88,111,540
Bank debentures	44,167,419
	246,048,663
	$ 256,663,367

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Bank's strategy of holding these investments for long-term purposes.

For the purpose of risk diversification and profit strategy, the Bank adjusted the investment position to sell part of the equity instruments for the year ended December 31, 2018. The accumulated unrealized profit of financial assets at FVTOCI under other equity in the amount of $324,557 thousand has been transferred to retained earnings.

The dividends revenue was $617,800 thousand for the year ended December 31, 2018. Those related to investments derecognized during the year was $147,148 thousand and those related to investments held at the end of the reporting period was $470,652 thousand.

As of December 31, 2018, allowance for possible losses of investment in debt instruments at FVTOCI recognized $71,742 thousand through expected credit loss. Impairment loss recognized in profit or loss was $12,304 thousand for 2018.

As of December 31, 2018, financial assets at fair value through other comprehensive income amounting to $7,681,381 thousand, had been sold under repurchase agreements.

10. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST - 2018

	December 31, 2018
Negotiable certificates of deposit in the Central Bank	$ 400,180,000
Government bonds	97,824,271
Corporate bonds	38,112,575
Bank debentures	18,528,405
Certificates of deposit	285,836
	554,931,087
Less: Allowance for impairment loss	48,280
	$ 554,882,807

Impairment loss recognized in profit or loss in 2018 was $2,731 thousand.

11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

Securities acquired for $3,521,000 thousand and $249,463 thousand under resell agreements as of December 31, 2018 and 2017, respectively, will subsequently be sold for $3,521,527 thousand and $249,533 thousand, respectively.

12. RECEIVABLES, NET

	December 31	
	2018	2017
Accrued interest	$ 8,820,004	$ 7,521,346
Credit cards	3,654,314	3,214,061
Acceptances	3,533,576	4,119,715
Receivables on merchant accounts in the credit card business	832,720	1,031,825
Accounts receivable	502,186	445,631
Credits receivable	459,866	463,578
Accounts receivable factored without recourse	456,346	1,843,856
Refundable deposits receivable in leasehold agreements	183,993	183,993
Receivable on securities	147,499	153,075
Others	552,927	347,745
	19,143,431	19,324,825
Less: Allowance for possible losses	714,055	731,243
	$ 18,429,376	$ 18,593,582

Credits receivable recognized in the merger with the Farmers Bank of China on May 1, 2006 were recognized at the 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 changes in the impairment assessment of receivables and allowance for possible losses of credits, credit cards, and accrued interest from debt instruments are summarized below:

Gross Carrying Amount	12-month ECL	Lifetime ECL (Collective Assessment)	Lifetime ECL (Non-purchased or Non-originated Credit-impaired Financial Assets)	Total
Balance at January 1, 2018	$ 15,853,508	$ 53,206	$ 184,769	$16,091,483
Transfers to				
Lifetime ECL	(18,479)	18,643	(164)	-
Credit-impaired financial assets	(9,738)	(7,192)	16,930	-
12-month ECL	13,661	(13,263)	(398)	-
New financial assets purchased or originated	43,445,163	128,368	109,098	43,682,629
Write-offs	-	-	(67,856)	(67,856)
Derecognition of financial assets in the current reporting period	(44,661,498)	(134,812)	(88,233)	(44,884,543)
Change in exchange rates and other changes	1,050,731	1	34	1,050,766
Balance at December 31, 2018	$ 15,673,348	$ 44,951	$ 154,180	$ 15,872,479

Allowance for Possible Losses	12-month ECL	Lifetime ECL (Collective Assessment)	Lifetime ECL (Non-purchased or Non-originated Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Impairment Recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance at January 1, 2018	$ 44,809	$ 12,867	$ 61,448	$ 119,124	$ 97,016	$ 216,140
Changes from financial instruments recognized at the beginning of the current reporting period						
Transfers to						
Lifetime ECL	(408)	425	(17)	-	-	-
Credit-impaired financial assets	(251)	(639)	890	-	-	-
12-month ECL	2,484	(2,431)	(53)	-	-	-
Derecognition of financial assets in the current reporting period	(47,168)	(47,458)	(34,535)	(129,161)	-	(129,161)
Reversal from financial instruments recognized at the beginning of the current reporting period	(3,055)	5,141	41,943	44,029	-	44,029
New financial assets purchased or originated	48,900	43,552	38,543	130,995	-	130,995
Impairment recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	-	-	-	-	8,398	8,398
Write-offs	-	-	(67,856)	(67,856)	-	(67,856)
Recovery of written-off receivables	-	-	1,470	1,470	-	1,470
Change in exchange rates and other changes	732	1	(5,679)	(4,946)	-	(4,946)
Balance at December 31, 2018	$ 46,043	$ 11,458	$ 36,154	$ 93,655	$ 105,414	$ 199,069

Impairment assessment, except for the above receivables, was based on the expected credit loss model at the beginning of the current reporting period by the simplified method. On December 31, 2018, the amounts of impairment assessment of receivables and allowance for possible losses were $3,270,952 thousand and $514,986 thousand, respectively.

The changes in allowance for possible losses by using simplified method are summarized below:

	2018
Balance, January 1	$ 539,231
Reversal of provision for possible losses	(24,245)
Balance, December 31	$ 514,986

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

Items		December 31, 2017	
		Receivables	**Allowance for Possible Losses**
With objective evidence of impairment	Assessment of individual impairment	$ 854,629	$ 595,821
	Assessment of collective impairment	116,033	31,979
With no objective evidence of impairment	Assessment of collective impairment	18,354,142	103,443
Total		19,324,804	731,243

The changes in allowance for possible losses are summarized below:

	2017
Balance, January 1	$ 703,687
Provision for possible losses	168,772
Write-offs	(143,049)
Recovery of written-off receivables	5,059
Effects of exchange rate changes	(3,226)
Balance, December 31	$ 731,243

13. DISCOUNTS AND LOANS, NET

	December 31	
	2018	**2017**
Bills discounted	$ 2,342,530	$ 1,446,384
Overdraft		
Unsecured	116,491	136,988
Secured	67,220	63,885
Import and export negotiations	480,986	663,775
Short-term loans		
Unsecured	269,868,360	249,778,666
Accounts receivable financing	599,595	869,022
Secured	203,826,944	190,622,135
Medium-term loans		
Unsecured	296,436,709	296,049,415
Secured	290,967,400	299,366,082

(Continued)

	December 31	
	2018	2017
Long-term loans		
Unsecured	$ 27,650,364	$ 27,915,371
Secured	979,349,185	946,289,312
Overdue loans	5,056,933	6,075,410
	2,076,762,717	2,019,276,445
Less: Allowance for possible losses	26,231,193	25,040,509
Less: Adjustment of discount	459,977	416,502
	$ 2,050,071,547	$ 1,993,819,434

(Concluded)

The changes in gross carrying amount and allowance for possible losses of discounts and loans are summarized below:

Gross Carrying Amount	12-month ECL	Lifetime ECL (Collective Assessment)	Lifetime ECL (Non-purchased or Non-originated Credit-impaired Financial Assets)	Total
Balance at January 1, 2018	$ 1,982,425,551	$ 6,619,720	$ 30,231,174	$ 2,019,276,445
Transfers to				
Lifetime ECL	(2,056,359)	2,108,509	(52,150)	-
Credit-impaired financial assets	(8,162,762)	(1,407,495)	9,570,257	-
12-month ECL	3,788,022	(3,577,292)	(210,730)	-
New financial assets purchased or originated	873,536,724	294,010	3,954,613	877,785,347
Write-offs	(319,050)	(148,252)	(3,641,155)	(4,108,457)
Derecognition of financial assets in the current reporting period	(812,320,323)	(903,980)	(7,434,652)	(820,658,955)
Change in exchanges and other changes	4,499,441	(24,848)	(6,256)	4,468,337
Balance at December 31, 2018	$ 2,041,391,244	$ 2,960,372	$ 32,411,101	$ 2,076,762,717

Allowance for Possible Losses	12-month ECL	Lifetime ECL (Collective Assessment)	Lifetime ECL (Non-purchased or Non-originated Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Impairment Recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance at January 1, 2018	$ 3,215,722	$ 36,992	$ 5,674,719	$ 8,927,433	$ 16,113,076	$ 25,040,509
Changes from financial instruments recognized at the beginning of the current reporting period						
Transfers to						
Lifetime ECL	(1,322)	6,765	(5,443)	-	-	-
Credit-impaired financial assets	(92,599)	(8,114)	100,713	-	-	-
12-month ECL	41,052	(21,841)	(19,211)	-	-	-
	(1,879,925)	(3,003)	(1,606,715)	(3,489,643)	-	(3,489,643)
Derecognition of financial assets in the current reporting period	210,203	144,565	2,356,094	2,710,862	-	2,710,862
Reversal from financial instruments recognized at the beginning of the current reporting period	2,343,119	1,694	738,311	3,083,124	-	3,083,124
New financial assets purchased or originated	-	-	-	-	1,920,076	1,920,076

(Continued)

Allowance for Possible Losses	12-month ECL	Lifetime ECL (Collective Assessment)	Lifetime ECL (Non-purchased or Non-originated Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Impairment Recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Impairment recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	$ (319,050)	$ (148,252)	$ (3,641,155)	$ (4,108,457)	$ -	$ (4,108,457)
Recovery of write-off credits	-	-	983,259	983,259	-	983,259
Change in exchange rates and other changes	101,296	199	(10,032)	91,463	-	91,463
Balance at December 31, 2018	$ 3,618,496	$ 9,005	$ 4,570,540	$ 8,198,041	$ 18,033,152	$ 26,231,193

(Concluded)

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

Items		December 31, 2017 Discounts and Loans	December 31, 2017 Allowance for Possible Losses
With objective evidence of impairment	Assessment of individual impairment	$ 19,115,109	$ 3,765,681
	Assessment of collective impairment	11,295,185	1,910,062
With no objective evidence of impairment	Assessment of collective impairment	1,988,866,151	19,364,766
Total		2,019,276,445	25,040,509

The changes in allowance for possible losses are summarized below:

	2017
Balance, January 1	$ 23,347,544
Provision for possible losses	4,095,817
Write-offs	(3,569,009)
Recovery of written-off credits	1,398,189
Effects of exchange rate changes	(232,032)
Balance, December 31	$ 25,040,509

The bad-debt expenses and provision for losses on commitment and guarantees for 2018 and 2017 were as follows:

	2018	2017
Provision for possible losses on discounts and loans	$ 4,224,419	$ 4,095,817
Provision for possible losses on receivables	30,016	168,772
Provision for possible losses on overdue receivables	37,584	818,853
Provision for possible losses on guarantees	103,036	219,052
Reversal of provision for possible losses on loan commitment	(1,330)	-
Provision for possible losses on others	10,144	-
	$ 4,403,869	$ 5,302,494

As of December 31, 2018, the Bank was in compliance with the FSC-required provision for credit assets.

As of December 31, 2018 and 2017, accrual of interest on the above overdue loans had been stopped. Thus, the unrecognized interest revenue was $119,914 thousand and $138,512 thousand for the years ended December 31, 2018 and 2017, respectively, based on the average loan interest rate for the year.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET - 2017

	December 31, 2017
Government bonds	$ 87,996,767
Bank debentures	36,665,414
Corporate bonds	25,331,812
Listed and merging market stocks	4,316,380
Beneficial certificates	131,123
	$ 154,441,496

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

15. HELD-TO-MATURITY FINANCIAL ASSETS - 2017

	December 31, 2017
Negotiable certificates of deposit in the Central Bank	$ 402,675,000
Government bonds	76,495,807
Corporate bonds	28,440,163
Bank debentures	5,902,331
Certificates of deposit	276,024
	$ 513,789,325

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

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
Investment in subsidiary	$ 1,989,572	$ 1,949,463
Investment in associate	127,094	124,346
	$ 2,116,666	$ 2,073,809

a. Investment in subsidiary

	December 31			
	2018		2017	
	Amount	Percentage of Ownership	Amount	Percentage of Ownership
United Taiwan Bank S.A	$ 1,989,572	90.02	$ 1,949,463	90.02

b. Investment in associate

	December 31			
	2018		2017	
	Amount	Percentage of Ownership	Amount	Percentage of Ownership
United Real Estate Management Co., Ltd.	$ 127,094	30.00	$ 124,346	30.00

Aggregate information of associate that is not individually material:

	For the Year Ended December 31	
	2018	2017
The Bank's share of:		
Net income	$ 11,346	$ 4,998
Other comprehensive income	(3,034)	4,036
Total comprehensive income for the year	$ 8,312	$ 9,034

The Bank received $5,564 thousand and $6,069 thousand dividends from United Real Estate Management Co., Ltd. for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 were based on the financial statements audited by the auditors for the same years.

17. OTHER FINANCIAL ASSETS, NET

	December 31	
	2018	2017
Overdue receivables	$ 53,679	$ 987,653
Less: Allowance for possible losses	28,590	958,408
Overdue receivables, net	25,089	29,245
Debt instruments with no active market	-	82,438,716
Due from banks	18,395,211	20,145,645
Financial assets carried at cost	-	4,092,383
Call loans to securities firms	307,350	296,800
	$ 18,727,650	$ 107,002,789

Debt instruments with no active market are summarized as follows:

	December 31, 2017
Corporate bonds	$ 67,217,840
Bank debentures	15,220,876
	$ 82,438,716

Financial assets carried at cost are summarized as follows:

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

The above equity investments held by the Bank on December 31, 2017 were measured at cost less impairment loss in accordance with IAS 39.

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

18. PROPERTIES AND EQUIPMENT, NET

	December 31	
	2018	2017
Carrying amount		
Land	$ 20,928,940	$ 21,102,803
Buildings	11,659,376	11,893,308
Machinery and equipment	367,881	519,325
Transportation equipment	74,454	90,089
Other equipment	161,959	113,111
Leasehold improvements	105,744	92,254
Leased assets	21,298	11,604
Prepayments for equipment, land and buildings and construction in progress	311,301	104,269
	$ 33,630,953	$ 33,926,763

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Leasehold Improvements	Leased Assets	Prepayments for Equipment, Land and Buildings and Construction in Progress	Total
Cost									
Balance, January 1, 2018	$ 21,117,980	$ 18,670,874	$ 4,319,112	$ 630,702	$ 1,132,199	$ 808,880	$ 13,352	$ 104,269	$ 46,797,368
Additions	-	440,525	52,067	13,702	53,867	56,871	12,773	336,652	966,457
Disposals	-	-	(428,988)	(39,217)	(80,192)	(22,143)	-	-	(570,540)
Reclassification	-	18,095	58,411	-	47,502	664	-	(124,672)	-
Transferred to investment properties	(173,954)	(71,016)	-	-	-	-	-	-	(244,970)
Transferred to intangible assets	-	-	-	-	-	-	-	(4,976)	(4,976)
Effects of exchange rate changes	91	190	3,000	303	992	922	-	28	5,526
Balance, December 31, 2018	$ 20,944,117	$ 19,058,668	$ 4,003,602	$ 605,490	$ 1,154,368	$ 845,194	$ 26,125	$ 311,301	$ 46,948,865
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

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Leasehold Improvements	Leased Assets	Total
Accumulated depreciation and impairment								
Balance, January 1, 2018	$ 15,177	$ 6,777,566	$ 3,799,787	$ 540,613	$ 1,019,088	$ 716,626	$ 1,748	$ 12,870,605
Disposals	-	-	(427,029)	(39,214)	(80,120)	(22,143)	-	(568,506)
Depreciation expenses	-	653,619	260,351	29,471	52,683	44,286	3,079	1,043,489
Transferred to investment properties	-	(32,042)	-	-	-	-	-	(32,042)
Effects of exchange rate changes	-	149	2,612	166	758	681	-	4,366
Balance, December 31, 2018	$ 15,177	$ 7,399,292	$ 3,635,721	$ 531,036	$ 992,409	$ 739,450	$ 4,827	$ 13,317,912
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

The Bank revalued its properties five times in 1979, 1998, 2007, 2011 and 2012. As December 31, 2018, 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 to 10 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 properties and equipment. The discount rates for the CGUs' value in use were 8.69% and 9.34% as of December 31, 2018 and 2017, respectively.

19. INVESTMENT PROPERTIES, NET

	December 31	
	2018	2017
Land	$ 5,742,277	$ 5,568,323
Buildings	1,409,297	1,416,086
	$ 7,151,574	$ 6,984,409

	Land	Buildings	Total
Cost			
Balance, January 1, 2018	$ 5,568,323	$ 2,058,614	$ 7,626,937
Additions	-	95	95
Disposals	-	(165)	(165)
Transferred from properties and equipment	173,954	71,016	244,970
Balance, December 31, 2018	$ 5,742,277	$ 2,129,560	$ 7,871,837
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
Accumulated depreciation and impairment			
Balance, January 1, 2018	$ -	$ 642,528	$ 642,528
Depreciation expenses	-	45,737	45,737
Disposal	-	(44)	(44)
Transferred from properties and equipment	-	32,042	32,042
Balance, December 31, 2018	$ -	$ 720,263	$ 720,263
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

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

As of December 31, 2018 and 2017, the fair value of investment properties was $20,840,621 thousand and $21,128,687 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	
	2018	2017
Rental income from investment properties (part of other noninterest gains, net)	$ 425,037	$ 216,874
Direct operating expenses for investment properties that generate rental income	(106,584)	(61,962)
	$ 318,453	$ 154,912

20. INTANGIBLE ASSETS

	December 31	
	2018	2017
Goodwill	$ 3,170,005	$ 3,170,005
Computer software	381,964	343,487
	$ 3,551,969	$ 3,513,492

	Goodwill	Computer Software	Total
Balance, January 1, 2018	$ 3,170,005	$ 343,487	$ 3,513,492
Separate acquisition	-	194,214	194,214
Amortization expenses	-	(144,637)	(144,637)
Transferred from properties and equipment	-	4,976	4,976
Effect of exchange rate changes	-	(16,076)	(16,076)
Balance, December 31, 2018	$ 3,170,005	$ 381,964	$ 3,551,969
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

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 8.69% and 9.34% as of December 31, 2018 and 2017, 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, 2018 and 2017.

21. OTHER ASSETS

	December 31	
	2018	2017
Refundable deposits	$ 733,253	$ 291,328
Prepaid expenses	307,634	254,752
Operating deposits	48,000	48,000
Others	12,428	12,439
	$ 1,101,315	$ 606,519

22. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2018	2017
Due to banks	$ 138,794,310	$ 123,632,527
Call loans from banks	69,287,413	78,964,960
Bank overdraft	1,569,412	5,355,483
Deposits from Chunghwa Post Co., Ltd.	1,474,134	3,920,100
Due to the Central Bank	354,324	426,995
	$ 211,479,593	$ 212,300,065

23. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold for $9,602,141 thousand and $10,377,142 thousand under repurchase agreements as of December 31, 2018 and 2017, respectively, would subsequently be purchased for $9,611,528 thousand and $10,382,135 thousand, respectively.

24. PAYABLES

	December 31	
	2018	2017
Checks for clearing	$ 21,869,459	$ 23,198,709
Accrued interest	5,367,940	4,388,767
Collections payable	4,336,474	4,143,416
Acceptances	3,678,990	4,147,242
Accrued expenses	4,678,304	4,289,330
Collections of notes and checks for various financial institutions in other cities	733,967	627,378
Tax payable	467,404	488,463
Payables on notes and checks collected for others	368,090	257,935
Dividends payable	170,524	170,524
Factored accounts payable	125,071	107,321
Payable on securities	21,038	90,526
Others	2,068,519	3,270,018
	$ 43,885,780	$ 45,179,629

25. DEPOSITS AND REMITTANCES

	December 31 2018	December 31 2017
Deposits		
Checking	$ 48,922,628	$ 46,935,009
Demand	514,114,046	526,285,176
Savings - demand	839,919,122	805,892,649
Time	556,195,759	490,679,464
Negotiable certificates of deposit	48,351,856	12,392,500
Savings - time	628,015,834	647,817,790
Treasury	92,894,432	93,750,404
Remittances	194,446	845,343
	$ 2,728,608,123	$ 2,624,598,335

26. BANK DEBENTURES

	December 31 2018	December 31 2017
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
First subordinated bonds in 2011, Type B: Fixed rate of 1.65%; maturity - May 25, 2018	-	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
Second subordinated bonds in 2011, Type B: Fixed rate of 1.70%; maturity - July 28, 2018	-	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
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

(Continued)

	December 31	
	2018	2017
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	600,000
First subordinated bonds in 2017, Type B: Fixed rate of 1.56%; maturity - September 26, 2027	1,400,000	1,400,000
First non-cumulative perpetual subordinated bonds in 2018: Fixed rate of 2.28%; the Bank may exercise its redemption rights after 5 years and 2 months	5,000,000	-
	$ 55,000,000	$ 64,610,000

(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	
	2018	2017
Unsecured bank debentures bonds issued in 2015, Type A	$ 8,613,482	$ 8,766,846
Unsecured bank debentures bonds issued in 2015, Type B	2,870,473	2,921,445
	$ 11,483,955	$ 11,688,291

27. OTHER FINANCIAL LIABILITIES

	December 31	
	2018	2017
Structured products - host contracts	$ 1,905,310	$ 2,133,279
Guarantee deposits received	1,216,195	1,557,688
Appropriation for loans	23,608	46,770
Lease payable	21,861	11,808
	$ 3,166,974	$ 3,749,545

28. PROVISIONS

	December 31	
	2018	2017
Provision for employee benefits		
Net defined benefit liability	$ 2,822,786	$ 2,727,448
Present value of retired employees' preferential interest deposits obligation	4,041,988	4,008,321
	6,864,774	6,735,769
Provision for losses on guarantees	991,699	888,428
Provision for losses on loan commitment	139,297	-
Provision for losses on others	26,721	-
	$ 8,022,491	$ 7,624,197

The changes in the provision for losses on guarantees, provision for losses on loan commitment and provision for losses on others are summarized below:

	12-month ECL	Lifetime ECL (Collective Assessment)	Lifetime ECL (Non-purchased or Non-originated Credit-impaired Financial Assets)	Impairment Loss under IFRS 9	Impairment Recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance at January 1, 2018	$ 505,318	$ 3,065	$ 30,229	$ 538,612	$ 504,945	$ 1,043,557
Changes from financial instruments recognized at the beginning of the current reporting period						
Transfers to						
Lifetime ECL	(25)	25	-	-	-	-
Credit-impaired financial assets	(89)	-	89	-	-	-
12-month ECL	-	-	-	-	-	-
Derecognition of financial assets in the current reporting period	(174,552)	(2,605)	(18,886)	(196,043)	-	(196,043)
Reversal from financial instruments recognized at the beginning of the current reporting period	(12,678)	(91)	7,380	(5,389)	-	(5,389)
New financial assets purchased or originated	241,095	-	15	241,110	-	241,110
Impairment recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	-	-	-	-	72,172	72,172
Change in exchange rates and other changes	2,317	(7)	-	2,310	-	2,310
Balance at December 31, 2018	$ 561,386	$ 387	$ 18,827	$ 580,600	$ 577,117	$ 1,157,717

29. 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 $145,263 thousand and $126,777 thousand in the statement of comprehensive income in 2018 and 2017, 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	
	2018	**2017**
Present value of defined benefit obligation	$ 13,172,516	$ 12,724,492
Fair value of plan assets	(10,349,730)	(9,997,044)
Net defined benefit liability	$ 2,822,786	$ 2,727,448

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, 2017	$ 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
Service cost			
Current service cost	790,584	-	790,584
Net interest expense (income)	134,549	(109,006)	25,543
Recognized in profit or loss	925,133	(109,006)	816,127

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ (294,498)	$ (294,498)
Actuarial loss - changes in financial assumptions	130,709	-	130,709
Actuarial loss - experience adjustments	441,038	-	441,038
Recognized in other comprehensive income	571,747	(294,498)	277,249
Contributions from the employer	-	(998,038)	(998,038)
Benefits paid	(1,048,856)	1,048,856	-
Balance at December 31, 2018	$ 13,172,516	$ (10,349,730)	$ 2,822,786

(Concluded)

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

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau 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	
	2018	2017
Discount rate(s)	1.00%	1.10%
Expected rate(s) of salary increase	2.00%	2.00%
Expected rate(s) of return on plan asset	1.00%	1.10%

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	
	2018	2017
Discount rate(s)		
0.25% increase	$ (321,389)	$ (318,994)
0.25% decrease	$ 333,660	$ 331,506
Expected rate(s) of salary increase		
0.25% increase	$ 315,369	$ 314,089
0.25% decrease	$ (305,587)	$ (304,032)

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	
	2018	2017
The expected contributions to the plan for the next year	$ 1,000,000	$ 987,973
The average duration of the defined benefit obligation	10.01 years	10.29 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	
	2018	2017
Present value of retired employees' preferential interest deposits obligation (part of provisions)	$ 4,041,988	$ 4,008,321

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

	For the Year Ended December 31	
	2018	2017
Present value of retired employees' preferential interest deposits obligation, January 1	$ 4,008,321	$ 3,970,127
Interest expense	155,711	154,647
Actuarial losses	715,807	707,934
Benefits paid	(837,851)	(824,387)
Present value of retired employees' preferential interest deposits obligation, December 31	$ 4,041,988	$ 4,008,321

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	
	2018	2017
Interest expense	$ 155,711	$ 154,647
Actuarial losses	715,807	707,934
Excessive interest of retired employees' preferential interest deposits	$ 871,518	$ 862,581

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	
	2018	2017
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	
	2018	2017
Discount rate(s)		
1% increase	$ (284,051)	$ (284,568)
1% decrease	$ 326,681	$ 327,672
Return on deposit		
1% increase	$ (926,392)	$ (837,761)
1% decrease	$ 926,392	$ 837,761
Account balance decrease rate per year		
1% increase	$ (300,225)	$ (300,762)
1% decrease	$ 340,755	$ 341,798
Rate of probability of change in the preferential deposit system		
20% increase	$ (1,616,795)	$ (1,603,328)
20% decrease	$ 1,616,795	$ 1,603,328

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.

30. NET INTEREST

	For the Year Ended December 31	
	2018	2017
Interest revenue		
From discounts and loans	$ 42,763,522	$ 39,512,388
From investments	9,063,501	8,253,067
From due from banks and call loans to other banks	2,906,886	2,307,591
Others	602,732	666,359
	55,336,641	50,739,405
Interest expense		
From deposits	(18,034,086)	(15,772,469)
From funds borrowing from the Central Bank and other banks	(1,947,049)	(1,212,968)
From subordinated bank debentures	(800,742)	(940,562)
From due to the Central Bank and other banks	(646,742)	(426,043)
From structure products	(39,224)	(39,636)
From securities sold under repurchase agreements	(27,102)	(23,401)
Others	(16,392)	(25,629)
	(21,511,337)	(18,440,708)
	$ 33,825,304	$ 32,298,697

31. SERVICE FEE INCOME, NET

	For the Year Ended December 31	
	2018	2017
Service fee income		
From insurance service	$ 1,953,841	$ 1,832,793
From trust business	1,502,644	1,473,845
From loans	853,081	767,883
From guarantee	706,084	670,098
From credit cards	566,676	554,683
From remittance	321,706	311,440
From trust affiliated business	283,208	244,656
From cross-bank transactions	274,227	268,095
From import/export service	115,319	107,998
Others	502,970	551,690
	7,079,756	6,783,181
Service charge		
From cross-bank transactions	(331,523)	(306,334)
From credit cards	(219,723)	(205,054)
From credit cards acquiring	(118,814)	(132,709)
From custody	(77,802)	(67,785)
Others	(145,410)	(146,407)
	(893,272)	(858,289)
	$ 6,186,484	$ 5,924,892

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

	For the Year Ended December 31, 2018				
	Interest Revenue (Expense)	Gain (Loss) on Disposal	Gain (Loss) on Valuation	Dividend Income	Total
Financial assets mandatorily classified as at fair value through profit or loss	$ 51,340	$ 15,725,005	$ (702,452)	$ 15,814	$ 15,089,707
Held-for-trading financial liabilities	-	(12,893,839)	1,293,747	-	(11,600,092)
Financial liabilities designated as at fair value through profit or loss	(566,552)	-	613,084	-	46,532
	$ (515,212)	$ 2,831,166	$ 1,204,379	$ 15,814	$ 3,536,147

	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)

33. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

a. Employee benefits expenses

	For the Year Ended December 31	
	2018	2017
Salaries	$ 7,890,379	$ 7,552,310
Incentives	2,688,401	2,624,014
Excessive interest from preferential interest deposits	1,286,602	1,283,477
Post-employment benefits, termination benefits and compensation	1,171,188	1,126,676
Overtime	421,350	397,510
Others	1,703,686	1,630,069
	$ 15,161,606	$ 14,614,056

Under the 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 years ended December 31, 2018 and 2017, the compensation of employees was $924,404 thousand and $836,689 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 2018 and 2017 resolved by the board of directors on March 25, 2019 and March 23, 2018, respectively, were as follows:

	For the Year Ended December 31	
	2018	2017
Employees' compensation - cash	$ 924,404	$ 836,689

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	
	2018	2017
Depreciation expenses	$ 1,089,226	$ 901,848
Amortization expenses	144,660	156,177
	$ 1,233,886	$ 1,058,025

34. 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	
	2018	2017
Current tax		
Current year	$ 2,233,537	$ 2,341,180
Prior year's adjustments	(63,724)	1,715
	2,169,813	2,342,895
Deferred tax		
Current year	151,612	(356,495)
Prior year's adjustments	(116,834)	-
Effect of change in tax rate	(13,976)	-
Income tax expense recognized in profit or loss	$ 2,190,615	$ 1,986,400

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

	For the Year Ended December 31	
	2018	2017
Income before income tax	$ 16,952,981	$ 14,885,594
Income tax expense at the statutory rate	$ 3,390,596	$ 2,530,551
Nondeductible expenses in determining taxable income	2,565	892
Tax-exempt income	(1,011,057)	(806,636)
Unrecognized deductible temporary differences	(52,298)	19,307
Effect of different tax rate of overseas branches operating in other jurisdictions	55,343	240,571
Effect of change in tax rate	(116,834)	-
Adjustments for prior year's tax	(77,700)	1,715
Income tax expense recognized in profit or loss	$ 2,190,615	$ 1,986,400

In 2017, the applicable corporate income tax rate used by the Bank in the ROC was 17%. However, the Income Tax Act in the ROC was amended in February 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

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

	For the Year Ended December 31	
	2018	2017
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	$ 219,881	$ (250,412)
Unrealized gains on available-for-sale financial assets	-	1,563
Unrealized loss on financial assets at fair value through other comprehensive income	(9,012)	-
Share of other comprehensive income of subsidiary accounted for using the equity method	(3,092)	13,519
Effect of change in tax rate	(38,386)	-
Total income tax recognized in other comprehensive income	$ 169,391	$ (235,330)

c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax assets		
Tax receivable - consolidated tax return	$ 1,297,856	$ 1,071,039
Tax refund receivable	34,700	287
Others	176,570	330,806
	$ 1,509,126	$ 1,402,132

(Continued)

	December 31	
	2018	2017
Current tax liabilities		
Tax payable - consolidated tax return	$ 547,923	$ 560,958
Tax payable	436,764	426,211
Others	135,917	198,727
	$ 1,120,604	$ 1,185,896

(Concluded)

d. Deferred tax assets and liabilities

Movements in deferred tax assets and liabilities were as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Others	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	2,249	-	-	(2,249)	-
Financial assets at fair value through other comprehensive income	-	-	9,007)	2,249)	11,256
Properties and equipment	8,899	927)	-	-	9,826
Payable for annual leave	69,527	29,184)	-	-	98,711
Defined benefit obligation	29	) (29)	-	-	-
Employee's preferential interest deposits obligation	681,415	126,983	-	-	808,398
Other liabilities	4,955	928)	-	-	5,883
Exchanges difference on foreign operations	217,549	-	(178,398)	-	39,151
Unrealized interests expense	256,494	158,574	-	-	415,068
	$ 1,282,022	$ 275,662	$ (169,391)	$ -	$ 1,388,293
Deferred tax liabilities					
Temporary differences					
Financial instruments at fair value through profit or loss	$ -	$ 188,317	$ -	$ -	$ 188,317
Investments accounted for using equity method	21,651	14,952	-	-	36,603
Intangible assets	364,322	64,292	-	-	428,614
Defined benefit obligation	-	36,348	-	-	36,348
The reserve for land revaluation increment tax	2,596,230	-	-	-	2,596,230
Others	14,187	(7,445)	-	-	6,742
	$ 2,996,390	$ 296,464	$ -	$ -	$ 3,292,854

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com-prehensive 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)	$ -	$ -
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

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

	December 31	
	2018	2017
Deductible temporary differences	$ 1,430,397	$ 1,153,149

f. The income tax returns of the Bank through 2013 had been examined by tax authorities.

35. 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, 2018			
Basic earnings per share	$ 14,762,366	9,031,030	$ 1.63
For the year ended December 31, 2017			
Basic earnings per share	$ 12,899,194	8,919,489	$ 1.45

The weighted-average number of shares outstanding for EPS calculation has been retroactively adjusted to reflect the effects of the stock dividends distributed in the year following earning appropriation.

	2017	
	Before Adjusted Retrospectively	After Adjusted Retrospectively
Basic earnings per share	$ 1.48	$ 1.45

36. EQUITY

a. Capital stock

Common stocks

	December 31	
	2018	2017
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)	9,031,030	8,808,130
Common stocks issued	$ 90,310,300	$ 88,081,300

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

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 the Financial Supervisory Commission (FSC) and the Ministry of Economic Affairs (MOEA).

On May 28, 2018, the Bank’s board of directors resolved to increase its capital by issuing 222,900 thousand shares which included the 2017 earnings amounting to $2,229,000 thousand. The issuance 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, 2018, 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 an amount that was the same as those 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, on 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 for 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	
	2018	**2017**
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. Information regarding the special reserve appropriated or reversed due to elimination of the original need to appropriate a special reserve was as follows:

	For the Year Ended December 31	
	2018	**2017**
Balance on January 1	$ 62,618	$ -
Appropriation	64,496	62,618
Reversal:		
Cost of employee transfer and arrangement	(62,618)	-
Balance on December 31	$ 64,496	$ 62,618

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.

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.

The appropriations from the earnings of 2017 and 2016 were approved in the stockholders' meetings on May 28, 2018 and May 22, 2017, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2017	2016	2017	2016
Legal reserve	$ 3,869,758	$ 3,757,080		
Special reserve	64,496	62,618		
Cash dividends	6,450,000	8,703,900	$ 0.732278	$ 1.013696
Stock dividends	2,229,000	-	0.253062	-

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).

37. 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. (TCBF)	Sister company
Taiwan Cooperative Securities Co., Ltd.	Sister company
BNP Paribas Cardif TCB Life Insurance Co., Ltd. (BPCTLI)	Sister company
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 Emerging Markets Equity Fund	Fund managed by Taiwan Cooperative Securities Investment Trust Co., Ltd.
TCB Global High Yield Bond Fund	Fund managed by Taiwan Cooperative Securities Investment Trust Co., Ltd.
TCB S&P U.S. Variable Rate Preferred Stock Index Fund	Fund managed by Taiwan Cooperative Securities Investment Trust Co., Ltd.
TCB 6 Year Emerging Market Bond 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.
Others	Main management of the parent company and other related parties

b. Significant transactions between the Bank and related parties:

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

	December 31	
	2018	2017
Subsidiary	$ 573,442	$ 573,480

2) Call loans to banks

	Highest Balance	Ending Balance	Interest Revenue	Interest Rate (%)
For the year ended December 31, 2018				
Subsidiary	$ 10,400,488	$ 7,412,225	$ 67,388	0.001-3.180
Sister companies	4,500,000	-	9,830	0.350-0.550
Others	4,542,750	-	30,046	0.350-4.150
	$ 19,443,238	$ 7,412,225	$ 107,264	
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	

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, 2018				
Sister company				
TCS	$ 311,010	$ 307,350	$ 7,212	1.750-3.200
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			
	2018		2017	
	Ending Balance	**Interest Expense**	**Ending Balance**	**Interest Expense**
Subsidiary	$ 1,325	$ -	$ 3,618	$ -
Main management	285,207	1,479	240,738	1,237
Others				
Tamshui First Credit Bank	21,426,256	235,290	25,245,826	251,236
Others	17,413	9	5,417	-
	$ 21,730,201	$ 236,778	$ 25,495,599	$ 252,473

5) Call loans from banks

	Highest Balance	**Ending Balance**	**Interest Expense**	**Interest Rate (%)**
For the year ended December 31, 2018				
Others	$ 1,844,100	$ -	$ 216	0.180-1.830
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, 2018				
Sister company	$ 512,000	$ -	$ 34	2.265
Main management	303,302	241,364	2,594	1.245-1.790
Others	141,496	129,400	1,104	1.137-2.465
	$ 956,798	$ 370,764	$ 3,732	
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	

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, 2018			
Sister companies			
TCBF	$ 3,320,000	$ 336	0.425-0.480
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	

8) Deposits

	Ending Balance	Interest Expense	Interest Rate (%)
For the year ended December 31, 2018			
Parent company	$ 25,293	$ 58	0-0.800
Sister companies	4,727,583	8,790	0-1.065
Associates	64,677	365	0-0.775
Main management	718,088	3,695	0-13.000
Others	12,607,764	109,421	0-13.000
	$ 18,143,405	$ 122,329	
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	

	December 31	
	2018	2017
9) Accrued income (part of receivables)		
Sister companies		
BPCTLI	$ 153,207	$ 46,373
Others	1,430	2,032
	$ 154,637	$ 48,405

	December 31	
	2018	**2017**
10) Accrued interest (part of receivables)		
Subsidiary	$ 6,219	$ 1,965
Sister companies	1,041	378
Others	-	7,154
	$ 7,260	$ 9,497
11) Receivable on securities (part of receivables)		
Sister company		
TCS	$ 147,499	$ 153,075
12) Tax receivable - consolidated tax return (part of current tax assets)		
Parent company	$ 1,297,856	$ 1,071,039
13) Accrued interest (part of payables)		
Sister companies	$ 15	$ 9
14) Accrued expense (part of payables)		
Sister companies	$ 193	$ 3,691
15) Payable on securities (part of payables)		
Sister company		
TCS	$ 16,943	$ 90,526
16) Tax payable - consolidated tax return (part of current tax liabilities)		
Parent company	$ 547,923	$ 560,958
17) Guarantee deposits received (part of other financial liabilities)		
Parent company	$ 6,012	$ 6,012
Sister companies	23,743	15,425
	$ 29,755	$ 21,437

	For the Year Ended December 31	
	2018	2017
18) Service fee income (part of service fee income, net)		
Sister companies		
BPCTLI	$ 1,019,949	$ 751,688
Others	26,146	23,680
Associates	106	55
Main management	352	223
Others	208	1,242
	$ 1,046,761	$ 776,888
19) Service charge (part of service fee income, net)		
Sister companies	$ 5,306	$ 5,101
Main management	56	34
Others	4	4
	$ 5,366	$ 5,139
20) Rental income (part of other noninterest gain, net)		
Parent company	$ 24,048	$ 14,405
Sister companies		
TCS	30,355	27,791
Others	32,306	33,736
	$ 86,709	$ 75,932
21) Information service fee (part of general and administration)		
Sister companies	$ -	$ 20,160
22) Investigation fee (part of general and administration)		
Sister companies	$ 1,200	$ 172
23) Other income (part of other noninterest gain, net)		
Parent company	$ 1,540	$ 1,519
Sister companies	680	-
Others	3,809	3,482
	$ 6,029	$ 5,001
24) Donation (part of other noninterest gain, net)		
Main management	$ 2,000	$ 3,700
Others	900	-
	$ 2,900	$ 3,700

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, 2018			
Related Party	**Purchases**	**Sales**	**Sales Under Repurchase Agreements**	**Purchases Under Resell Agreements**
Sister companies	$ 150,009	$ 199,617	$ -	$ 3,519,521
Others	150,050	100,287	-	-
	$ 300,059	$ 299,904	$ -	$ 3,519,521

	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

26) Derivatives

	For the Year Ended December 31, 2018					
					Amounts on the Balance Sheet	
Related Party	**Type of Derivatives**	**Contract Period**	**Nominal Amounts**	**Valuation Gain (Loss)**	**Account**	**Amounts**
Sister company - BPCTLI	Currency swap	2018.09.28-2019.03.04	US$ 5,351	$ 1,954	Financial assets at fair value through profit or loss	$ 1,954
	Currency swap	2018.12.17-2019.02.19	US$ 9,681	(1,001)	Financial liabilities at fair value through profit or loss	(1,001)
	Currency swap	2018.12.20-2019.03.25	US$ 5,116	(415)	Financial liabilities at fair value through profit or loss	(415)
	Currency swap	2018.12.20-2019.03.25	US$10,443	(846)	Financial liabilities at fair value through profit or loss	(846)
	Currency swap	2018.12.20-2019.03.25	US$ 5,102	(413)	Financial liabilities at fair value through profit or loss	(413)
	Currency swap	2018.12.20-2019.03.25	US$ 5,254	(426)	Financial liabilities at fair value through profit or loss	(426)
	Currency swap	2018.12.20-2019.03.25	US$ 5,116	(415)	Financial liabilities at fair value through profit or loss	(415)
	Currency swap	2018.12.20-2019.03.25	US$ 5,141	(417)	Financial liabilities at fair value through profit or loss	(417)
	Currency swap	2018.12.20-2019.02.25	US$ 5,012	(404)	Financial liabilities at fair value through profit or loss	(404)
	Currency swap	2018.12.20-2019.02.25	US$ 5,112	(412)	Financial liabilities at fair value through profit or loss	(412)
	Currency swap	2018.12.20-2019.02.25	US$ 1,011	(82)	Financial liabilities at fair value through profit or loss	(82)

(Continued)

Related Party	For the Year Ended December 31, 2018 Type of Derivatives	Contract Period	Nominal Amounts	Valuation Gain (Loss)	Amounts on the Balance Sheet Account	Amounts
	Currency swap	2018.12.20-2019.03.25	US$10,259	$ (831)	Financial liabilities at fair value through profit or loss	$ (831)
	Currency swap	2018.12.20-2019.03.25	US$20,579	(1,668)	Financial liabilities at fair value through profit or loss	(1,668)
	Currency swap	2018.12.20-2019.03.25	US$ 8,274	(670)	Financial liabilities at fair value through profit or loss	(670)
	Currency swap	2018.12.20-2019.03.25	US$ 4,935	(400)	Financial liabilities at fair value through profit or loss	(400)
	Currency swap	2018.12.20-2019.03.25	US$10,033	(813)	Financial liabilities at fair value through profit or loss	(813)
	Currency swap	2018.12.20-2019.03.25	US$13,000	(1,053)	Financial liabilities at fair value through profit or loss	(1,053)
	Currency swap	2018.12.24-2019.03.26	US$ 2,870	(206)	Financial liabilities at fair value through profit or loss	(206)
	Currency swap	2018.12.24-2019.03.26	US$10,000	(716)	Financial liabilities at fair value through profit or loss	(716)
	Currency swap	2018.12.24-2019.03.26	US$ 2,000	(143)	Financial liabilities at fair value through profit or loss	(143)
	Currency swap	2018.12.24-2019.03.26	US$10,418	(746)	Financial liabilities at fair value through profit or loss	(746)
	Currency swap	2018.12.24-2019.03.26	US$ 7,042	(504)	Financial liabilities at fair value through profit or loss	(504)
	Currency swap	2018.12.26-2019.03.29	US$10,028	(515)	Financial liabilities at fair value through profit or loss	(515)
	Currency swap	2018.12.26-2019.03.29	US$ 3,780	(194)	Financial liabilities at fair value through profit or loss	(194)
	Currency swap	2018.12.26-2019.03.29	US$ 9,956	(512)	Financial liabilities at fair value through profit or loss	(512)
Other - TCB Global Emerging Markets Equity Fund	Currency swap	2018.12.03-2019.01.14	US$ 2,750	(42)	Financial liabilities at fair value through profit or loss	(42)
	Currency swap	2018.12.03-2019.01.14	US$ 5,550	(85)	Financial liabilities at fair value through profit or loss	(85)
Other - TCB Global High Yield Bond Fund	Currency swap	2018.12.06-2019.01.10	US$ 3,250	(453)	Financial liabilities at fair value through profit or loss	(453)
	Currency swap	2018.12.11-2019.01.14	US$ 4,000	(557)	Financial liabilities at fair value through profit or loss	(557)
Other -TCB S&P U.S. Variable Rate Preferred Stock Index Fund	Currency swap	2018.12.13-2019.01.17	US$ 2,000	(184)	Financial liabilities at fair value through profit or loss	(184)
	Currency swap	2018.12.13-2019.01.17	US$ 5,000	(460)	Financial liabilities at fair value through profit or loss	(460)
Other -TCB 6 Year Emerging Market Bond Fund	Currency swap	2018.12.05-2019.01.07	US$20,000	1,048	Financial assets at fair value through profit or loss	1,048
	Currency swap	2018.12.13-2019.03.18	US$ 850	(72)	Financial liabilities at fair value through profit or loss	(72)

(Concluded)

Related Party	For the Year Ended December 31, 2017					
	Type of Derivatives	Contract Period	Nominal Amounts	Valuation Loss	Amounts on the Balance Sheet	
					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$13,000	(4,107)	Financial liabilities at fair value through profit or loss	(4,107)
	Currency swap	2017.12.8-2018.01.08	US$ 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)

(Continued)

Related Party	Type of Derivatives	Contract Period	Nominal Amounts	Valuation Loss	Amounts on the Balance Sheet Account	Amounts
	For the Year Ended December 31, 2017					
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)
	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)

(Concluded)

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

	For the Year Ended December 31 2018	2017
Financial assets and liabilities at fair value through profit or loss		
Sister company		
BPCTLI	$ 48,330	$ (200,452)
Others	1,470	-
Others	66,272	(30,115)
	$ 116,072	$ (230,567)

27) Loans

December 31, 2018

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2018 (Note 1)	Ending Balance	Loan Classification Normal Loans	Nonperforming Loans	Collaterals	Differences in Terms of Transaction Compared with Those for Unrelated Parties
Consumer loans	67	$ 166,643	$ 138,550	$ 138,550	$ -	Note 2	None
Self-used housing mortgage loans	47	278,155	232,214	232,214	-	Land and buildings	None
Other	Taiwan Cooperative Securities Co., Ltd.	512,000	-	-	-	Bonds	None

December 31, 2017

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2017 (Note 1)	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	$ -	Note 2	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

Note 1: The highest balance is the largest sum in the year of all daily accounts for each type.

Note 2: In addition to the line of consumer loans, real estate guarantees are provided.

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	
	2018	2017
Salaries and other short-term employment benefits	$ 135,542	$ 129,266
Post-employment benefits	13,375	12,922
Interest arising from the employees' preferential rate in excess of normal rates	4,208	3,885
	$ 153,125	$ 146,073

38. 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	
	2018	2017
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	1,430,080	1,455,680
Guarantee deposits for provisional collateral seizure for loan defaults and others	995,900	1,385,300
Collaterals for overdraft of domestic JPY settlement	500,000	500,000
Overseas branches' capital adequate reserve	376,667	362,859
Guarantee deposits for the trust business compensation reserve	240,000	220,000
Collaterals for overseas branch U.S. dollar settlement	130,931	31,786
Guarantee deposits for bills finance business	50,000	50,000
Guarantee deposits for securities operation	50,000	50,000
Overseas branches' guarantee deposits for operation	6,147	5,936
Others	-	200
	$ 84,779,725	$ 85,061,761

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	**Loan**	**Collateral Value**
December 31, 2018	$ 234,446	$ 165,192
December 31, 2017	$ 308,429	$ 230,474

39. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those mentioned in other notes, the significant 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, 2018, refundable deposits on these leases totaled $132,657 thousand (part of refundable deposits). Minimum future annual rentals are as follows:

	December 31	
	2018	**2017**
Within one year	$ 574,983	$ 588,831
One to five years	1,184,871	1,192,276
Over five years	128,407	127,766
	$ 1,888,261	$ 1,908,873

The lease payments recognized as expenses are as follows:

	For the Year Ended December 31	
	2018	**2017**
Minimum lease payments	$ 626,677	$ 658,626
Contingent rentals	1,040	1,274
	$ 627,717	$ 659,900

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, 2018, guarantee deposits on these leases totaled $98,957 thousand (part of guarantee deposits received). Minimum future annual rentals are as follows:

	December 31	
	2018	2017
Within one year	$ 438,978	$ 264,670
One to five years	1,170,799	656,465
Over five years	183,120	12,195
	$ 1,792,897	$ 933,330

c. As of December 31, 2018, the Bank's outstanding major construction and procurement contracts amounted to $5,790,567 thousand, of which $323,334 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. Since the Bank merged with the CIB on June 24, 2016, the Bank signed a two-party agreement with BPCTLI on March 30, 2018 to replace the original tri-party agreement, the rights and obligations of the CIB were assumed by the Bank.

40. FINANCIAL INSTRUMENTS

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

	December 31			
	2018		2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Investments in debt instruments at amortized cost	$ 554,882,807	$ 557,601,657	$ -	$ -
Held-to-maturity financial assets	-	-	513,789,325	515,472,990
Debt instruments with no active market	-	-	82,438,716	84,237,164
Financial liabilities				
Bank debentures	55,000,000	56,204,741	64,610,000	65,621,526

Fair value hierarchy as at December 31, 2018

	Total	Level 1	Level 2	Level 3
Financial assets				
Investments in debt instruments at amortized cost	$ 557,601,657	$ 8,074,457	$ 549,527,200	$ -
Financial liabilities				
Bank debentures	56,204,741	-	56,204,741	-

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	-

In addition to those listed above, the management level consider other financial instruments which are not measured at fair value closed to their fair value.

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 the Taipei Exchange (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 Taipei Exchange; and (c) debentures with fixed interest rates - at estimates reached using the discounted cash flow method. The discount rates used were between 0.6707% and 1.3055%, between 0.7211% and 1.1545% as of December 31, 2018 and 2017, respectively, and were comparable with interest rates for loans with similar terms and characteristics.

Evaluation technique and input of fair value measurement at Level 3

The Bank adopts the market approach for domestic unlisted equity investment, and selects similar industries with the target company. The main business model is similar. The products and scales are close to the comparable listed companies. The fair value estimation is based on the information of the listed company, or the price-book ratio (P/B) of the industry to which the target is evaluated is estimated as the multiplier of the fair value estimate. The significant unobservable input used is discount for lack of marketability. A decrease in discount for lack of marketability used in isolation would result in increases in fair value. The Bank adopts the discount for lack of marketability at 10% to 30% on December 31, 2018. With other input values remaining and a change in discount for lack of marketability input value to reflect reasonable assumptions, the amount of fair value of investment in equity instruments will increase (decrease) as follows:

	December 31, 2018
Discount for lack of marketability	
Increase 10%	$ (590,841)
Decrease 10%	$ 590,841

c. The hierarchies of the financial instruments measured at fair value on a recurring basis as of December 31, 2018 and 2017 were as follows:

1) Fair value hierarchy

Financial Instrument Measured at Fair Value	**December 31, 2018**			
	Total	**Level 1**	**Level 2**	**Level 3**
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets				
Stocks	$ 807,279	$ 564,754	$ -	$ 242,525
Debt instruments	2,561,635	1,805,936	755,699	-
Others	4,238,682	-	4,238,682	-
Financial assets at fair value through other comprehensive income				
Stocks	10,614,704	6,354,937	-	4,259,767
Debt instruments	246,048,663	5,523,893	240,524,770	-
Liabilities				
Financial liabilities at FVTPL	(11,483,955)	-	(11,483,955)	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	1,883,120	59,339	1,823,781	-
Liabilities				
Financial liabilities at FVTPL	(1,469,266)	-	(1,469,266)	-

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)	-

2) Reconciliation for financial assets based on the fair value measurement of Level 3

Financial Assets	Financial assets at FVTPL	Investment in Equity Instruments at FVTOCI	Total
Balance at January 1, 2018	$ -	$ 5,457,888	$ 5,457,888
Recognized in profit (financial assets and liabilities at FVTPL)	(7,475)	-	(7,475)
Recognized in OCI (investment in equity instruments at FVTOCI)	-	(784,675)	(784,675)
Purchases	250,000	36,554	286,554
Disposal	-	(450,000)	(450,000)
Balance at December 31, 2018	$ 242,525	$ 4,259,767	$ 4,502,292

The change in unrealized gains or losses for period included in profit or loss for assets held at the end of the reporting period was $7,475 thousand.

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

	December 31	
	2018	2017
Difference between carrying amount and contractual amount at maturity		
Fair value	$ 11,483,955	$ 11,688,291
Amount payable at maturity	12,294,000	11,872,000
	$ (810,045)	$ (183,709)

	Change in Fair Values Resulting from Credit Risk Variations
Change in amount in the year	
2018	$ 13,252
2017	$ (32,084)
Accumulated amount of change	
As of December 31, 2018	$ 15,666
As of December 31, 2017	$ 2,414

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

a) Credit risk management policy

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 TCB'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:

i. 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 set up policies for the management of doubtful credits and the collection of overdue debts to deal with collection problems.

The Bank apply 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's 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 The Bank's creditor's rights.

To quantify credit risk, The Bank apply 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.

ii. Due from and call loans to other banks

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

iii. Investments in debt instruments and derivatives

The Bank identify and manage 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 conduct 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.

b) Measurement of expected credit losses

i. The determination of significantly increased credit risk after initial recognition

In order to determine whether the credit risks has increased significantly after initial recognition, The Bank assessed changes in default risks of financial assets over the duration at the balance sheet date. To evaluate changes in default risks, the Bank considered reasonable and verifiable information (including forward-looking information). The major considerations include:

<u>Loans business</u>

i) Quantitative benchmark

Overdue loans: Loans and other credits (including accrued interest) are overdue for at least 30 days less than 90 days.

ii) Qualitative benchmark

- Borrower or its representative suffered from dishonored check due to insufficient funds.
- Borrower or it's representative suffered from credit card suspension.
- Owners of credit card has been denied by Taiwan Clearing House (THC).
- Objective evidence shows that the borrower's ability to fulfill obligation has been affected.

Bonds and bills business

i) Quantitative benchmark

Credit rating of bond issuers are not classified as investment grade and downgraded by over two grades, or classified as CCC.

Credit risks are deemed low, if the credit rating of the issuer was classified as investment grade at the issue date and did not increase significantly after initial recognition.

ii) Qualitative benchmark

Credit rating of bond issuers are not classified as investment grade and downgraded by no more than two grades, but credit risk increase significantly.

ii. Definition of default and credit loss on financial assets

The Bank define financial asset default in the same manner as financial asset impairment. If one or more of the following conditions occur, the Bank can conclude that the financial asset has defaulted and the credit is impaired:

Loans business

i) Loans and other credits (including accrued interest) are overdue for at least 90 days.

ii) Borrower filed for bankruptcy or reorganization.

iii) Borrower defaulted on other financial instruments.

iv) The lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulties, has granted the borrower concession that the lender would not otherwise consider.

v) Borrower has been denied by TCH.

Bonds and bills business

i) Interest or principal of Bonds without payment are overdue for at least 90 days.

ii) Borrower has indication of impairment such as overdue receivables, doubtful debts, financial crisis, contract condition change due to financial crisis and bankruptcy or reorganization.

The above definition of default is applicable to financial assets that are held by the Bank, and is in line with the definition of internal-management intention. Therefore, it is applied to related impairment evaluation models.

If the conditions that define default and credit loss of financial assets have been corrected and the financial assets have returned to the original state of compliance, the financial assets are no longer recognized as impaired.

iii. Reversal policy

When the Bank are unable to recover financial assets to expectations, they are entirely or partly written off against the allowance amount. Indicators of uncollectible financial assets are as follows:

i) The debtor's inability to recover all or part of the debts due to dissolution, escape, settlement, bankruptcy or other reasons.

ii) After collaterals assumed and assets of principal and subordinate debtors have been priced low or after deductions for first-order mortgage have been made, the remaining value of the assets is not enough to pay any obligation; also, if execution cost nears or exceeds the debtor's liability, no gain will be realized.

iii) The Bank is not responsible for the collaterals assumed and assets of principal and subordinate debtors experiencing low priced auctions with no bidders.

iv) Overdue loans or collections were made after two years from the settlement date.

v) Overdue credit card loans and overdue receivables were aged over nine months after the settlement date.

Financial assets that have been written off by the Bank may continue activities in progress, while complying with procedures according to relevant policies.

iv. Measurement of expected credit losses

<u>Loans business</u>

In order to assess the expected credit loss, the Bank will categorize credit assets according to credit risk and industry assessments of borrower, as well as credit risk of the types of collateral.

A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected losses is required for a financial asset if its credit risk has increased significantly since initial recognition.

The Bank measures expected credit loss by calculating the product of loss given default and exposure at default, while taking into account the probability of default of a 12-month period and duration, as well as the effect of changes in currency values.

Probability of default refers to a possibility that a borrower would default to the contract (please refer to the introduction to "The definition of default and credit loss on financial assets"). Loss given default refers to the ratio of default loss caused by borrower. Probability of default and loss given default for loan business of TCB and its subsidiary are calculated by the adjustment of historical default rate, which is based on historical internal information (e.g. credit loss experience), current observable information and prospective macroeconomics statistics (e.g. monitoring indicator from National Development Association and unemployment rate from Directorate General of Budget, Accounting and Statistics, Executive Yuan).

The Bank estimates the exposure at default according to the aggregate book value. In addition, the estimations of expected credit loss for the 12-month loan period and duration of loan commitment made by the Bank are based on the credit conversion factor (CCF), using the portion of the loan commitment that is expected to be used within 12 months of reporting date and expected duration to calculate expected credit loss and determine the exposure at default.

There is no significant change in the estimation method and assumptions used to calculate expected credit loss as of December 31, 2018.

Bonds and bills business

A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected losses is required for a financial asset if its credit risk has increased significantly since initial recognition.

The Bank measures expected credit loss by calculating the product of loss given default and exposure at default, while taking into account the probability of default of a 12-month period and duration, as well as the effect of changes in currency values.

There is no significant change in the estimation method and assumptions used to calculate expected credit loss as of December 31, 2018.

v. Forward-looking information considerations

Loans business

The Bank has taken into account previous forward-looking information when assessing asset default probability. The Bank analyze past archives to identify relevant economic factors affecting personal and company asset default probabilities.

According to the Bank's previous forward-looking information, estimations are calculated at the end of the year per year on average. The influence of relevant economic factors and expected credit loss identified by the Bank on December 31, 2017 is as follows:

	Probability of Default
Relevant economic factors	Monitoring indicator/unemployment rate

Bonds and bills business

The assessment of the increase/decrease in the credit risk is based on the Bank's amortization costs and other comprehensive income measured by fair value, referring to changes in external credit ratings according to the international credit ratings service (Moody's) as a quantitative indicator. Also, the expected credit loss uses external credit ratings and Moody's periodic calculations of default probability and loss given default as references. As international credit ratings services have taken into account forward-looking information in assessing credit ratings, it is also appropriate for the Bank to consider forward-looking information when assessing relevant expected credit loss.

c) Credit risk avoidance or mitigation policy

i. Strengthen collaterals and other credits

The Bank has a series of measures for credit granting to reduce credit risks. One of the measures is to require collaterals from the borrowers. To secure a debt, the Bank manages and assess 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 shorten the repayment period, to demand immediate settlement or to offset the debts of the borrowers with their deposits in the Bank in order to reduce the credit risks.

There was no major change in the collateral policy of the Bank on the balance sheet date, and there was no significant change in the overall collateral quality.

The Bank closely monitors the value of collaterals of financial instruments and consider impairment on credit-impaired financial assets. Credit-impaired financial assets and collateral to mitigate potential loss were as follows:

	Cross Carrying Amount	**Allowance for Possible Losses**	**Total Exposure Amount (Amortized Cost)**	**Fair Value of Collateral**
Impaired financial assets				
Discount and loans	$ 19,588,630	$ 1,827,359	$ 17,761,271	$ 56,820,950

The total amount of financial assets that have been written off but have recourse action by the Bank was $597,213 thousand.

ii. Credit limit and the control of concentration of credit risk

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, monitor 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.

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:

Credit Risk Profile by Group or Industry	December 31			
	2018		2017	
	Amount	%	Amount	%
Natural person	$ 843,564,027	41	$ 819,375,254	41
Manufacturing	387,603,437	19	383,995,457	19

iii. Master netting arrangement

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 a counterparty's default.

d) Maximum exposures to credit risks

The maximum exposures to credit risks of assets on the consolidated balance sheets without consideration of guarantees or other credit enforcement instruments approximate the assets' carrying amounts.

The maximum exposures of financial instrument to credit risks which was not applicable to impairment is as follow:

	December 31, 2018
Financial assets at fair value through profit or loss - debt instrument	$ 2,561,635

The maximum exposures of off-balance sheet items to credit risks without consideration of guarantees or other credit enforcement instrument are stated as follows:

	December 31	
	2018	2017
Irrevocable loan commitments issued	$ 67,220,227	$ 93,831,572
Irrevocable credit card commitments	48,522,934	45,082,276
Letters of credit issued yet unused	19,554,443	18,727,577
Other guarantees	86,626,693	79,802,266

The Bank's 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.

Some financial assets held by the Bank, such as cash and cash equivalents, due from the Central Bank and call loans to other banks, call loans to security firms, financial assets at fair value through profit or loss, securities purchased under resell agreements 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, 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Impairment Recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Discounts, loans	$ 2,041,391,244	$ 2,960,372	$ 32,411,101	$ -	$ 2,076,762,717
Allowance for possible losses	(3,618,496)	(9,005)	(4,570,540)	-	(8,198,041)
Impairment recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	(18,033,152)	(18,033,152)
	$ 2,037,772,748	$ 2,951,367	$ 27,840,561	$ (18,033,152)	$ 2,050,531,524

	December 31, 2018					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Credit Impairment by Using Simplified Method	Impairment Recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Receivables	$ 15,673,348	$ 44,951	$ 154,180	$ 3,270,952	$ -	$ 19,143,431
Allowance for possible losses	(46,043)	(11,458)	(36,154)	(514,986)	-	(608,641)
Impairment recognized under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	(105,414)	(105,414)
	$ 15,627,305	$ 33,493	$ 118,026	$ 2,755,966	$ (105,414)	$ 18,429,376

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

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

Items	December 31, 2017
Loans	
Secured	$ 1,409,387,398
Unsecured	566,940,954
Total	$ 1,976,328,352

c) Credit quality analysis of securities

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Investments in debt instruments at FVTOCI	$ 246,048,663	$ -	$ -	$ 246,048,663
Investments in debt instruments at amortized cost	$ 554,931,087	$ -	$ -	$ 554,931,087
Less: Allowance for possible losses	(48,280)	-	-	(48,280)
	$ 554,882,807	$ -	$ -	$ 554,882,807

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

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	-	-	-

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 rates, 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, evaluation, and measurement 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 Banks'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, 2018	December 31, 2017
Interest rate risk	Interest rate curve increased 100 basis points	$ (72,019)	$ (39,258)
	Interest rate curve fell 100 basis points	78,211	39,988
Exchange rate risk	US$/NT$, EUR/NT$ increased 3%	(319,033)	(195,579)
	US$/NT$, EUR/NT$ fell 3%	319,033	195,579
	Others (RMB, AUD etc.)/NT$ increased 5%	16,140	(9,514)
	Others (RMB, AUD etc.)/NT$ fell 5%	(16,140)	9,514
Equity security price risk	Equity security price increased by 15%	66,851	165,096
	Equity security price fell by 15%	(66,751)	(162,501)

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.

	December 31			
	2018		2017	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-earning assets				
Due from banks and other financial assets - due from banks	$ 37,825,166	2.60	$ 30,526,712	2.23
Due from the Central Bank	167,184,471	0.36	163,470,160	0.36
Call loans to banks and other financial assets - call loans to security firms	65,671,062	2.02	70,515,192	1.48
Financial assets mandatorily classified as at fair value through profit or loss	7,260,659	0.71	12,765,648	0.63
Financial assets at fair value through other comprehensive income	235,733,976	1.97	-	-
Investments in debt instruments at amortized cost	520,374,185	0.85	-	-
Securities purchased under resell agreements	86,695	0.47	610,384	0.32
Discounts and loans	2,073,393,711	2.06	1,970,325,763	2.01
Available-for-sale financial assets	-	-	136,654,032	1.92
Held-to-maturity financial assets	-	-	514,022,532	0.73
Debt instruments with no active market	-	-	81,465,943	2.31
Interest-bearing liabilities				
Due to the Central Bank and other banks	237,763,051	1.09	224,358,551	0.73
Financial liabilities designated as at fair value through profit or loss	12,068,071	4.69	12,120,592	4.50
Securities sold under repurchase agreements	10,130,301	0.27	10,337,481	0.23
Demand deposits	509,712,425	0.16	489,195,961	0.12
Savings - demand deposits	832,136,846	0.28	811,456,768	0.27
Time deposits	536,322,601	1.39	468,497,554	1.15
Time savings deposits	636,379,825	1.05	658,949,831	1.06
Treasury deposits	91,156,594	0.64	84,055,258	0.65
Negotiable certificates of deposits	36,917,476	0.62	5,392,127	0.35
Structured products	1,745,888	2.25	2,720,350	1.46
Bank debentures	57,090,685	1.40	70,144,247	1.34

The exchange rate risk is as follows:

December 31, 2018

(In Thousands)

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
USD	$ 10,871,696	30.7350	$ 334,141,582
RMB	13,363,480	4.4690	59,721,393
AUD	1,185,705	21.6550	25,676,436
EUR	280,392	35.1800	9,864,198
JPY	31,781,201	0.2774	8,816,105
HKD	1,899,701	3.9230	7,452,528
ZAR	1,782,296	2.1200	3,778,468
GBP	66,870	38.9000	2,601,239
KHR	199,256,927	0.0076	1,514,353
NZD	26,147	20.6300	539,418
SEK	45,460	3.4200	155,474
CAD	2,249	22.5800	50,791
SGD	1,801	22.4400	40,406
CHF	1,254	31.1650	39,070
THB	5,987	0.9525	5,702
PHP	2,846	0.5849	1,665
Investment accounted for using equity method			
EUR	56,554	35.1800	1,989,572
Financial liabilities			
USD	11,117,876	30.7350	341,707,917
RMB	14,057,062	4.4690	62,821,011
AUD	981,068	21.6550	21,245,032
JPY	50,111,918	0.2774	13,901,046
ZAR	3,549,060	2.1200	7,524,006
EUR	199,596	35.1800	7,021,777
HKD	1,209,520	3.9230	4,744,948
NZD	122,131	20.6300	2,519,567
GBP	44,302	38.9000	1,723,331
CAD	63,674	22.5800	1,437,760
CHF	14,478	31.1650	451,213
SEK	92,327	3.4200	315,759
SGD	8,508	22.4400	190,918
THB	11,604	0.9525	11,052
KHR	714,996	0.0076	5,434
PHP	1,993	0.5849	1,166
MYR	-	7.3930	2

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
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

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, TCB follows the relevant regulations issued by the Central Bank to estimate the liquidity reserves and calculates and controls daily the 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 27.17% and 24.49% in December 2018 and 2017, 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, 2018	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	$ 150,977,448	$ 51,880,753	$ 8,621,392	$ -	$ -	$ 211,479,593
Financial liabilities at fair value through profit or loss	-	-	-	-	12,294,000	12,294,000
Securities sold under repurchase agreements	5,173,426	2,719,554	1,584,396	124,765	-	9,602,141
Payables	31,403,675	2,473,878	5,394,582	2,437,105	1,709,136	43,418,376
Deposits and remittances	258,457,868	420,886,917	371,953,267	602,213,191	1,075,096,880	2,728,608,123
Bank debentures	-	-	-	1,000,000	54,000,000	55,000,000
Other items of cash outflow on maturity	2,264,251	19,562	1,670	861,149	20,342	3,166,974

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

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, 2018 and 2017 must be repaid soon, the capital expenditure will be increased by $1,409,026,262 thousand and $1,382,433,220 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, 2018	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						
Interest	$ (317)	$ (209)	$ (1,062)	$ (2,324)	$ (2,759)	$ (6,671)

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)

b) Derivative financial liabilities to be settled at gross amounts

December 31, 2018	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	$ 73,424,124	$ 57,472,834	$ 48,578,031	$ 13,840,882	$ 907,428	$ 194,223,299
Cash inflow	73,721,292	57,705,688	48,779,153	13,901,740	960,294	195,068,167
Interest derivatives						
Cash outflow	-	-	726,620	244,294	20,988,364	21,959,278
Cash inflow	-	-	749,467	438,134	27,631,514	28,819,115
Total cash outflow	73,424,124	57,472,834	49,304,651	14,085,176	21,895,792	216,182,577
Total cash inflow	73,721,292	57,705,688	49,528,620	14,339,874	28,591,808	223,887,282
Net cash flow	297,168	232,854	223,969	254,698	6,696,016	7,704,705

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)

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, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 1,561,477	$ 3,408,721	$ 7,688,341	$ 12,998,339	$ 41,563,349	$ 67,220,227
Irrevocable credit card commitments	592,453	78,113	878,661	2,455,939	44,517,768	48,522,934
Letters of credit issued yet unused	4,534,271	11,233,039	2,345,089	495,742	946,302	19,554,443
Other guarantees	6,245,643	3,563,123	5,816,588	6,304,614	64,696,725	86,626,693

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

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, 2018					
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	$ 1,538,793	$ 1,538,773	$ 1,538,793	$ 1,538,773	$ 20
Financial assets at FVTOCI - securities sold under repurchase agreements	7,681,381	8,063,368	7,681,381	8,063,368	(381,987)

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)

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, 2018

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	$ 3,521,000	$ -	$ 3,521,000	$ (3,521,000)	$ -	$ -

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	$ 9,602,141	$ -	$ 9,602,141	$ (9,220,174)	$ -	$ 381,967

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

41. 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:

(In Thousands of New Taiwan Dollars, %)

Items		Year	December 31, 2018 Standalone	December 31, 2018 Consolidated
Eligible capital	Common equity		194,470,387	195,037,708
	Other Tier 1 capital		3,140,831	3,638,224
	Tier 2 capital		52,362,415	53,392,127
	Eligible capital		249,973,633	252,068,059
Risk-weighted assets	Credit risk	Standardized approach	1,744,538,363	1,747,332,385
		Internal ratings based approach	-	-
		Securitization	5,234,468	5,234,468
	Operational risk	Basic indicator approach	-	-
		Standardized approach/alternative standardized approach	72,451,460	72,588,477
		Advanced measurement approach	-	-
	Market risk	Standardized approach	17,827,638	17,834,038
		Internal model approach	-	-
	Risk-weighted assets		1,840,051,929	1,842,989,368
Capital adequacy ratio			13.59	13.68
Ratio of the common equity to risk-weighted assets			10.57	10.58
Ratio of Tier 1 capital to risk-weighted assets			10.74	10.78
Ratio of leverage			5.71	5.73

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

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.

42. 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, 2018			December 31, 2017		
	Industry of Group Enterprise (Note 2)	Total Amount of Credit Endorsement or Other Transactions (Note 3)	Percentage of Bank's Equity	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	$ 40,485,293	19.30	Group A Railway transportation	$ 41,951,293	20.95
2	Group B Harbor services	16,327,744	7.78	Group C Petroleum and coal products manufacturing	18,052,998	9.01
3	Group C Petroleum and coal products manufacturing	14,983,456	7.14	Group B Harbor services	17,960,733	8.97
4	Group D Computers and computing peripheral equipment manufacturing	12,069,134	5.75	Group D Computers and computing peripheral equipment manufacturing	11,823,061	5.90
5	Group E Cotton and textile	11,403,628	5.44	Group K Cotton and textile	11,454,110	5.72
6	Group F Real estate development	11,107,510	5.30	Group E Cotton and textile	11,368,738	5.68
7	Group G Shipping agency	9,956,059	4.75	Group G Shipping agency	10,182,036	5.08
8	Group H Computers manufacturing	9,538,253	4.55	Group J Real estate development	9,809,249	4.90
9	Group I Iron and steel smelting	8,891,512	4.24	Group I Iron and steel smelting	9,389,840	4.69
10	Group J Real estate development	8,208,265	3.91	Group F Real estate development	8,049,397	4.02

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, 2018

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 2,234,040,644	$ 99,477,577	$ 17,281,989	$ 282,450,708	$ 2,633,250,918
Interest rate-sensitive liabilities	927,589,418	1,338,861,650	108,225,728	49,652,666	2,424,329,462
Interest rate sensitivity gap	1,306,451,226	(1,239,384,073)	(90,943,739)	232,798,042	208,921,456
Net worth					188,701,358
Ratio of interest rate-sensitive assets to liabilities					108.62
Ratio of interest rate sensitivity gap to net worth					110.72

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

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, 2018

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 12,740,523	$ 455,543	$ 189,696	$ 1,530,735	$ 14,916,497
Interest rate-sensitive liabilities	14,198,638	1,019,242	766,580	-	15,984,460
Interest rate sensitivity gap	(1,458,115)	(563,699)	(576,884)	1,530,735	(1,067,963)
Net worth					684,330
Ratio of interest rate-sensitive assets to liabilities					93.32
Ratio of interest rate sensitivity gap to net worth					(156.06)

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)

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, 2018	December 31, 2017
Return on total assets	Before income tax	0.52	0.47
	After income tax	0.46	0.41
Return on equity	Before income tax	8.27	7.62
	After income tax	7.20	6.61
Net income ratio		33.30	30.45

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, 2018

(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	$ 3,082,215,120	$ 436,034,109	$ 367,537,346	$ 173,545,077	$ 262,960,766	$ 285,566,636	$ 1,556,571,186
Main capital outflow on maturity	3,556,701,553	234,259,197	172,973,297	470,507,744	417,718,511	653,383,898	1,607,858,906
Gap	(474,486,433)	201,774,912	194,564,049	(296,962,667)	(154,757,745)	(367,817,262)	(51,287,720)

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)

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

Maturity Analysis of Assets and Liabilities
December 31, 2018

(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	$ 24,362,709	$ 7,741,135	$ 5,073,454	$ 2,570,755	$ 1,700,446	$ 7,276,919
Main capital outflow on maturity	28,430,760	11,966,865	7,133,317	2,734,534	3,387,928	3,208,116
Gap	(4,068,051)	(4,225,730)	(2,059,863)	(163,779)	(1,687,482)	4,068,803

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

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

43. 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, 2018 and 2017

Trust Assets	2018	2017	Trust Liabilities	2018	2017
Cash in banks	$ 5,038,852	$ 3,319,755	Payables		
Short-term investments			Accrued expense	$ 2,661	$ 2,785
Mutual funds	168,601,296	161,531,937	Others	2,294	2,290
Stocks	1,045,199	1,294,138	Mutual funds payable	200	-
Bonds	3,976,219	2,698,757		5,155	5,075
Structured products	165,591	243,571	Accounts payable on		
	173,788,305	165,768,403	securities under custody	115,683,741	112,915,054
Securities lending	278,417	304,154	Trust capital		
Receivables	5,669	6,337	Cash	176,013,465	166,811,638
Real estate			Real estate	73,184,329	62,103,419
Land	56,391,821	49,423,289	Leasehold	60,940	-
Buildings	8,523	8,523	Securities	1,324,259	1,443,645
Construction in process	15,137,667	11,784,267	Others	119,350	110,521
	71,538,011	61,216,079		250,702,343	230,469,223
Intangible assets			Reserves and retained		
Leasehold	60,940	-	earnings		
Securities under custody	115,683,741	112,915,054	Net income	11,725	158,119
			Appropriation	(248,802)	(200,645)
			Retained earnings	239,773	182,956
				2,696	140,430
Total	$ 366,393,935	$ 343,529,782	Total	$ 366,393,935	$ 343,529,782

Trust Property List
December 31, 2018 and 2017

Investment Items	2018	2017
Cash in banks	$ 5,038,852	$ 3,319,755
Short-term investments		
Mutual funds	168,601,296	161,531,937
Stocks	1,045,199	1,294,138
Bonds	3,976,219	2,698,757
Structured products	165,591	243,571
Securities lending	278,417	304,154
Receivables		
Accrued interest	3,857	4,972
Securities sold	200	-
Others	1,612	1,365
Real estate		
Land	56,391,821	49,423,289
Buildings	8,523	8,523
Construction in process	15,137,667	11,784,267
Intangible Assets		
Leasehold	60,940	-
Securities under custody	115,683,741	112,915,054
Total	$ 366,393,935	$ 343,529,782

Statements of Income on Trust Accounts
For the Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Interest revenue	$ 5,287	$ 6,221
Cash dividends	61,018	54,478
Realized gain on investment - stocks	7,462	12,205
Unrealized gain on investment - stocks	145,510	188,628
Realized gain on investment - mutual funds	51	299
Rentals	5,316	15,198
Others	326	120
Total revenues	224,970	277,149
Expenses		
Management fees	3,923	6,434
Taxes	17	-
Service charge	269	483
Postage	26	26
Unrealized loss on investment - stocks	207,674	110,305
Realized loss on investment - mutual funds	308	669
Others	1,028	1,113
Total expenses	213,245	119,030
Income before income tax	11,725	158,119
Income tax expense	-	-
Net income	$ 11,725	$ 158,119

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

44. 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, 2018 and 2017, the accrued receivables were $3,168 thousand and $3,144 thousand (part of receivables), respectively. The revenues from cross-selling transactions were $11,428 thousand and $8,394 thousand (part of other noninterest gains, net) in 2018 and 2017, 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, 2018 and 2017, the accrued receivables were $2,541 thousand and $2,499 thousand, respectively (part of receivables). The revenues from cross-selling transactions were $38,106 thousand and $36,295 thousand (part of service fee income, net) in 2018 and 2017, respectively.

45. NON-CASH FINANCING ACTIVITIES

Undistributed cash dividends approved by stockholders' meetings are both $170,524 thousand as of December 31, 2018 and 2017, respectively.

46. 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.

47. 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: None.

10) Financial asset securitization: None.

11) Other significant transactions which may affect the decisions of users of financial reports: Note 46 to the financial statements.

12) Percentage share in investees and related information: Table 3 (attached).

13) Derivative transactions: The Bank - Notes 8, 37 and 40 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 4 (attached).

TABLE 1

TAIWAN COOPERATIVE BANK, LTD.

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

Period			December 31, 2018					December 31, 2017				
Items			Nonperforming Loans (Note 1)	Nonperforming Loans (Note 1)	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		$ 2,722,745	$683,915,923	0.40	$ 8,618,399	316.53	$ 3,080,261	$ 680,301,703	0.45	$ 7,827,645	254.12
	Unsecured		626,102	573,650,166	0.11	6,032,215	963.46	1,543,799	554,801,261	0.28	6,864,342	444.64
Consumer banking	Housing mortgage (Note 4)		1,380,856	522,178,512	0.26	7,927,892	574.13	1,196,452	499,209,397	0.24	7,574,524	633.08
	Cash card		-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)		16,848	12,430,337	0.14	163,431	970.03	42,159	12,905,632	0.33	106,622	252.90
	Other (Note 6)	Secured	1,076,250	275,504,816	0.39	3,333,725	309.75	940,017	263,507,882	0.36	2,557,468	272.07
		Unsecured	27,428	9,082,963	0.30	155,531	567.05	31,656	8,550,570	0.37	109,908	347.19
Loan			5,850,229	2,076,762,717	0.28	26,231,193	448.38	6,834,344	2,019,276,445	0.34	25,040,509	366.39
			Nonperforming Receivables (Note 1)	Nonperforming Receivables (Note 1)	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			6,983	3,662,097	0.19	59,173	847.39	8,482	3,224,127	0.26	53,334	628.79
Accounts receivable factored without recourse (Note 7)			-	456,346	-	10,988	-	-	1,843,856	-	20,556	-
Amounts of executed contracts on negotiated debts not reported as nonperforming loans (Note 8)			946					1,426				
Amounts of executed contracts on negotiated debts not reported as nonperforming receivables (Note 8)			7,008					9,276				
Amounts of executed debt-restructuring projects not reported as nonperforming loans (Note 9)			12,478					15,968				
Amounts of executed debt-restructuring projects not reported as nonperforming receivables (Note 9)			46,043					46,319				

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, 2018
(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	$ 1,297,856 (Note)	-	$ -	-	$ -	$ -

Note: Receivable - consolidated tax return.

TAIWAN COOPERATIVE BANK, LTD.

PERCENTAGE SHARE IN INVESTEES AND RELATED INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018
(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	$ 1,989,572	$ 55,655	2,639,659	-	2,639,659	90.02	
Taiwan Asset Management Co., Ltd.	Taipei City	Acquisition of delinquent loans	17.03	1,513,800	145,630	180,000,000	-	180,000,000	17.03	
Financial Information Service Co., Ltd.	Taipei City	Information service	2.98	408,237	40,036	15,563,745	-	15,563,745	2.98	
Taiwan Financial Asset Service Co., Ltd.	Taipei City	Property auction	5.88	65,300	700	10,000,000	-	10,000,000	5.88	
Taiwan Depository & Clearing Co., Ltd.	Taipei City	Custody of securities and short-term bills	0.84	251,208	9,830	3,714,799	-	3,714,799	1.00	
Taiwan Futures Exchange Co., Ltd.	Taipei City	Futures clearing	1.75	475,036	20,132	6,055,451	-	6,055,451	1.81	
Financial eSolution Co., Ltd.	Taipei City	Office machine wholesaling	9.92	25,961	-	2,181,617	-	2,181,617	9.92	
Taipei Forex Inc.	Taipei City	Foreign exchange brokering	7.06	29,722	6,300	1,400,000	-	1,400,000	7.06	
Sunny Asset Management Co., Ltd.	Taipei City	Acquisition of delinquent loans	0.72	414	56	43,088	-	43,088	0.72	
Taiwan Mobile Payment Company	Taipei City	IT software service	4.00	18,048	-	2,400,000	-	2,400,000	4.00	
Taiwania Capital Buffalo II Bioventures, LP	Taipei City	Venture capital	8.47 (Note 3)	242,525	(7,475)	(Note 3)	-	(Note 3)	8.47 (Note 3)	
Non-finance related business										
United Real Estate Management Co., Ltd.	Taipei City	Real estate appraisal	30.00	127,094	11,346	10,115,630	-	10,115,630	30.00	
Taiwan Power Company	Taipei City	Power development and supply	0.24	611,137	-	78,754,764	-	78,754,764	0.24	
Taiwan Sugar Company	Tainan City	Sugar manufacturing	0.08	296,320	4,234	4,233,752	-	4,233,752	0.08	
Lien-An Service Co., Ltd.	Taipei City	Leasing	5.00	2,125	125	125,000	-	125,000	5.00	
Taipei Rapid Transit Co., Ltd.	Taipei City	Public transportation	-	145	14	14,286	-	14,286	-	
China Daily News	Tainan City	Newspaper publishing	0.04	54	-	16,768	-	16,768	0.04	
Taipei Financial Center Corp.	Taipei City	Residence and buildings lease construction and development	1.63	539,760	31,296	24,000,000	-	24,000,000	1.63	
Taiwan Urban Regeneration & Financial Services Co., Ltd.	Taipei City		5.00	22,500	-	7,500,000	-	7,500,000	15.00	
Taiwan High Speed Rail Cooperation	Taipei City	High speed railroad transportation business	0.95	1,628,315	39,975	53,300,000	-	53,300,000	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 Financial Reporting Standards No. 9 - "Financial Instruments."

Note 3: The ending percentage share of the Bank of Taiwania Capital Buffalo II Bioventures, LP (the Bank's of fund contributed to the total amount of fund of the partnership) is stated as disclosed.

TAIWAN COOPERATIVE BANK, LTD.

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Investee Net Income (Loss)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Investment Earnings as of December 31, 2018
					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)	$ 87,087	100	$ 87,087	$ 5,662,253	$ -
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)	(72,367)	100	(72,367)	3,063,947	-
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)	52,065	100	52,065	3,128,748	-
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)	30,141	100	30,141	2,715,384	-

Accumulated Investment in Mainland China as of December 31, 2018	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)	$ 125,972,823

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.