

**Far Eastern International Bank Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
Far Eastern International Bank Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Far Eastern International Bank Ltd. (the "Bank") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China (FSC).

Basis for Opinion

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank and its subsidiaries in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters related to the Bank and its subsidiaries' consolidated financial statements for the year ended December 31, 2018 for the Bank and its subsidiaries, which are described as follows:

Allowance for Expected Credit Losses on Loans and Receivables

As of December 31, 2018, the balances of loans and receivables in the aggregate amounted to \$401,172,495 thousand, accounted for 64% of the total assets of the consolidated financial statements; an amount that is deemed to be significant to the consolidated financial statements. To the allowance for expected credit losses on loans and receivables, the Bank has assessed according to IFRS 9 and comply with relevant regulations issued

by authorities, whichever is higher. As the assessment on the impairment of loans and accounts receivables involved the management's critical judgments in accounting estimation and the underlying assumption, related disclosures refer to Notes 5 to the consolidated financial statements, we deemed to the allowance for expected credit losses on loans and receivables was a key audit matter.

Refer to Notes 4, 5, 13, 14 and 45 to the consolidated financial statements for disclosures related to impairment on loans and receivables.

In response to the abovementioned key audit matter, the audit procedures we performed are as follows:

1. Understand and perform tests on the Bank's internal controls relevant to loans and receivables impairment assessment;
2. Identify the potential risk of loans and receivables customers from public information, and confirm that whether to include in the appropriate assessment stage;
3. Verify whether the methodology, main assumptions and parameters (consider the probability of default, probability of loss given default and exposure at default on forward-looking information) adopted by the impairment model of expected credit losses adequately reflect the actual position and compliance with IFRS 9, and recalculate the amount of impairment; and
4. Sample and review credit files to evaluate whether the loans and receivables are reasonably categorized per regulatory stipulation and recalculate for the correctness of the allowance.

Evaluation of Impairment on Intangible Asset - Operation Rights

As of December 31, 2018, the balance of intangible asset - operating rights amounted to \$1,538,210 thousand. The amount is the cost for the Bank to acquire business from other financial institutions, acquisition cost that results from the allocation of the fair value to corresponding assets and liabilities. According to IAS 36, management should evaluate the impairment on intangible asset - operating rights annually or whenever there is an indication that the asset may be impaired. For the assessment in determining the value in use of operating rights, the management requires an estimate of future cash flow of relevant cash-generating unit. As its assessment involves the management's critical judgments and estimates, the impairment of intangible asset - operating rights is deemed to be a key audit matter.

Refer to Notes 4, 5 and 21 to the consolidated financial statements for disclosures related to impairment on intangible asset.

In response to the abovementioned key audit matter, we have consulted with our internal financial experts for their help to perform audit procedures as follows:

1. Evaluate and verify the qualification of the valuation personnel employed by the management in terms of their professional experience, competency, and independence.
2. Evaluate the reasonableness of critical parameters (such as future cash-flow forecast, discount rate, and sustainable growth rate) and perform sensitivity analysis.
3. Verify the raw data adopted (including the average amounts, the growth rates, interest rates, etc., of deposits and loans) to evaluate its accuracy and completeness.

Other Matter

We have also audited the parent company only financial statements of the Bank as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), interpretations of IAS (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank and its subsidiaries' 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 and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Bank and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and its subsidiaries' internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Bank and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Bank and its subsidiaries audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partners on the audit resulting in this independent auditors' report are Shih-Tsung Wu and Chen-Hsiu Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2019

Notice to Readers

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

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

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

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

ASSETS	2018		2017	
	Amount	%	Amount	%
Cash and cash equivalents (Note 6)	\$ 10,023,920	2	\$ 8,592,901	2
Due from the central bank and other banks (Notes 7 and 38)	27,543,032	4	22,351,083	4
Financial assets at fair value through profit or loss (Notes 4, 5, 8 and 43)	46,507,501	7	30,208,333	5
Financial assets at fair value through other comprehensive income (Notes 4, 5, 9, 11, 29, 39 and 43)	119,779,052	19	-	-
Investment in debt instruments at amortized cost, net (Notes 4, 5, 10, 11 and 43)	2,588,654	-	-	-
Securities purchased under resale agreements (Notes 4, 12 and 38)	8,289,275	1	11,071,393	2
Receivables, net (Notes 4, 5, 13, 14, 38 and 43)	21,484,377	4	22,750,869	4
Current tax assets (Note 4)	93	-	7,372	-
Discounts and loans, net (Notes 4, 5, 14, 38 and 43)	379,688,118	61	351,056,762	61
Available-for-sale financial assets (Notes 4, 15, 29, 39 and 43)	-	-	109,631,578	19
Held-to-maturity financial assets (Notes 4, 16 and 43)	-	-	2,135,246	-
Investment accounted for using equity method (Notes 4, 17 and 29)	1,776,350	-	1,774,066	-
Debt investments with no active market (Notes 4, 18 and 43)	-	-	6,677,076	1
Other financial assets, net (Notes 4, 19, 39 and 43)	4,695,376	1	3,768,480	1
Property and equipment, net (Notes 4 and 20)	2,732,431	1	2,889,392	1
Intangible assets, net (Notes 4, 5 and 21)	1,699,602	-	1,725,085	-
Deferred tax assets (Notes 4 and 36)	372,184	-	584,502	-
Other assets	<u>171,185</u>	<u>-</u>	<u>200,142</u>	<u>-</u>
TOTAL	<u>\$ 627,351,150</u>	<u>100</u>	<u>\$ 575,424,280</u>	<u>100</u>
LIABILITIES AND EQUITY				
LIABILITIES				
Due to the central bank and other banks (Note 22)	\$ 15,726,723	3	\$ 6,960,774	1
Financial liabilities at fair value through profit or loss (Notes 4, 5, 8, 26, 38 and 43)	2,752,479	1	4,319,121	1
Securities sold under repurchase agreements (Notes 4 and 23)	14,665,794	2	12,921,364	3
Payables (Note 24)	7,265,222	1	6,488,285	1
Current tax liabilities (Note 4)	201,032	-	254,446	-
Deposits and remittances (Notes 25, 38 and 43)	508,407,972	81	472,392,183	82
Bank debentures (Notes 8, 26 and 43)	18,001,900	3	20,216,664	4
Principal received on structured notes	12,479,170	2	6,482,513	1
Other miscellaneous financial liabilities	1,436,104	-	934,262	-
Provisions (Notes 4, 27 and 38)	1,194,774	-	1,127,116	-
Other liabilities	<u>475,240</u>	<u>-</u>	<u>540,880</u>	<u>-</u>
Total liabilities	<u>582,606,410</u>	<u>93</u>	<u>532,637,608</u>	<u>93</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK (Notes 4, 9, 15, 17 and 30)				
Share capital	<u>32,691,859</u>	<u>5</u>	<u>31,829,286</u>	<u>5</u>
Capital surplus	<u>456,426</u>	<u>-</u>	<u>456,426</u>	<u>-</u>
Retained earnings				
Legal reserve	7,400,808	1	6,544,643	1
Special reserve	36,411	-	250,703	-
Unappropriated earnings	<u>4,211,908</u>	<u>1</u>	<u>3,691,412</u>	<u>1</u>
Total retained earnings	<u>11,649,127</u>	<u>2</u>	<u>10,486,758</u>	<u>2</u>
Other equity	<u>(52,672)</u>	<u>-</u>	<u>14,202</u>	<u>-</u>
Total equity	<u>44,744,740</u>	<u>7</u>	<u>42,786,672</u>	<u>7</u>
TOTAL	<u>\$ 627,351,150</u>	<u>100</u>	<u>\$ 575,424,280</u>	<u>100</u>

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

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

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

	2018		2017		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUES (Notes 4, 30 and 38)	\$ 11,316,237	101	\$ 10,057,931	97	13
INTEREST EXPENSES (Notes 4, 30 and 38)	<u>5,635,434</u>	<u>50</u>	<u>4,653,057</u>	<u>45</u>	21
NET INTERESTS	<u>5,680,803</u>	<u>51</u>	<u>5,404,874</u>	<u>52</u>	5
NET REVENUES OTHER THAN INTEREST					
Net service fee income (Notes 4, 31 and 38)	3,130,773	28	3,129,200	30	-
Net gains on financial assets and liabilities at fair value through profit or loss (Notes 4, 5, 8, 32, 38 and 43)	1,505,960	13	1,732,217	17	(13)
Net realized gains on available-for-sale financial assets (Notes 4 and 29)	-	-	86,718	1	(100)
Net realized gains on financial assets at fair value through other comprehensive income (Notes 4 and 29)	138,491	1	-	-	-
Net foreign exchange gains (loss) (Note 4)	263,801	2	(293,168)	(3)	190
Shares of profit of associates for using equity method (Notes 4 and 17)	92,467	1	103,337	1	(11)
Gains on disposal of property (Note 4)	174,804	2	45	-	388,353
Others (Note 19)	<u>231,178</u>	<u>2</u>	<u>233,906</u>	<u>2</u>	(1)
Total net revenues other than interest	<u>5,537,474</u>	<u>49</u>	<u>4,992,255</u>	<u>48</u>	11
CONSOLIDATED NET REVENUES	<u>11,218,277</u>	<u>100</u>	<u>10,397,129</u>	<u>100</u>	8
PROVISION FOR LOSSES ON BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE (Notes 4, 14 and 38)	<u>514,803</u>	<u>5</u>	<u>731,847</u>	<u>7</u>	(30)

(Continued)

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2018		2017		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
OPERATING EXPENSES					
Employee benefits expense (Notes 4, 28, 33 and 38)	\$ 3,838,158	34	\$ 3,667,799	35	5
Depreciation and amortization (Notes 4 and 34)	250,039	2	248,142	3	1
Other general and administrative expenses (Notes 35 and 38)	<u>2,546,798</u>	<u>23</u>	<u>2,481,697</u>	<u>24</u>	3
Total operating expenses	<u>6,634,995</u>	<u>59</u>	<u>6,397,638</u>	<u>62</u>	4
INCOME BEFORE INCOME TAX	4,068,479	36	3,267,644	31	25
INCOME TAX EXPENSE (Notes 4, 5 and 36)	<u>544,278</u>	<u>5</u>	<u>413,761</u>	<u>4</u>	32
NET INCOME FOR THE YEAR	<u>3,524,201</u>	<u>31</u>	<u>2,853,883</u>	<u>27</u>	23
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 9, 11, 15, 17, 29 and 36)					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans	(46,657)	(1)	55,828	1	(184)
Losses on valuation of investments in equity instruments at fair value through other comprehensive income	(37,126)	-	-	-	-
Share of other comprehensive loss of associates for using equity method	(4,832)	-	(414)	-	(1,067)
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>23,181</u>	<u>-</u>	<u>(9,491)</u>	<u>-</u>	344
	<u>(65,434)</u>	<u>(1)</u>	<u>45,923</u>	<u>1</u>	(242)

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FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2018		2017		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	\$ 60,367	1	\$ (128,795)	(1)	147
Unrealized gain on available-for-sale financial assets	-	-	357,804	3	(100)
Share of other comprehensive income of associates for using equity method	(17,788)	-	9,528	-	(287)
Losses on valuation of investments in debt instruments at fair value through other comprehensive income	(308,014)	(3)	-	-	-
Gains on reversal of investments in debt instruments at fair value through other comprehensive income	(929)	-	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 37)	<u>2,103</u> <u>(264,261)</u>	<u>-</u> <u>(2)</u>	<u>4,226</u> <u>242,763</u>	<u>-</u> <u>2</u>	(50) (209)
Other comprehensive income (loss) for the year	<u>(329,695)</u>	<u>(3)</u>	<u>288,686</u>	<u>3</u>	(214)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,194,506</u>	<u>28</u>	<u>\$ 3,142,569</u>	<u>30</u>	2
NET INCOME ATTRIBUTABLE TO: Owners of the Bank	<u>\$ 3,524,201</u>	<u>31</u>	<u>\$ 2,853,883</u>	<u>27</u>	23
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: Owners of the Bank	<u>\$ 3,194,506</u>	<u>28</u>	<u>\$ 3,142,569</u>	<u>30</u>	2
EARNINGS PER SHARE (Note 37)					
Basic	<u>\$1.08</u>		<u>\$0.87</u>		
Diluted	<u>\$1.07</u>		<u>\$0.84</u>		

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

(Concluded)

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

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

	Share Capital (Note 30)	Capital Surplus (Note 30)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations (Note 4)	Unrealized Loss on Available-for- sale Financial Assets (Notes 4, 13, 15 and 30)	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income(Notes 4, 15 and 29)	Total Equity
BALANCE AT JANUARY 1, 2017	<u>\$ 31,113,672</u>	<u>\$ 456,426</u>	<u>\$ 5,571,477</u>	<u>\$ 121,028</u>	<u>\$ 3,916,835</u>	<u>\$ 115,916</u>	<u>\$ (344,477)</u>	<u>\$ -</u>	<u>\$ 40,950,877</u>
Appropriation of the 2016 earnings									
Legal reserve	-	-	973,166	-	(973,166)	-	-	-	-
Special reserve	-	-	-	129,675	(129,675)	-	-	-	-
Cash dividends - NT\$0.420 dollars per share	-	-	-	-	(1,306,774)	-	-	-	(1,306,774)
Stock dividends - NT\$0.230 dollars per share	<u>715,614</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(715,614)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>715,614</u>	<u>-</u>	<u>973,166</u>	<u>129,675</u>	<u>(3,125,229)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,306,774)</u>
Net income for the year ended December 31, 2017	-	-	-	-	2,853,883	-	-	-	2,853,883
Other comprehensive income (loss) for the year ended December 31, 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,923</u>	<u>(124,569)</u>	<u>367,332</u>	<u>-</u>	<u>288,686</u>
Total comprehensive income (loss) for the year ended December 31, 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,899,806</u>	<u>(124,569)</u>	<u>367,332</u>	<u>-</u>	<u>3,142,569</u>
BALANCE AT DECEMBER 31, 2017	31,829,286	456,426	6,544,643	250,703	3,691,412	(8,653)	22,855	-	42,786,672
Effects of retrospective application	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,342)</u>	<u>-</u>	<u>(22,855)</u>	<u>196,065</u>	<u>160,868</u>
BALANCE AT JANUARY, 2018 AS APPLIED RETROSPECTIVELY	<u>31,829,286</u>	<u>456,426</u>	<u>6,544,643</u>	<u>250,703</u>	<u>3,679,070</u>	<u>(8,653)</u>	<u>-</u>	<u>196,065</u>	<u>42,947,540</u>
Appropriation of the 2017 earnings									
Legal reserve	-	-	856,165	-	(856,165)	-	-	-	-
Reversal of special reserves	-	-	-	(214,292)	214,292	-	-	-	-
Cash dividends - NT\$ 0.439 dollars per share	-	-	-	-	(1,397,306)	-	-	-	(1,397,306)
Stock dividends - NT\$ 0.271 dollars per share	<u>862,573</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(862,573)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>862,573</u>	<u>-</u>	<u>856,165</u>	<u>(214,292)</u>	<u>(2,901,752)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,397,306)</u>
Net income for the year ended December 31, 2018	-	-	-	-	3,524,201	-	-	-	3,524,201
Other comprehensive loss for the year ended December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,080)</u>	<u>62,470</u>	<u>-</u>	<u>(368,085)</u>	<u>(329,695)</u>
Total comprehensive income (loss) for the year ended December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,500,121</u>	<u>62,470</u>	<u>-</u>	<u>(368,085)</u>	<u>3,194,506</u>
Disposal of investments in equity instruments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(65,531)</u>	<u>-</u>	<u>-</u>	<u>65,531</u>	<u>-</u>
BALANCE AT DECEMBER 31, 2018	<u>\$ 32,691,859</u>	<u>\$ 456,426</u>	<u>\$ 7,400,808</u>	<u>\$ 36,411</u>	<u>\$ 4,211,908</u>	<u>\$ 53,817</u>	<u>\$ -</u>	<u>\$ (106,489)</u>	<u>\$ 44,744,740</u>

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

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 4,068,479	\$ 3,267,644
Adjustments for:		
Depreciation	222,608	220,196
Amortization	27,431	27,946
Provision for losses on bad debts expense, commitment and guarantee	973,684	1,215,343
Net valuation loss (gain) on financial assets and liabilities at fair value through profit or loss	220,958	(160,180)
Interest expenses	5,635,434	4,653,057
Interest revenues	(11,316,237)	(10,057,931)
Dividends revenue	(124,637)	(63,321)
Shares of profit from associates	(92,467)	(103,337)
Loss (gain) on disposal and retirement of property and equipment	(173,729)	2,939
Gain on disposal financial assets carried at cost	-	(1,490)
Unrealized net loss (gain) on foreign currency exchange	(222,021)	395,728
Other adjustments	(81,687)	(103,934)
Changes in operating assets and liabilities		
Decrease (increase) in due from the central bank and other banks	(1,135,766)	7,092,056
Decrease (increase) in financial assets at fair value through profit or loss	(6,101,228)	3,781,946
Increase in financial assets at fair value through other comprehensive income	(10,572,357)	-
Increase in investments in debt instruments at amortized cost	(385,871)	-
Decrease (increase) in receivables	2,061,824	(1,776,592)
Decrease (increase) in discounts and loans	(31,530,667)	551,765
Increase in available-for-sale financial assets	-	(30,236,113)
Decrease in held-to-maturity financial assets	-	306,249
Decrease in debt investments with no active market	-	919,160
Increase in due to the central bank and other banks	8,330,844	137,136
Decrease in financial liabilities at fair value through profit or loss	(1,566,648)	(3,635,415)
Increase in payables	516,816	456,277
Increase in deposits and remittances	34,057,100	25,778,208
Increase in principal received on structured products	6,177,186	1,543,857
Cash generated from (used in) operations	(1,010,951)	4,211,194
Interest received	11,236,728	9,933,372
Dividends received	124,637	63,321
Interest paid	(5,461,669)	(4,338,543)
Income tax paid	(341,818)	(486,615)
Net cash generated from operating activities	4,546,927	9,382,729

(Continued)

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

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

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets carried at cost	\$ -	\$ (24,950)
Proceeds from disposal of financial assets carried at cost	-	51,496
Acquisition of investments accounted for using equity method	-	(28,980)
Acquisition of property and equipment	(280,235)	(224,462)
Proceeds from disposal of property and equipment	370,883	45
Increase in other financial assets	(1,156,229)	(29,336)
Decrease in other assets	45,389	19,794
Dividends received from subsidiaries and associates	<u>71,573</u>	<u>69,585</u>
Net cash used in investing activities	<u>(948,619)</u>	<u>(166,808)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of Euro Convertible Bond	(1,586,434)	-
Proceeds from the issuance of bank debentures	2,900,000	-
Redemption of bank debentures	(3,500,000)	(4,000,000)
Increase (decrease) in securities sold under repurchase agreements	2,030,599	(434,630)
Increase (decrease) in other financial liabilities	501,842	(339,255)
Increase (decrease) in other liabilities	(50,545)	30,605
Cash dividends	<u>(1,397,306)</u>	<u>(1,306,774)</u>
Net cash used in financing activities	<u>(1,101,844)</u>	<u>(6,050,054)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>77,201</u>	<u>53,011</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,573,665	3,218,878
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>31,536,618</u>	<u>28,317,740</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 34,110,283</u>	<u>\$ 31,536,618</u>

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets is as follows:

	December 31	
	2018	2017
Cash and cash equivalents in consolidated balance sheets	\$ 10,023,920	\$ 8,592,901
Due from the Central Bank and other banks that meet the IAS 7 definition of "cash and cash equivalents"	15,797,088	11,872,324
Securities purchased under resale agreements that meet the IAS 7 definition of "cash and cash equivalents"	<u>8,289,275</u>	<u>11,071,393</u>
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 34,110,283</u>	<u>\$ 31,536,618</u>

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

(Concluded)

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL REPORTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

1. GENERAL INFORMATION

Far Eastern International Bank Ltd. (the “Bank”) obtained its license on January 11, 1992 and started its business on April 11, 1992. The Bank (a) accepts deposits and extends loans and guarantees; (b) issues letters of credit, handles domestic and foreign remittances, and accepts commercial drafts; (c) invests in securities and acts as an agent for trading government bonds, corporate bonds and bank debentures; and (d) conducts relevant businesses that are authorized by the relevant authorities.

The operations of the Bank’s Trust Department include pecuniary trust, securities trust, real estate trust, creditor’s right of money or guarantee, movable property trust and ground right trust and related operations. These operations are regulated under the Banking Act and Trust Enterprise Act.

As of December 31, 2017, the Bank’s operating units included the Business Department, International Banking Department, Trust Department, Credit Card Department, Offshore Banking Unit (OBU), and 55 domestic branches, as well as an overseas branch in Hong Kong.

The Bank’s shares are listed on the Taiwan Stock Exchange. Global depositary receipts, which represent ownership of ordinary shares of the Bank, have been listed on the Luxembourg Stock Exchange since January 2014.

To integrate resources and produce maximum benefit from the business, the Bank absorbed and merged Far Eastern Life Insurance Agency Co., Ltd. (“FELIA”) and Far Eastern Property Insurance Agency Co., Ltd. (“FEPIA”) on February 6, 2017; the entities were wholly-owned subsidiaries of the Bank, and the merger did not have effect on the equity of the shareholders.

The Bank accepted generally all assets, liabilities and all rights and obligations of FELIA and FEPIA that were valid as of the merger date.

2. APPROVAL OF FINANCIAL REPORTS

The consolidated financial statements were approved by the Bank’s Board of Directors on March 26, 2019.

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

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

Except for IFRS 9 “Financial Instruments” and related amendments, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Bank accounting policies:

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.

1) Classification, measurement and impairment of financial assets

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

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

Financial Assets	Measurement Category		Carrying Amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Hybrid contract	Debt instruments with no active market	Mandatorily at fair value through profit or loss (i.e. FVTPL)	\$ 6,677,076	\$ 6,669,817
	Loans and receivables	Mandatorily at FVTPL	3,161,799	3,186,456
	Financial assets at FVTPL	Mandatorily at FVTPL	5,680,038	5,680,038
Derivatives	Financial assets at FVTPL	Mandatorily at FVTPL	3,061,166	3,061,166
Equity securities	Financial assets at FVTPL	Mandatorily at FVTPL	347,783	347,783
	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	709,311	709,311
Long-term equity investment	Financial assets measured at cost	FVTOCI- equity instruments	113,636	309,655
	Equity investments under the equity method	Equity investments under the equity method	1,774,066	1,778,071
Mutual funds	Financial assets at FVTPL	Mandatorily at FVTPL	50,473	50,473
	Available-for-sale	Mandatorily at FVTPL	49,400	49,400
Debt securities	Securities purchased under resale agreements	Securities purchased under resale agreements	11,071,393	11,071,268
	Financial assets at FVTPL	Mandatorily at FVTPL	21,068,873	21,068,873
	Available-for-sale	FVTOCI - debt instruments	108,872,867	108,872,867
	Held-to-maturity	Debt instruments at amortized cost	2,135,246	2,134,976
Others	Refundable deposits	Refundable deposits	2,312,331	2,311,735
Loan commitment provision	Provision	Provision	1,127,116	1,182,684

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>FVTPL</u>	\$ 30,208,333						
Add: Reclassification from available-for-sale (IAS 39)							
Required reclassification	-	\$ 49,400	\$ -		\$ (600)	\$ 600	c)
Add: Reclassification from investments with no active market (IAS 39)	-	6,677,076	(7,259)		(7,259)	-	e)
Add: Reclassification from loans and receivables (IAS 39)							
Required reclassification	-	3,161,799	24,657		24,657	-	f)
	<u>30,208,333</u>	<u>9,888,275</u>	<u>17,398</u>	\$ 40,114,006	<u>16,798</u>	<u>600</u>	
<u>FVTOCI</u>							
Debt instruments	-						
Add: Reclassification from available-for-sale (IAS 39)	-	108,872,867	-		(5,247)	5,247	b)
Equity instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	709,311	-		-	-	a)
Add: Reclassification and remeasurement from financial assets measured at cost	-	113,636	196,019		37,536	158,483	a)
	-	109,695,814	196,019	109,891,833	32,298	163,730	
Debt instruments at amortized cost	-						
Add: Reclassification from held-to-maturity (IAS 39)	-	2,135,246	(270)		(270)	-	d)
	-	2,135,246	(270)	2,134,976	(270)	-	
Discounts and loans	351,056,762						
Less: Reclassification to FVTPL (IFRS 9)	-	(3,161,799)	-				f)
	<u>351,056,762</u>	<u>(3,161,799)</u>	<u>-</u>	347,894,963	-	-	
Equity investments under the equity method	1,774,066						
Add: Remeasure the equity investments under the equity method (IAS 39)	-	-	4,010		(4,870)	8,880	g)
	<u>1,774,066</u>	<u>-</u>	<u>4,010</u>	1,778,076	<u>(4,870)</u>	<u>8,880</u>	
Securities purchased under resale agreements	11,071,393						
Less: Remeasure the securities purchased under resale agreements (IAS 39)	-	-	(125)		(125)	-	h)
	<u>11,071,393</u>	<u>-</u>	<u>(125)</u>	11,071,268	<u>(125)</u>	<u>-</u>	
Other financial assets	3,667,760						
Less: Remeasure the refundable deposits (IAS 39)	-	-	(596)		(596)	-	h)
Less: Reclassification to FVTOCI - equity instruments (IFRS 9)	-	(113,636)	-		-	-	a)
	<u>3,667,760</u>	<u>(113,636)</u>	<u>(596)</u>	3,553,528	<u>(596)</u>	<u>-</u>	
Assets	<u>397,778,314</u>	<u>118,443,900</u>	<u>216,436</u>	<u>516,438,650</u>	<u>43,226</u>	<u>173,210</u>	
Provision	1,127,116						
Less: Remeasure the provision (IAS 39)	-	-	55,568		(55,568)	-	i)
Liability	<u>1,127,116</u>	<u>-</u>	<u>55,568</u>	<u>1,182,684</u>	<u>(55,568)</u>	<u>-</u>	
	<u>\$ 396,651,198</u>	<u>\$ 118,443,900</u>	<u>\$ 160,868</u>	<u>\$ 515,255,966</u>	<u>\$ (12,342)</u>	<u>\$ 173,210</u>	

Note:

- a) Investments in equity securities previously classified as available-for-sale under IAS 39 at FVTOCI under IFRS 9, and investments in unlisted shares previously measured at cost under IAS 39 have been classified at FVTOCI under IFRS 9. The Bank previously recognized impairment loss on certain investments in equity securities under IAS 39, and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made and resulted in an increase of \$37,536 thousand in retained earnings and an increase of \$158,483 thousand in other equity - unrealized gain on financial assets at FVTOCI on January 1, 2018.
- b) Debt investments previously classified as available-for-sale under IAS 39 were classified as financial assets at FVTOCI with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding, and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised an increase in other equity - unrealized gain on financial assets at FVTOCI of \$5,247 thousand and a decrease in retained earnings of \$5,247 thousand on January 1, 2018.

- c) Mutual funds were classified as available-for-sale under IAS 39. The contractual cash flows at the time of original recognition which were not classified as equity instrument were not solely used to pay for the interest on the principal and the amount of the outstanding principal. Therefore, the investments are measured at FVTPL in accordance with IFRS 9. Due to the retrospective application, the Bank decreased the retained earnings and a increase in other equity of \$600 thousand on January 1, 2018.
- d) Bond investments were classified as held-to-maturity at amortized cost under IAS 39. The contractual cash flows at the time of original recognition were totally used to pay for the interest on the principal and the amount of the outstanding principal. And the Bank assessed that the business model is for the purpose of collecting contractual cash flow under the current facts and circumstances existing as of January 1, 2018; therefore, such investments are measured at amortized cost in accordance with IFRS 9, and the Bank assessed the expected credit loss. Due to the retrospective application, the Bank decreased the retained earnings on January 1, 2018 by \$270 thousand.
- e) Investments in debt instrument without active market were classified as financial assets at amortized cost under IAS 39 and were the master contract of the hybrid contract. The classification is determined in accordance with the entire hybrid contract under IFRS 9 and classified as financial assets at FVTPL. Due to the retrospective application, the Bank decreased the retained earnings on January 1, 2018 by \$7,259 thousand.
- f) Some of discounts and loans were classified as financial assets at amortized cost under IAS 39 and were the master contract of the hybrid contract. The classification is determined in accordance with the entire hybrid contract under IFRS 9 and classified as financial assets at FVTPL. Due to the retrospective application, the Bank increased the retained earnings on January 1, 2018 by \$24,657 thousand.
- g) Due to a retrospective application with associates under IFRS 9, the Bank comprised a decrease in retained earnings of \$4,870 thousand and an increase in other equity - unrealized gain and loss on financial assets at FVTPL of \$8,800 thousand on January 1, 2018.
- h) The assessment of expected credit loss with securities purchased under resale agreements and refundable deposits in accordance with IFRS 9 were same as investments in debt instrument. As a result of retrospective application, the Bank comprised a decrease in retained earnings of \$125 thousand and \$596 thousand separately on January 1, 2018.
- i) With the assessment of expected credit loss on irrevocable loan commitments under IFRS 9, the Bank comprised a decrease in retained earnings of \$55,568 thousand on January 1, 2018.

2) First-time application to reconciliation of the allowance for impairment under IFRS 9

The Bank reconcile the allowance for impairment from occurrence impairment model under IAS 39 to expected impairment model under IFRS 9. The reconciliation on January 1, 2018 is as followed:

Measurement Categories	Allowance for Impairment under IAS 39 and the Account under IAS 37	Reclassification	Remeasurements	Allowance for Impairment under IFRS 9
Loans and receivables (IAS 39)/ financial assets at amortized cost(IFRS 9)				
Receivables and other financial assets	\$ 1,006,495	\$ -	\$ 4,491	\$ 1,010,986
Discount and loans	1,642,959	-	34,688	1,677,647
Account the impairment with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans”	<u>3,390,655</u>	<u>(31,937)</u>	<u>(39,179)</u>	<u>3,319,539</u>
	<u>6,040,109</u>	<u>(31,937)</u>	<u>-</u>	<u>6,008,172</u>
Available for sale(IAS 39)/financial assets at FVTOCI(IFRS 9)	<u>-</u>	<u>-</u>	<u>5,247</u>	<u>5,247</u>
Financial Assets at cost(IAS 39)/ financial assets at FVTOCI (IFRS 9)	<u>37,536</u>	<u>-</u>	<u>(37,536)</u>	<u>-</u>
Held to maturity(IAS 39)/financial assets at amortized cost(IFRS 9)	<u>-</u>	<u>-</u>	<u>270</u>	<u>270</u>
Loan Commitments	<u>-</u>	<u>-</u>	<u>55,568</u>	<u>55,568</u>
Securities purchased under resell agreements	<u>-</u>	<u>-</u>	<u>125</u>	<u>125</u>
Refundable deposits	<u>-</u>	<u>-</u>	<u>596</u>	<u>596</u>
	<u>\$ 6,077,645</u>	<u>\$ (31,937)</u>	<u>\$ 24,270</u>	<u>\$ 6,069,978</u>

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

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

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

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

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

Except for the above IFRS 16 “Leases”, as of the date the financial statements were authorized for issue, the Bank is continuously assessing that the application of other standards and interpretations won’t have material impact on the Bank’s financial position and financial performance.

IFRS 16 “Leases”

IFRS 16 sets out the identification of lease agreements and the accounting standards for lessor and lessee that will supersede IAS 17“Leases”、 IFRIC 4“Determining Whether an Arrangement Contains a Lease” and a number of related interpretations.

Definition of leases

When applying IFRS 16 for the first time, the Bank will choose whether a contract signed or changed on or after January 1, 2019 will be assessed as a lease according to IFRS 16. Currently, lease contracts under IAS 17 and IFRIC 4 are not allowed to be reassessed, which should be processed in accordance with the transitional provisions of IFRS 16.

The Bank as lessee

When IFRS 16 is applied for the first time, except for the low-value target asset leases and short-term lease options, which are recognized under a straight-line basis, other leases will be recognized as the right-of-use assets and lease liabilities in the consolidated balance sheets. The consolidated comprehensive income statements will represent the depreciation expense of the right-of-use assets and the interest expense arising from the effective interest method on the lease liabilities separately. In the consolidated cash flow statements, the principal amount of lease liabilities is expressed as financing activities, and the interest payment portion is classified as operating activities. The identified right-of-use assets will be subject to an IAS 36 impairment assessment.

The Bank planned to adjust the cumulative effects of the retroactive application of IFRS 16 to the retained earnings on January 1, 2019, without restating the comparative information.

At present, in accordance with the agreement of IAS 17 for operating leases, the measurement of lease liabilities on January 1, 2019 will be discounted by the remaining lease payments at the increased borrowing rate of the lessee at that date. All assets with use rights will be measured at the amount of lease liabilities on that date.

Anticipated impact on assets, liabilities and equity of January 1, 2019 is set out below:

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepaid lease	\$ 3,294	\$ (3,294)	\$ -
Right-of-use assets	-	<u>902,034</u>	902,034
Total effect on assets		<u>\$ 898,740</u>	
Lease liabilities	-	<u>\$ 915,878</u>	915,878
Total effect on liabilities		<u>\$ 915,878</u>	
Retained earning	11,649,127	\$ (17,138)	11,631,989

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

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

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

Note 2: The Bank and its subsidiaries shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

As of the date the consolidated financial statements were authorized for issue, the Bank and its subsidiaries are continuously assessing the possible impact that the application of other standards and interpretations will have on the financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial reports have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks.

Basis of Preparation

The consolidated financial reports have been prepared on the historical cost basis except for financial instruments and net benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Current and Noncurrent Assets and Liabilities

Accounts included in the consolidated balance sheets are not classified as current or noncurrent since the major components of the financial reports are from the banking sector, whose operating cycle cannot be reasonably identified. Nevertheless, accounts are properly categorized in accordance with their nature and sequenced by their liquidity. Refer to Note 45 for the maturity analysis of liabilities.

Basis of Consolidation

- a. Principles of preparing consolidated financial reports

The consolidated financial reports incorporate the financial reports of the Bank and its subsidiaries.

Intercompany transactions, balances, income and expenses between the Bank and its subsidiaries have been eliminated upon consolidation.

b. Entities included in consolidated financial reports

Entities included in consolidated financial reports were as follows:

Investor Company	Investee Company	Nature of Businesses	% of Ownership	
			December 31	
			2018	2017
The Bank	Far Eastern Asset Management Co., Ltd. ("FEAMC")	Purchase, evaluation, auction and management of rights of financial institution creditors	100	100
	Far Eastern International Securities Co., Ltd. ("FEIS")	Foreign securities broker, wealth management and offshore fund consulting	100	100
Far Eastern Asset Management Co., Ltd. ("FEAMC")	FEIB Financial Leasing Co., Ltd. ("FEIL")	Leasing operation	100	100

Foreign Currency

Foreign-currency assets and liabilities are recorded in their original currencies. Foreign-currency items in net income of domestic operating units are translated into New Taiwan dollars at prevailing exchange rates at the dates of the transactions. For overseas branches (including the OBU), foreign-currency items in net income from transactions settled in currencies other than the entity's functional currency are translated into the entity's functional currency at prevailing exchange rates at the dates of the transactions.

At the balance sheet date, foreign-currency monetary assets and liabilities are translated at prevailing exchange rates, and the exchange differences are recognized as gain or loss.

When foreign-currency assets and liabilities are settled, exchange differences arising from the application of different exchange rates are recognized as gain or loss for the current year.

The financial statements of foreign branches (including foreign branches, the OBU and foreign subsidiaries) are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - at exchange rates prevailing on the balance sheet date. The beginning balance of current year's earnings of foreign branches and the OBU not yet remitted to the head office - the same as the ending balance of the prior years' earnings; and Income and expenses - at average exchange rates for the period. Exchange differences arising from the translation of the financial statements of foreign branches are recognized as other comprehensive income-exchange differences on translating foreign operations.

Investment Accounted for Using Equity Method

Investments in associates are accounted for using the equity method of accounting.

An associate is an entity over which the Bank and its subsidiaries have significant influence and that is not a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies.

An investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Bank and its subsidiaries' share of the profit or loss and other comprehensive income of the associate. The Bank and its subsidiaries also recognize the changes in the Bank and its subsidiaries' share of equity of associates.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Intangible assets acquired in a business combination are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets with finite useful lives are reported at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Bank expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives are measured at cost less accumulated impairment loss.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Bank and its subsidiaries review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Bank and its subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units under a reasonable and consistent basis.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When the recoverable amount increases in a subsequent period, the reversal of an impairment loss is recognized immediately in profit or loss. The carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

Securities Purchased/Sold Under Resale/Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest expenses and interest revenues are recognized on the accrual basis.

Financial Instruments

Financial assets and financial liabilities are recognized when the Bank and its subsidiaries become a party to the contractual provisions of the instruments.

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 FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately as expense.

Financial assets

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

a. The Bank owns financial assets which are classified into the following specified categories:

2018

1) Financial assets at FVTPL

A financial asset is classified as at FVTPL when the financial asset is mandatorily classified 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.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. Fair value is determined in the manner described in Note 43.

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 are measured at amortized cost, which equals to gross carrying amount determined using the effective interest method less any impairment loss. Any exchange difference is recognized in profit or loss.

Interest revenue 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 assets, for which interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such a financial asset; and
- b) Financial assets that have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to the amortized cost of such a 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 revenue 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 and its subsidiaries 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 at FVTOCI 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

1) Financial assets at FVTPL

Include financial assets at FVTPL and available-for-sale financial assets.

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

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis in accordance with the Bank's documented risk management or investment strategy, and information about the portfolio is provided internally on that basis; or
- c) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses, dividends or interest arising on re-measurement recognized in profit or loss.

2) Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank and its subsidiaries have the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Interest revenues of available-for-sale bond investments calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Bank's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss and are recognized in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit or loss.

4) Loans and receivables

Loans and receivables (including receivables, discounts and loans, nonaccrual loans other than discounts and loans, and debt investments 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 an allowance for loss for expected credit losses on financial assets at amortized cost, investments in debt instruments that are measured at FVTOCI. For such financial assets, the Bank recognizes lifetime expected credit losses (i.e. ECLs) when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the allowance for loss for that financial instrument at an amount equal to 12-month ECLs.

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

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

2017

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

For all financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract (such as a default or delinquency in interest or principal payments), is becoming probable that the borrower will undergo bankruptcy or financial reorganization or disappearance of an active market for that financial asset because of financial difficulties.

1) Financial assets measured at amortized cost

For discounts and loans and receivables, assets are assessed for impairment on a collective basis even if they were assessed as not impaired individually. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on loans and receivables.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. If the amount of the impairment loss decreases in a subsequent period 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.

2) Available-for-sale financial assets

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3) Financial assets measured at cost

For financial assets that are measured at cost, the amount of 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. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of discounts and loans, receivables and nonaccrual loans other than discounts and loans, where the carrying amount is reduced through an allowance account.

The Bank evaluates possible losses on specific loans on the basis of the borrowers' financial situation, their ability to repay principals and interests, and the values of collaterals in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" (the "Regulations"). The Regulations require that loans should be categorized by collectability and specify the minimum allowance for possible losses and reserve for guarantee obligations using prescribed percentages.

When a loan or receivable is considered uncollectable, it may be written off on the approval of the Bank's Board of Directors or Managing Directors. The subsequent collections of written-off loans are credited against provision for possible losses.

c. Derecognition of financial assets

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

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

Equity instruments

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

Financial liabilities

a. Subsequent measurement

Except the following situation, all the 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 held for trading. Any gains or losses arising on remeasurement, including interest paid on the financial liability, are recognized in profit or loss.

2) Financial guarantee contracts

2018

The financial guarantee contracts issued by the Bank and not measured at FVTPL are measured at the higher of the allowance for the expected credit losses and the amortized amount after original recognition.

2017

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

b. Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, and any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss. Derivative financial instruments do not apply hedge accounting are recognized as financial assets or liabilities held for trading. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in derivative host contracts

2018

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract.

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; the contracts were not measured at FVTPL.

Levies

A levy imposed by a government is accrued as payables when the transaction or activity that triggers the payment of the levy occurs.

Provisions

Provisions are recognized when the Bank and its subsidiaries have a present obligation as a result of a past event, it is probable that the Bank and its subsidiaries will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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.

Revenue Recognition

Interest revenues from discounts and loans is recorded on the accrual basis. For nonaccrual loans, interest revenues are recognized only when collections on these obligations are made. Under the regulations of the Banking Bureau under the Financial Supervisory Commission, the interest revenues on credits covered by agreements that extend their maturity is recorded as deferred income and recognized upon collection.

Service fee income is recognized as loans are provided or services have been completed.

The gain or loss on the disposal or recovery of acquired receivables is accounted for by the effective interest method.

When the Bank acquires non-performing loans from other financial institutions, revenue related to recovery of non-performing loans is recognized using the cost-recovery method.

Retirement Benefit

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 plans are determined using the projected unit credit method. Service cost (including current service cost and net interest) 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 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.

Income Tax

Income tax expense represents the sum of current tax expense and deferred tax expense.

a. Current tax expense

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

An additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

b. Deferred tax expense

Deferred tax expense represents adjustments to deferred tax assets and liabilities.

Deferred tax assets or liabilities are 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. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank and its subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. 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 that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

c. Current and deferred tax for the period

Current and deferred tax 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimating impairment of financial assets (application to 2108)

The estimate of impairment for receivables, discount and loans and investments in debt instruments is based on the assumptions about the probability of default and loss given default. The Bank uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Bank's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 44 where the actual future cash inflows are less than expect, a material impairment loss may arise.

b. Estimating impairment of discounts and loans and receivables (application to 2017)

When there is objective evidence of impairment loss, the Bank and its subsidiaries take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original

effective interest rate. Where the actual future cash flows are less than expected, an additional impairment loss may arise.

c. Estimating impairment of operation rights

Determining whether operation rights are impaired requires an estimation of the value in use of the cash-generating units to which operation rights have 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, an impairment loss may arise.

d. Fair value of financial instruments

The Bank's management uses its judgment in selecting an appropriate valuation technique for financial instruments that do not have quoted market price in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, models were based on quoted market rates adjusted for specific features of the instruments. Other financial instruments were valued using a discounted cash flow analysis based on models supported, where possible, by observable market prices or rates. Note 44 provides detailed information about the key models used in the determination of the fair value of financial instruments. The Bank's management believes that the chosen valuation techniques and models used are appropriate in determining the fair value of financial instruments.

e. Income tax

The use of deferred income tax assets mainly depends on future taxable income and the possible timing and level of taxable temporary differences, along with future income tax strategies.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	\$ 2,904,762	\$ 2,889,476
Notes and checks for clearing	2,416,502	2,018,305
Deposits due from other banks	4,665,317	3,623,344
Balance with other banks	<u>37,339</u>	<u>61,776</u>
	<u>\$ 10,023,920</u>	<u>\$ 8,592,901</u>

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2018	2017
Due from the central bank - certificates of deposit	\$ -	\$ 125,000
Due from other banks	12,879,815	5,281,521
New Taiwan dollar reserve deposits - Type A	2,733,295	6,272,154
New Taiwan dollar reserve deposits - Type B	11,745,944	10,353,759
Foreign-currency reserve deposits	125,269	118,969
Due from foreign central bank	<u>58,709</u>	<u>199,680</u>
	<u>\$ 27,543,032</u>	<u>\$ 22,351,083</u>

The reserve deposits are required by law and determined at a prescribed percentage of the monthly average balances. The Type B reserve deposits can be withdrawn only when the balances are adjusted monthly. The Type A and foreign-currency reserve deposits can be withdrawn on demand but bear no interest. Due from foreign Central Bank is the clearing settlement account which the Bank's Hong Kong branch opened in Hong Kong Monetary Authority. The account can be withdrawn on demand but bear no interest.

As of December 31, 2018 and 2017, due from the central bank and other banks falling in the definition of IAS 7 "cash and cash equivalents" (i.e. short-term, highly liquid investments, readily convertible to known amounts of cash and subject to an insignificant risk of changes in value); amounted to \$15,797,088 thousand and \$11,872,324 thousand, respectively, and were included in cash and cash equivalents in the consolidated statements of cash flows.

8. FINANCIAL ASSETS AND LIABILITIES AT FVTPL

	December 31, 2018
<u>Financial assets mandatorily classified as at FVTPL (application to 2018)</u>	
Non-derivative financial assets	
Commercial paper	\$ 17,068,878
Government bond	8,324,585
Negotiable certificates of deposit	1,487,146
Stock listed on TWSE and TPEX	<u>64,115</u>
	<u>26,944,724</u>
Derivative financial assets	
Foreign-currency swap contracts	2,292,356
Interest rate swap contracts	853,399
Currency option contracts	354,604
Others	<u>282,755</u>
	<u>3,783,114</u>
Hybrid contract	
Asset swap fixed-income contracts	9,345,266
Credit linked loan contracts	3,829,179
Credit linked bond contracts	2,060,823
Convertible (exchangeable) bonds	<u>544,395</u>
	<u>15,779,663</u>
Total financial assets mandatorily classified as at FVTPL	<u>\$ 46,507,501</u>

**December 31,
2017**

Financial assets mandatorily classified as at FVTPL (application to 2017)

Financial assets held for trading

Non-derivative financial assets

Commercial paper	\$ 13,979,621
Government bond	5,238,586
Negotiable certificates of deposit	1,850,666
Stock listed on TWSE and TPEX	347,783
Beneficiary certificates	<u>50,473</u>
	<u>21,467,129</u>

Derivative financial assets

Foreign-currency swap contracts	950,685
Convertible (exchangeable) bond asset swap contracts	766,433
Interest rate swap contracts	721,496
Currency option contracts	296,384
Forward exchange contracts	149,661
Others	<u>176,507</u>
	<u>3,061,166</u>

Financial assets designated as at FVTPL

Convertible (exchangeable) bonds	<u>5,680,038</u>
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Total financial assets at FVTPL	<u>\$ 30,208,333</u>
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<u>December 31</u>	
2018	2017

Financial liabilities at FVTPL

Non-derivative financial liabilities

Settlement coverage bonds payable of short sale	\$ -	\$ 50,241
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Derivative financial liabilities

Foreign-currency swap contracts	1,159,611	1,161,278
Interest rate swap contracts	758,670	545,246
Currency option contracts	355,293	283,706
Forward exchange contracts	225,459	80,710
Convertible (exchangeable) bond option contracts	122,750	2,125,712
Others	<u>130,696</u>	<u>72,228</u>
	<u>2,752,479</u>	<u>4,268,880</u>

Total financial liabilities at FVTPL	<u>\$ 2,752,479</u>	<u>\$ 4,319,121</u>
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The Bank engages in derivative transactions mainly to trade, to accommodate customers' needs and to manage exposures due to exchange rate and interest rate fluctuations. The Bank's financial risk management strategy is to hedge most of its exposure to market risk.

Outstanding derivative contract (notional) amounts were as follows:

	December 31	
	2018	2017
Foreign-currency swap contracts	\$ 383,201,438	\$ 312,727,831
Interest rate swap contracts	134,879,271	121,214,106
Currency option contracts	54,427,257	57,406,578
Credit default swap contracts	32,750,274	18,028,192
Forward exchange contracts	21,234,471	16,842,966
Asset swap fixed-income contracts	9,355,595	5,337,816
Cross-currency swap contracts	4,428,940	8,413,280
Interest rate option contracts	1,000,000	4,492,400
Convertible (exchangeable) bond option contracts	683,300	8,122,800
Domestic convertible (exchangeable) bond asset swap contracts	317,000	4,015,800
Commodity forward contracts	111,303	-
Bond futures	225,755	1,295,168
Non-deliverable forward contracts	61,617	356,566

9. FINANCIAL ASSETS AT FVTOCI - 2018

	December 31, 2018
<u>Investments in equity instruments</u>	
Stock listed on TWSE and TPEx	\$ 930,492
Stock unlisted on TWSE and TPEx	<u>335,330</u>
	<u>1,265,822</u>
<u>Investments in debt instruments</u>	
Negotiable certificates of deposit from the central bank	62,950,846
Government bonds	31,436,956
Bank debentures	20,548,214
Corporate bonds	2,500,626
Mortgage backed securities	<u>1,076,588</u>
	<u>118,513,230</u>
Total financial assets at FVTOCI	<u>\$ 119,779,052</u>

The above investments in equity instrument in the form of ordinary shares for medium- and long-term strategic purposes and expects to make a profit through long-term investments. Therefore, the designated investments are selected to be measured at FVTOCI. These investments were originally classified as available-for-sale financial assets and financial assets measured at cost under IAS 39. For reclassification and other information of 2017, refer to Notes 3, 15 and 19.

The above investments in debt instrument were originally classified as available-for-sale financial assets under IAS 39. For reclassification and other information of 2017, refer to Notes 3 and 15. For the information of credit risk management and impairment assessment on investments in debt instruments at FVTOCI, refer to Note 11. For the information of mortgage backed securities, refer to Note 40.

Part of the bank debentures and government bonds have been issued under repurchase agreements. The book value were as follows. Refer to Note 23 for related information.

	December 31, 2018
Bank debentures	\$ 12,745,196
Government bonds	<u>\$ 2,702,559</u>

10. DEBT INSTRUMENT INVESTMENT MEASURED AT AMORTIZED COST - 2018

	December 31, 2018
Bank debentures	\$ 1,974,153
Corporate bonds	<u>614,660</u>
	2,588,813
Less: Allowance for loss	<u>159</u>
	<u>\$ 2,588,654</u>

For the information on financial assets' related credit risk management and impairment at amortized cost, see Note 11.

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

The investments in debt instruments are classified as financial assets at FVTOCI and financial assets at amortized cost, respectively:

December 31, 2018

	At FVTOCI	At Amortized Cost	Total
Total carrying amount	\$ 118,563,978	\$ 2,588,813	\$ 121,152,791
Less: Allowance for loss	<u>4,318</u>	<u>159</u>	<u>4,477</u>
Amortized cost	118,559,660	<u>\$ 2,588,654</u>	121,148,314
Fair value adjustment	<u>(46,430)</u>		<u>(46,430)</u>
	<u>\$ 118,513,230</u>		<u>\$ 121,101,884</u>

The policy which the Bank implements is to invest only in debt instruments with credit ratings above (and including) investment grade and with impairment low in credit risk. The Bank continued to track external rating information to monitor changes in credit risk of the investments in debt instruments and to review other information such as the bond yield curve and the debtor's material information to assess whether the credit risk of the debt instrument investments has increased significantly since the original recognition.

The Bank considers the historical default loss rate provided by the independent rating agencies, the debtor's current financial status and the industry's forward-looking forecast to measure the 12-month expected credit loss or full-lifetime expected credit loss of the debt instrument investments. The total book value of investments in debt instrument is \$121,152,791 which indicates normal credit level under assessment. The information of changes in allowance for loss which is 12-month expected credit loss is as follows:

	At FVTOCI	At Amortized Cost	Total
Retrospective application of the impact of IFRS 9 on January 1, 2018	\$ 5,247	\$ 270	\$ 5,517
Purchase of new debt instruments	2,834	107	2,941
Derecognition	(3,681)	(135)	(3,816)
Exchange rate and other changes	<u>(82)</u>	<u>(83)</u>	<u>(165)</u>
Allowance for loss on December 31, 2018	<u>\$ 4,318</u>	<u>\$ 159</u>	<u>\$ 4,477</u>

12. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	December 31	
	2018	2017
Government bonds	\$ 5,641,393	\$ 7,852,936
Commercial paper	1,498,448	499,411
Negotiable certificates of deposit	<u>1,150,496</u>	<u>2,719,046</u>
	8,290,337	11,071,393
Less: Allowance for loss	<u>1,062</u>	<u>-</u>
	<u>\$ 8,289,275</u>	<u>\$ 11,071,393</u>
Resale date	2019.01.02- 2019.01.24	2018.01.02- 2018.01.30
Resale price	<u>\$ 8,292,920</u>	<u>\$ 11,074,058</u>

The total carrying amounts shown above have been included as cash and cash equivalents in consolidated statements of cash flows.

13. RECEIVABLES, NET

	December 31	
	2018	2017
Credit card	\$ 14,374,622	\$ 15,045,932
Factoring	3,017,197	4,843,249
Interest	1,067,409	917,409
Buying debt receivable	868,097	272,475
Spot exchange transactions	645,906	598,100
Lease receivables	502,740	350,625
Acceptances	439,359	421,416
Proceeds from disposal of securities	345,671	154,944
Convertible bond redemption	187,414	569,629

(Continued)

	December 31	
	2018	2017
Entrustment loans	\$ 175,789	\$ 175,574
Others	<u>390,204</u>	<u>557,580</u>
	22,014,408	23,906,933
Less: Allowance for possible losses (Note 14)	<u>530,031</u>	<u>1,156,064</u>
	<u>\$ 21,484,377</u>	<u>\$ 22,750,869</u>
		(Concluded)

The changes in the total carrying amount of receivables and other financial assets in 2018 are as follows:

	Stage 1 (Note1)	Stage 2 (Note2)	Stage 3 (Note3)	Total
Beginning on January 1, 2018	\$ 19,954,137	\$ 75,443	\$ 2,123,312	\$ 22,152,892
Changes due to financial assets recognized at the beginning of the period:				
Transfer to Stage2	(56,753)	59,977	(111)	3,113
Transfer to Stage3	(117,060)	(20,729)	152,911	15,122
Transfer to Stage1	8,504	(11,871)	(269)	(3,636)
Financial assets derecognized in the current period	(9,075,785)	(13,015)	(345,091)	(9,433,891)
Purchased or original financial assets	8,021,749	10,727	55,100	8,087,576
Write-offs	(83,437)	(27,894)	(657,815)	(769,146)
Exchange rate and other changes	<u>1,111</u>	<u>(696)</u>	<u>14,849</u>	<u>15,264</u>
Balance on December 31, 2018	<u>\$ 18,652,466</u>	<u>\$ 71,942</u>	<u>\$ 1,342,886</u>	<u>\$ 20,067,294</u>

Note 1: 12-Month ECLs

Note 2: Lifetime ECLs

Note 3: Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets)

The changes in the allowance of receivables and other financial assets in 2018 are as follows:

	12-Month Expected Credit Loss (Stage 1)	Lifetime ECLs (Stage 2)	Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets) (Stage 3)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment under the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans”	Total
January 1, 2018	\$ 46,393	\$ 13,104	\$ 951,489	\$ 1,010,986	\$ 145,266	\$ 1,156,252
Changes due to financial assets recognized at the beginning of the period:						
Transfer to Stage2	(69)	5,136	(25)	5,042	-	5,042
Transfer to Stage3	(144)	(3,792)	40,046	36,110	-	36,110
Transfer to Stage1	3	(1,922)	(53)	(1,972)	-	(1,972)
Financial assets derecognized in the current period	(26,252)	(1,916)	(51,209)	(79,377)	-	(79,377)
Purchased or original financial assets	8,227	952	21,392	30,571	-	30,571
The difference of impairment under the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans”	-	-	-	-	(22,463)	(22,463)
Write-offs	(83,437)	(27,894)	(657,815)	(769,146)	-	(769,146)
Exchange rate and other changes	83,060	22,480	69,509	175,049	-	175,049
December 31, 2018	<u>\$ 27,781</u>	<u>\$ 6,148</u>	<u>\$ 373,334</u>	<u>\$ 407,263</u>	<u>\$ 122,803</u>	<u>\$ 530,066</u>

14. DISCOUNTS AND LOANS, NET

	December 31	
	2018	2017
Negotiations, discounts and overdraft	\$ 189,594	\$ 100,576
Short-term loans	73,855,519	69,042,425
Medium-term loans	140,748,897	124,489,833
Long-term loans	169,517,735	161,806,758
Overdue receivable	<u>611,272</u>	<u>501,027</u>
	384,923,017	355,940,619
Less: Allowance for possible losses	<u>5,234,899</u>	<u>4,883,857</u>
	<u>\$ 379,688,118</u>	<u>\$ 351,056,762</u>

The details of the provision for possible losses were as follows:

	For the Year Ended December 31	
	2018	2017
Provision for possible losses - discounts and loans	\$ 833,097	\$ 373,153
Provision for possible losses - others	122,026	830,783
Provision for possible losses - reserve for guarantee obligations	18,561	11,407
Amounts recovered - discounts and loans	(229,379)	(257,773)
Amounts recovered - others	<u>(229,502)</u>	<u>(225,723)</u>
	<u>\$ 514,803</u>	<u>\$ 731,847</u>

The changes in the total carrying amount of discounts and loan in 2018 are as follows:

	Stage 1 (Note1)	Stage 2 (Note2)	Stage 3 (Note3)	Total
Beginning on January 1, 2018	\$ 347,782,666	\$ 1,423,658	\$ 3,540,559	\$ 352,746,883
Changes due to financial assets recognized at the beginning of the period:				
Transfer to Stage2	(392,867)	363,684	(58)	(29,241)
Transfer to Stage3	(604,008)	(370,042)	821,752	(152,298)
Transfer to Stage1	97,281	(113,824)	(1,292)	(17,835)
Financial assets derecognized in the current period	(86,740,476)	(815,201)	(815,269)	(88,370,946)
Purchased or original financial assets	120,569,098	48,464	273,091	120,890,653
Write-offs	(96,709)	(40,686)	(396,228)	(533,623)
Exchange rate and other changes	<u>384,855</u>	<u>696</u>	<u>3,873</u>	<u>389,424</u>
Balance on December 31, 2018	<u>\$ 380,999,840</u>	<u>\$ 496,749</u>	<u>\$ 3,426,428</u>	<u>\$ 384,923,017</u>

Note 1: 12-Month ECLs

Note 2: Lifetime ECLs

Note 3: Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets)

The changes in the allowance of discounts and loan in 2018 are as follows:

	12-Month Expected Credit Loss (Stage1)	Lifetime ECLs (Stage2)	Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets) (Stage3)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment under the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	Total
January 1, 2018	\$ 617,108	\$ 67,265	\$ 993,274	\$ 1,677,647	\$ 3,174,273	\$ 4,851,920
Changes due to financial assets recognized at the beginning of the period:						
Transfer to Stage2	(1,341)	55,586	(49)	54,196	-	54,196
Transfer to Stage3	(1,090)	(2,964)	179,929	175,875	-	175,875
Transfer to Stage1	100	(12,961)	(678)	(13,539)	-	(13,539)
Financial assets derecognized in the current period	(252,878)	(30,940)	(82,132)	(365,950)	-	(365,950)
Purchased or original financial assets	235,269	27,805	85,284	348,358	-	348,358
The difference of impairment under the 'Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans'.	-	-	-	-	468,488	468,488
Write-offs	(96,709)	(40,686)	(396,228)	(533,623)	-	(533,623)
Exchange rate and other changes	<u>(96,719)</u>	<u>23,604</u>	<u>128,851</u>	<u>249,174</u>	<u>-</u>	<u>249,174</u>
December 31, 2018	<u>\$ 597,178</u>	<u>\$ 86,709</u>	<u>\$ 908,251</u>	<u>\$ 1,592,138</u>	<u>\$ 3,642,761</u>	<u>\$ 5,234,899</u>

Movements of allowance for possible losses on discounts and loans and others (including receivables and other financial assets) in 2017 were as follows:

	Discounts and Loans	Others	Total
Balance, January 1, 2017	\$ 5,031,824	\$ 1,118,674	\$ 6,150,498
Provision for possible losses	373,153	830,783	1,203,936
Amounts written-off	(466,510)	(743,155)	(1,209,665)
Effects of exchange rate changes	<u>(54,610)</u>	<u>(50,050)</u>	<u>(104,660)</u>
Balance, December 31, 2017	<u>\$ 4,883,857</u>	<u>\$ 1,156,252</u>	<u>\$ 6,040,109</u>

For the years ended December 31, 2018 and 2017, the Bank and its subsidiaries had no written-off credits for which legal proceedings had not been initiated.

The Bank and its subsidiaries' financial assets were assessed for impairment loss on the basis of credit risk characteristics (Not application in 2018) of financial assets. The results were as follows:

Discounts and loans

Item		December 31, 2017	
		Discounts and Loans	Allowance for Possible Losses
With objective evidence of individual impairment	Assessed individually	\$ 1,603,535	\$ 563,826
	Assessed by portfolio	1,937,024	441,292
Without objective evidence of individual impairment	Assessed individually	3,193,736	31,937
	Assessed by portfolio	349,206,324	3,846,802
Total		\$ 355,940,619	\$ 4,883,857

Others (including receivables, other financial assets and debt investments with no active market)

Item		December 31, 2017	
		Others	Allowance for Possible Losses
With objective evidence of individual impairment	Assessed individually	\$ 657,574	\$ 580,751
	Assessed by portfolio	1,465,738	493,309
Without objective evidence of individual impairment	Assessed individually	9,533,501	7,210
	Assessed by portfolio	18,842,391	74,982
Total		\$ 30,499,204	\$ 1,156,252

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS-2017

	December 31, 2017
Negotiable certificates of deposit issued by the central bank	\$ 62,523,204
Government bonds	25,343,404
Bank debentures	21,006,259
Stocks listed on TWSE and TPEx	709,311
Beneficiary certificates	<u>49,400</u>
	<u>\$ 109,631,578</u>

Some of the available-for-sale foreign bank debentures and foreign government bonds were traded with repurchase agreements, and the carrying amounts were as follows (refer to Note 23 for the related information on repurchase agreements):

	December 31, 2017
Bank debentures	<u>\$ 12,366,170</u>
Government bonds	<u>\$ 1,162,801</u>

The assets pledged as collaterals are disclosed in Note 40.

16. HELD-TO-MATURITY FINANCIAL ASSETS-2017

	December 31, 2017
Bank debentures	\$ 1,479,602
Government bonds	<u>655,644</u>
	<u>\$ 2,135,246</u>

17. INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2018		2017	
	Amount	% of Ownership	Amount	% of Ownership
Dah Chung Bills Finance Corp.	\$ 1,667,505	22.06	\$ 1,646,555	22.06
Deutsche Far Eastern Asset Management Co., Ltd.	<u>108,845</u>	40.00	<u>127,511</u>	40.00
	<u>\$ 1,776,350</u>		<u>\$ 1,774,066</u>	

Deutsche Far Eastern Asset Management Co., Ltd. reduced its capital to cover accumulated deficit and increased capital by cash in September 2017; the Bank participated in the capital increase and invested \$28,980 thousand according to the proportion of shares held.

The above associates are individually immaterial to the Bank and its subsidiaries; the shares of the Bank and its subsidiaries in these associates' financial performance are summarized as follows:

	For the Year Ended December 31	
	2018	2017
Net income from continuing operation	\$ 92,467	\$ 103,337
Other comprehensive income	<u>(22,620)</u>	<u>9,114</u>
Total comprehensive income	<u>\$ 69,847</u>	<u>\$ 112,451</u>

18. DEBT INVESTMENTS WITH NO ACTIVE MARKET - 2017

	December 31, 2017
Foreign convertible bond asset swap contracts - master agreement	\$ 5,337,816
Convertible bonds	742,300
Credit-linked bond - master agreement	<u>596,960</u>
	<u>\$ 6,677,076</u>

19. OTHER FINANCIAL ASSETS, NET

	December 31	
	2018	2017
Nonaccrual loans other than discounts and loans	\$ 70	\$ 261
Less: Allowance for possible losses (Note 13 and Note 14)	<u>35</u>	<u>188</u>
	35	73
Refundable deposits	2,945,944	2,312,331
Less: Allowance for loss	<u>446</u>	<u>-</u>
	<u>2,945,533</u>	<u>2,312,404</u>
Deposits with original maturity more than 3 months	894,600	549,239
Interbank clearing account	700,805	600,941
Restricted assets	154,438	192,260
Financial assets carried at cost - 2017	<u>-</u>	<u>113,636</u>
	<u>\$ 4,695,376</u>	<u>\$ 3,768,480</u>

The above restricted assets are margin and collection payment charged from customer in specified current deposit by FEIL.

The assets pledged as collaterals are disclosed in Note 40.

Financial assets carried at cost consist of the following domestic unlisted common stocks in 2017:

	December 31, 2017
Yuan Hsin Digital Payment Co., Ltd.	\$ 62,263
Financial Information Service Co., Ltd.	45,500
An Feng Enterprise Co., Ltd.	3,000
Sunshine Asset Management Co., Ltd.	2,073
Taipei Forex Inc.	<u>800</u>
	<u>\$ 113,636</u>

The above equity investments, which had no quoted prices in active market or fair values that could be reliably measured, were measured at cost.

The Bank disposed of ERA Communications Co., Ltd. in July, 2017; the disposal price was \$51,496 thousand and the disposal gain was \$1,490 thousand.

The Bank recognized an impairment loss of \$17,009 thousand on Yuan Hsin Digital Payment Co., Ltd. in September 2017 and participated in its cash capital increase with the amount of \$24,950 thousand in September 2017.

20. PROPERTY AND EQUIPMENT, NET

For the Year Ended December 31, 2018							
	Land	Buildings and Improvements	Computer Equipment	Transportation Equipment	Miscellaneous Equipment	Equipment Prepayment	Total
<u>Cost</u>							
Beginning balance	\$ 1,581,625	\$ 1,247,852	\$ 1,714,492	\$ 2,542	\$ 1,507,341	\$ 16,565	\$ 6,070,417
Additions	-	4,605	161,038	79	74,573	39,940	280,235
Disposals	(134,192)	(118,134)	(27,916)	(218)	(57,298)	-	(337,758)
Others	-	(3,760)	(9,564)	-	4,438	(7,760)	(16,646)
Ending balance	<u>1,447,433</u>	<u>1,130,563</u>	<u>1,838,050</u>	<u>2,403</u>	<u>1,529,054</u>	<u>48,745</u>	<u>5,996,248</u>
<u>Accumulated depreciation</u>							
Beginning balance	-	624,555	1,225,695	2,420	1,328,355	-	3,181,025
Depreciation	-	22,438	134,448	81	65,641	-	222,608
Disposals	-	(56,166)	(27,914)	(218)	(56,284)	-	(140,582)
Others	-	(3,584)	1,423	-	2,927	-	766
Ending balance	-	<u>587,243</u>	<u>1,333,652</u>	<u>2,283</u>	<u>1,340,639</u>	-	<u>3,263,817</u>
Net ending balance	<u>\$ 1,447,433</u>	<u>\$ 543,320</u>	<u>\$ 504,398</u>	<u>\$ 120</u>	<u>\$ 188,415</u>	<u>\$ 48,745</u>	<u>\$ 2,732,431</u>

For the Year Ended December 31, 2017							
	Land	Buildings and Improvements	Computer Equipment	Transportation Equipment	Miscellaneous Equipment	Equipment Prepayment	Total
<u>Cost</u>							
Beginning balance	\$ 1,581,625	\$ 1,247,533	\$ 1,584,981	\$ 3,364	\$ 1,530,469	\$ 31,495	\$ 5,979,467
Additions	-	1,130	143,251	67	53,143	26,871	224,462
Disposals	-	(811)	(57,083)	(889)	(69,125)	-	(127,908)
Others	-	-	43,343	-	(7,146)	(41,801)	(5,604)
Ending balance	<u>1,581,625</u>	<u>1,247,852</u>	<u>1,714,492</u>	<u>2,542</u>	<u>1,507,341</u>	<u>16,565</u>	<u>6,070,417</u>
<u>Accumulated depreciation</u>							
Beginning balance	-	601,642	1,151,444	3,202	1,333,505	-	3,089,793
Depreciation	-	23,721	129,477	106	66,892	-	220,196
Disposals	-	(808)	(56,979)	(888)	(66,249)	-	(124,924)
Others	-	-	1,753	-	(5,793)	-	(4,040)
Ending balance	-	<u>624,555</u>	<u>1,225,695</u>	<u>2,420</u>	<u>1,328,355</u>	-	<u>3,181,025</u>
Net ending balance	<u>\$ 1,581,625</u>	<u>\$ 623,297</u>	<u>\$ 488,797</u>	<u>\$ 122</u>	<u>\$ 178,986</u>	<u>\$ 16,565</u>	<u>\$ 2,889,392</u>

The above items of property and equipment are depreciated on a straight-line basis over the following estimated useful lives:

Buildings and improvements	5 to 55 years
Computer equipment	3 to 7 years
Transportation equipment	3 to 7 years
Miscellaneous equipment	2 to 20 years

21. INTANGIBLE ASSETS, NET

	December 31	
	2018	2017
Operation rights	\$ 1,538,210	\$ 1,538,210
Fair value of core deposits	<u>428,887</u>	<u>428,887</u>
	1,967,097	1,967,097
Less: Accumulated amortization	<u>267,495</u>	<u>242,012</u>
	<u>\$ 1,699,602</u>	<u>\$ 1,725,085</u>

In April 2010, the Bank acquired the assets and liabilities of Chinfon Bank, classified as Package B of Chinfon Bank, through a bidding process. The acquired management and operation rights of Chinfon Bank's branches have indefinite useful life, while the fair value of core deposits is amortized over 4 to 15 years.

The Bank assessed the operation rights of branches have indefinite useful life, and the operation rights are expected to generate net cash flows continuously; therefore, the operation rights are not amortized annually.

The Bank's operation rights are tested for impairment at the end of the annual reporting period in 2018 and 2017 and the recoverable amount is determined based on the value in use. To reflect risks specific to the operation right, the value in use was then calculated using the discounted cash flows based on the Bank's financial forecast, and no impairment after tested. For the years ended December 31, 2018 and 2017, the Bank did not recognize any impairment loss on its operation rights.

22. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2018	2017
Call loans to banks	\$ 15,665,915	\$ 6,601,520
Due to banks	60,808	231,834
Overdraft	-	127,420
	<u>\$ 15,726,723</u>	<u>\$ 6,960,774</u>

23. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	December 31	
	2018	2017
Bank debentures (Notes 9 and 15)	\$ 12,015,591	\$ 11,785,554
Government bonds (Notes 9 and 15)	<u>2,650,203</u>	<u>1,135,810</u>
	<u>\$ 14,665,794</u>	<u>\$ 12,921,364</u>
Repurchase date	2019.01.07- 2019.01.29	2018.01.08- 2018.01.29
Repurchase price	<u>\$ 14,704,830</u>	<u>\$ 12,943,304</u>

24. PAYABLES

	December 31	
	2018	2017
Notes and checks for clearing	\$ 2,416,502	\$ 2,018,305
Accrued expenses	1,559,136	1,265,570
Accrued interest	1,135,458	964,691
Securities settlement payables	721,949	267,124
Liabilities on bank acceptances	439,359	421,416
Accounts payable factoring	372,420	898,253
Others	<u>620,398</u>	<u>652,926</u>
	<u>\$ 7,265,222</u>	<u>\$ 6,488,285</u>

25. DEPOSITS AND REMITTANCES

	December 31	
	2018	2017
Checking deposits	\$ 4,697,065	\$ 2,913,365
Demand deposits	67,897,773	71,810,392
Demand savings	68,974,857	63,329,655
Time savings	77,180,132	80,875,765
Negotiable certificates of deposit	6,040,500	6,387,500
Time deposits	283,567,017	246,743,099
Remittances	<u>50,628</u>	<u>332,407</u>
	<u>\$ 508,407,972</u>	<u>\$ 472,392,183</u>

26. BANK DEBENTURES

	December 31	
	2018	2017
Domestic bank debentures	\$ 18,001,900	\$ 18,601,900
Euro Convertible Bonds	<u>-</u>	<u>1,614,764</u>
	<u>\$ 18,001,900</u>	<u>\$ 20,216,664</u>

Domestic Bank Debentures

Item	Issuance Period	Note	December 31	
			2018	2017
Subordinated bank debentures - seven-year maturity; first issue in 2011	2011.11.10-2018.11.10	Interest payable on November 10 each year; fixed interest rate at 1.95%	\$ -	\$ 3,500,000
Subordinated bank debentures - seven-year maturity; first issue in 2012	2012.06.27-2019.06.27	Interest payable on June 27 each year; fixed interest rate at 1.75%	3,000,000	3,000,000
Subordinated bank debentures - seven-year maturity; first issue in 2013	2013.11.06-2020.11.06	Interest payable on November 6 each year; fixed interest rate at 2.10%	4,000,000	4,000,000
Subordinated bank debentures - seven-year maturity; first issue in 2014	2014.12.23-2021.12.23	Interest payable on December 23 each year; fixed interest rate at 2.05%	1,100,000	1,100,000
Subordinated bank debentures - seven-year maturity; first issue in 2015	2015.09.30-2022.09.30	Interest payable on September 30 each year; fixed interest rate at 1.95%	3,000,000	3,000,000
Subordinated bank debentures - seven-year maturity; first issue in 2016	2016.09.27-2023.09.27	Interest payable on September 27 each year; fixed interest rate at 1.55%	4,000,000	4,000,000
Subordinated bank debentures - perpetual; first issue in 2018	2018.09.18-	Interest payable on September 18 with fixed interest rate at 3.2% per annum	2,900,000	-
Subordinated bank debentures - seven-year maturity; 1-1 issue in 2005; acquired from Chinfon Bank	Matured on 2012.06.28	-	1,660	1,660
Subordinated bank debentures - seven-year maturity; 1-1 issue in 2002; acquired from Chinfon Bank	Matured on 2009.06.28	-	240	240
Total bank debentures			<u>\$ 18,001,900</u>	<u>\$ 18,601,900</u>

The Bank issued the first issuance of perpetual non-cumulative subordinated bank debentures in 2018 in the amount of \$2,900,000 thousand in September 18, 2018 with an interest rate of 3.20% and the interest is paid once a year under the interest payment condition. After five years of issuance, the Bank has the right to redeem in advance under the regulation of issuance and the permission by authorities.

Euro Convertible Bonds

On February 7, 2013 (the "Issuance Date"), the Bank issued five-year unsecured zero coupon convertible bonds (the "Bonds") with a principal aggregating to US\$150,000 thousand; these bonds were listed on the Singapore Exchange Securities Trading Limited. The minimum lot size for the Bonds trading is US\$200 thousand. On the Issuance Date, the liability component of the Bonds amounted to \$4,009,661 thousand net of a discount of \$471,589 thousand but including transaction costs of \$38,252 thousand. The initial effective interest rate of the liability component was 2.63%. The derivative components of the Bonds (i.e. conversion right and redemption option) amounted to \$433,337 thousand. From August, 2015, the issuance balance decreased to US\$54,200 thousand because some bondholders had put the right to require the Bank to redeem the Bonds after 30 months from issue date. As 10th calendar day prior to the Maturity Date, conversion price have been adjusted from NT\$15.24 per share to NT\$10.57 per share annually according to the original issue conditions. No one applied for conversion during the period. The Bank redeemed the Bonds at 101.89% of their principal amount in U.S. dollars on February 7, 2018, which was the Maturity Date.

27. OTHER FINANCIAL LIABILITIES

	December 31	
	2018	2017
Deposit received	\$ 343,862	\$ 373,195
Bank loan - December 31, 2018: 1.18% - 6.50%; December 31, 2017: 1.20% - 6.50%	1,012,313	561,067
Commercial paper	<u>79,929</u>	<u>-</u>
	<u>\$ 1,436,104</u>	<u>\$ 934,262</u>

The status of commercial paper was as follows: (2017: Nil)

	December 31, 2018
International Bills Finance Corp.	\$ 50,000
Mega Bills Finance Corp.	30,000
Less: Unamortized discount on commercial paper	<u>71</u>
	<u>\$ 79,929</u>
Interest rates	1.18% - 1.20%

28. PROVISIONS

	December 31	
	2018	2017
Reserve for employee benefits liability - defined benefit plans (Note 29)	\$ 933,914	\$ 940,747
Reserve for obligations guarantee	212,903	186,369
Reserve for financing commitment (Note 3)	<u>47,957</u>	<u>-</u>
	<u>\$ 1,194,774</u>	<u>\$ 1,127,116</u>

29. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension plan under the Labor Pension Act (the “LPA”) is a defined contribution plan. For employees subjected to LPA, the Bank makes contributions to their individual pension accounts in the Department of Labor at 6% of their monthly salaries and wages.

b. Defined benefit plans

The Bank adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Bank contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Bank assesses the pension fund balance. If the balance 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 before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds (the “Bureau”) under the Ministry of Labor; the Bank has no right to influence the investment policy and strategy.

The amounts of employee benefits included in the consolidated balance sheets were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 1,276,052	\$ 1,259,285
Fair value of plan assets	<u>(342,138)</u>	<u>(318,538)</u>
Reserve for employee benefits liability	<u>\$ 933,914</u>	<u>\$ 940,747</u>

Movements in defined benefit plan were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Employee Benefit
Balance at January 1, 2018	<u>\$ 1,259,285</u>	<u>\$ (318,538)</u>	<u>\$ 940,747</u>
Service cost			
Current service cost	9,295	-	9,295
Net interest expense (revenue)	<u>21,406</u>	<u>(5,609)</u>	<u>15,797</u>
Recognized in profit or loss	<u>30,701</u>	<u>(5,609)</u>	<u>25,092</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(7,266)	(7,266)
Actuarial benefit - experience adjustments	(662)	-	(662)
Actuarial loss - changes in financial assumptions	62,571	-	62,571
Actuarial benefit - changes in demographic assumptions	<u>(7,986)</u>	<u>-</u>	<u>(7,986)</u>
Recognized in other comprehensive income	<u>53,923</u>	<u>(7,266)</u>	<u>46,657</u>
Contributions from the employer	-	(18,715)	(18,715)
Contributions from plan assets	(7,990)	7,990	-
Contributions from provisions	<u>(59,867)</u>	<u>-</u>	<u>(59,867)</u>
Balance at December 31, 2018	<u>\$ 1,276,052</u>	<u>\$ (342,138)</u>	<u>\$ 933,914</u>
Balance at January 1, 2017	<u>\$ 1,381,862</u>	<u>\$ (317,031)</u>	<u>\$ 1,064,831</u>
Service cost			
Current service cost	12,016	-	12,016
Net interest expense (revenue)	<u>16,651</u>	<u>(4,002)</u>	<u>12,649</u>
Recognized in profit or loss	<u>28,667</u>	<u>(4,002)</u>	<u>24,665</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	936	936
Actuarial loss - experience adjustments	17,769	-	17,769
Actuarial benefit - changes in financial assumptions	<u>(74,533)</u>	<u>-</u>	<u>(74,533)</u>
Recognized in other comprehensive income	<u>(56,764)</u>	<u>936</u>	<u>(55,828)</u>
Contributions from the employer	-	(18,013)	(18,013)
Contributions from merged FELIA and FEPIA	-	(3,120)	(3,120)
Contributions from plan assets	(22,692)	22,692	-
Contributions from provisions	<u>(71,788)</u>	<u>-</u>	<u>(71,788)</u>
Balance at December 31, 2017	<u>\$ 1,259,285</u>	<u>\$ (318,538)</u>	<u>\$ 940,747</u>

The calculation of the present value of the defined benefit obligation was carried out by qualified actuaries. The principal assumptions used in the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rates	1.25%	1.75%
Expected rates of salary increase	3.00%	3.00%

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

	December 31	
	2018	2017
Discount rates		
0.50% increase	<u>\$ (62,571)</u>	<u>\$ (68,810)</u>
0.50% decrease	<u>\$ 67,350</u>	<u>\$ 74,533</u>
Expected rates of salary increase		
0.50% increase	<u>\$ 65,876</u>	<u>\$ 73,251</u>
0.50% decrease	<u>\$ (61,872)</u>	<u>\$ (68,348)</u>

The sensitivity analysis presented above might not have been representative of the actual change in the present value of the defined benefit obligation because it was unlikely that the change in assumptions occurred in isolation of one another, i.e., some of the assumptions might have been correlated.

The expected contribution to the plan for the next year is \$19,725 thousand, and the average duration of the defined benefit obligation is 10.2 years.

The Bank is exposed to the following risks on its defined benefit plan managed by the Bureau:

- 1) Risk on investment: The investment income of benefit plan assets affects the plan fair value and contribution status. That is, a higher investment income increases the fair value of plan assets and decreases net defined benefits liabilities (or increases net assets) and thus improves contribution status. In contrast, a lower investment income or investment loss is unfavorable to the contribution status of benefit the plan.
- 2) Risk on interest fluctuations: The discount rate used in calculating the present value of defined benefit obligations is determined by the mainly pertains to the yields of the ROC government. A decrease in discount rate will increase the present value of defined benefit obligations.
- 3) Risk on salary fluctuations: As the defined benefit obligation was determined by the salaries of plan members before their retirement, the expected increase in salary should then be considered in the calculation. Thus, an increase in the expected rate for salary increase will result in a rise in the present values of defined benefit obligations.

30. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2018	2017
Authorized shares (in thousands)	<u>4,500,000</u>	<u>4,500,000</u>
Authorized capital	<u>\$ 45,000,000</u>	<u>\$ 45,000,000</u>
Issued and paid shares (in thousands)	<u>3,269,186</u>	<u>3,182,929</u>
Issued capital	<u>\$ 32,691,859</u>	<u>\$ 31,829,286</u>

Issued ordinary shares with par value of \$10 are entitled to the right to vote and to receive dividends

At the shareholders' meeting held on June 20, 2018, the Bank resolved to increase its capital by using its undistributed earnings of \$862,573 thousand. As a result, the Bank issued 86,257 thousand ordinary shares at a par value of NT\$10. After the issuance, the share capital of the Bank amounted to \$32,691,859 thousand.

The meeting of the Bank's shareholders on June 15, 2017 resolved to increase the Bank's capital by declaring a stock dividend of \$715,614 thousand. As a result, the Bank issued additional 71,561 thousand ordinary shares at a par value of NT\$10. After the issuance, the share capital of the Bank amounted to \$31,829,286 thousand.

b. Capital surplus

The capital surplus arising from shares issued in excess of par and treasury stock transactions may be used to offset a deficit, or, if the Bank has no deficit, distributed as cash dividends or transferred to capital (limited to a certain percentage of the Bank's paid-in capital and once a year). However, capital surplus arising from investment accounted for using equity method may not be used for any purpose.

c. Retained earnings and dividend policy

The appropriations of earnings were approved in the shareholders' meetings held on June 20, 2018. In case of net income after settlement of accounts for each fiscal year, the Bank shall recover all the losses incurred in the previous years, if any, before setting aside a legal reserve of thirty percent (30%) of the net profit and appropriating, according to law and regulations, a special reserve shall be retained, and shall first be distributed to the dividends of Preferred Stock. The remaining amount together with the accumulated retained profits of the last year and the reversals of special reserves are available for distribution as dividends for Common Stock. The dividends for Common Stock shall be distributed at least thirty per cent (30%) of the remaining amount. The Board of Directors shall prepare the earnings distribution in accordance with the existing circumstances at the time, taking into account the future development plan of the Bank. Any allocation of cash dividend shall, in principle, be no less than 10% of the total dividends to be distributed that year.

The Banking Law provides that, unless legal reserve reached the Bank's paid-in capital, cash dividends are limited to 15% of paid-in capital.

Under the Company Law, legal reserve should be appropriated until it has reached the Bank's paid-in capital. This reserve may be used to offset a deficit. According to an amendment to the Company Law, when the Bank has no deficit and its legal reserve has exceeded 25% of its paid-in capital, the excess may be distributed in the form of stocks or cash.

An amount equal to the net debit balance of other items of shareholders' equity (including exchange differences on translating foreign operations, gains (losses) on valuation of investments in equity instruments measured at FVTOCI) shall be transferred from unappropriated earnings to a special reserve before any appropriation of earnings. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

According to Rule No. 10510001510 issued by the FSC on May 25, 2016, a special reserve accounted for 0.5% to 1.0% of the Bank's annual earnings should be made when making the appropriations of earnings for the years from 2016 to 2018 to cope with the staff transformation due to financial technology development. The Bank may reverse the special reserve at the same amount with the actual spending on transitioning or settling its employees since 2017.

When foreign shareholders are entitled to the distribution of dividends and the dividends' amount includes the previous year's profit-seeking enterprise income tax, the tax amount can be entitled to tax credit.

The appropriations of earnings for the 2018 and 2017, which were approved in the shareholders' meetings on June 20, 2018 and June 15, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (Dollars)	
	2017	2016	2017	2016
Legal reserve	\$ 856,165	\$ 973,166		
Appropriate (reversal) of special reserve	(214,292)	129,675		
Cash dividends	1,397,306	1,306,774	\$ 0.439	\$ 0.420
Stock dividends	<u>862,573</u>	<u>715,614</u>	0.271	0.230
	<u>\$ 2,901,752</u>	<u>\$ 3,125,229</u>		

The appropriations of earnings for 2018 had been proposed by the Bank's Board of Directors on March 26, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 1,057,260	
Special reserve	39,804	
Cash dividends	1,471,134	\$0.450
Stock dividends	<u>866,334</u>	0.265
	<u>\$ 3,434,532</u>	

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 19, 2019.

d. Other equity items

Unrealized gain or loss on financial assets measured at FVTOCI in 2018:

Balance of adjustment on initial application of IFRS 9 at January 1, 2018	\$ 196,065
Recognized for the year	
Unrealized gain or loss	
Debt instruments	(279,393)
Equity instruments	(37,126)
Net remeasurement of allowance for loss	(929)
Share of associates accounted for using the equity method	(22,016)
Reclassification adjustment - disposal of investments in debt instruments	(28,621)
Other comprehensive income recognized for the year	<u>(368,085)</u>
Disposal of equity instruments at FVTOCI	<u>65,531</u>
Balance, ending of year	<u>\$ (106,489)</u>

Movements of unrealized gain (loss) on available-for-sale financial assets under equity attributable to owners of the Bank in 2017 were as follows:

Balance, beginning of year	\$ (344,477)
Unrealized gain on available-for-sale financial assets	408,303
Cumulative gain (loss) reclassified to profit or loss on sale of available-for-sale financial assets	(50,499)
Share of unrealized gain (loss) on available-for-sale financial assets of associates	<u>9,528</u>
Balance, ending of year	<u>\$ 22,855</u>

31. NET INTERESTS

	For the Year Ended December 31	
	2018	2017
Interest revenues		
Discounts and loans	\$ 8,726,303	\$ 7,764,549
Securities	1,252,950	1,110,544
Credit cards	818,190	819,965
Others	<u>518,794</u>	<u>362,873</u>
	<u>11,316,237</u>	<u>10,057,931</u>
Interest expenses		
Deposits and remittances	4,387,085	3,591,784
Bank debentures	368,192	445,663
Structured products	299,317	219,021
Due to other banks	286,192	92,837
Bonds under repurchase agreements	243,164	256,037
Others	<u>51,484</u>	<u>47,715</u>
	<u>5,635,434</u>	<u>4,653,057</u>
	<u>\$ 5,680,803</u>	<u>\$ 5,404,874</u>

32. NET SERVICE FEE INCOME

	For the Year Ended December 31	
	2018	2017
Service fee income		
Wealth management	\$ 1,383,464	\$ 1,405,341
Credit business	1,045,171	1,022,157
Credit cards	978,553	951,500
Service fee, brokering	265,140	261,619
Others	<u>218,285</u>	<u>207,110</u>
	<u>3,890,613</u>	<u>3,847,727</u>
Service fee expense		
Benefit and chargeback fee	199,360	196,669
Visa and Master	157,537	152,078
Agency service fee	72,938	73,154
National credit card center fee	64,684	65,927
Credit investigation	46,522	45,994
Interbank service fee	46,122	42,091
Others	<u>172,677</u>	<u>142,614</u>
	<u>759,840</u>	<u>718,527</u>
	<u>\$ 3,130,773</u>	<u>\$ 3,129,200</u>

33. NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FVTPL

	For the Year Ended December 31	
	2018	2017
Realized gains	\$ 1,354,054	\$ 1,433,686
Valuation gains (loss)	(220,958)	160,180
Net interests	350,232	127,548
Dividends	<u>22,632</u>	<u>10,803</u>
	<u>\$ 1,505,960</u>	<u>\$ 1,732,217</u>

34. EMPLOYEE BENEFITS EXPENSE

	For the Year Ended December 31	
	2018	2017
Salaries	\$ 3,095,932	\$ 3,030,685
Labor and health insurance	218,586	218,636
Post-employment benefits (Note 29)	150,633	143,343
Others	<u>373,007</u>	<u>275,135</u>
	<u>\$ 3,838,158</u>	<u>\$ 3,667,799</u>

According to the Articles that if there be net income before income tax, remuneration of directors and employees' compensation, the Bank should retain an employees' compensation of 3.5%-4.5% and a remuneration of directors no greater than 1.5%. On March 26, 2019 the Bank's Board of Directors resolved to pay employees' compensation of \$152,444 thousand and remuneration of directors of \$50,814 thousand for the year ended December 31, 2018, both in cash. On March 21, 2018 the Bank's Board of Directors resolved to pay employees' compensation of \$126,300 thousand and remuneration of directors of \$42,100 thousand for the year ended December 31, 2017, both in cash.

If there is a change in the amounts after the financial statements for the year ended December 31, 2018 were authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2017.

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

35. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2018	2017
Depreciation (Note 20)	\$ 222,608	\$ 220,196
Amortization	\$ 27,431	\$ 27,946

36. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the Year Ended December 31	
	2018	2017
Tax and government fees	\$ 605,600	\$ 578,778
Rental	444,482	440,427
Marketing and advertising	405,262	403,685
Software	188,957	184,352
Telecommunications	165,201	164,686
Others	<u>737,296</u>	<u>709,769</u>
	<u>\$ 2,546,798</u>	<u>\$ 2,481,697</u>

37. INCOME TAX EXPENSE

a. Income tax expense recognized in profit or loss

The major components of tax expenses were as follows:

	For the Year Ended December 31	
	2018	2017
Current tax expense		
Current period	\$ 319,342	\$ 367,768
Prior years	<u>(772)</u>	<u>(3,607)</u>
	<u>318,570</u>	<u>364,161</u>
Deferred tax expense		
Current period	318,458	50,823
Effect of change in tax rate	(91,040)	-
Prior years	<u>(1,710)</u>	<u>(1,223)</u>
Deferred tax expense	<u>225,708</u>	<u>49,600</u>
Income tax expense recognized in profit or loss	<u>\$ 544,278</u>	<u>\$ 413,761</u>

A reconciliation of accounting income and income tax expense recognized in profit or loss is as follows:

	For the Year Ended December 31	
	2018	2017
Income before income tax	<u>\$ 4,068,479</u>	<u>\$ 3,267,644</u>
Income tax expense calculated at the statutory rate	\$ 836,802	\$ 580,792
Income from offshore banking unit (OBU)	(281,594)	(153,740)
Tax-exempted investment income	(314,653)	(373,349)
Tax-exempted other items	(64,470)	77,010
Unrecognized loss carryforwards	(11,696)	(69,413)
Unrecognized deductible temporary differences	181,124	-
Additional income tax under the Alternative Minimum Tax Act	254,199	324,786
Income tax on unappropriated earnings	-	365
Overseas branch income tax	38,088	29,482
Adjustments for prior years' tax	(2,482)	(4,830)
Effect of change in tax rate	(91,040)	-
Others	<u>-</u>	<u>2,658</u>
Income tax expense recognized in profit or loss	<u>\$ 544,278</u>	<u>\$ 413,761</u>

The tax rate applicable to the Bank were 17% and 20% in 2017 and 2018, respectively. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

2019 appropriation of earnings is subject to the shareholders' meeting in June, 2019, and the income tax rate of the unappropriated earnings in 2018 will be 5%.

b. Deferred tax recognized in other comprehensive income

	December 31	
	2018	2017
Remeasurement of defined benefit plans	\$ 23,181	\$ (9,491)
Exchange differences on translation of foreign currency	<u>2,103</u>	<u>4,226</u>
	<u>\$ 25,284</u>	<u>\$ (5,265)</u>

c. The movements of deferred tax assets and liabilities were as follows:

For the year ended December 31, 2018

Deferred Tax Assets	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Ending Balance
Temporary differences				
Allowance for possible losses in excess of the limit	\$ 401,409	\$ (212,661)	\$ -	\$ 188,748
Defined benefit plans in excess of the limit	137,528	90	23,181	160,799
Unrealized gain or loss on financial instruments	(47,290)	(4,715)	-	(52,005)
Others	<u>28,703</u>	<u>17,625</u>	<u>2,103</u>	<u>48,431</u>
	520,350	(199,661)	25,284	345,973
Unused loss carryforwards	<u>64,152</u>	<u>(37,941)</u>	<u>-</u>	<u>26,211</u>
	<u>\$ 584,502</u>	<u>\$ (237,602)</u>	<u>\$ 25,284</u>	<u>\$ 372,184</u>
Deferred Tax Liabilities (Recognized as Other Liabilities)	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Ending Balance
Temporary differences				
Difference in revenue recognition	\$ (15,013)	\$ 15,013	\$ -	\$ -
Income from equity investments in foreign company under the equity method	<u>(3,396)</u>	<u>(3,119)</u>	<u>-</u>	<u>(6,515)</u>
	<u>\$ (18,409)</u>	<u>\$ 11,894</u>	<u>\$ -</u>	<u>\$ (6,515)</u>

For the year ended December 31, 2017

Deferred Tax Assets	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Ending Balance
Temporary differences				
Allowance for possible losses in excess of the limit	\$ 402,565	\$ (1,156)	\$ -	\$ 401,409
Defined benefit plans	158,608	(11,589)	(9,491)	137,528
Unrealized gain or loss on financial instruments	(43,551)	(3,739)	-	(47,290)
Others	<u>29,503</u>	<u>(5,026)</u>	<u>4,226</u>	<u>28,703</u>
	547,125	(21,510)	(5,265)	520,350
Unused loss carryforwards	<u>87,979</u>	<u>(23,827)</u>	<u>-</u>	<u>64,152</u>
	<u>\$ 635,104</u>	<u>\$ (45,337)</u>	<u>\$ (5,265)</u>	<u>\$ 584,502</u>

Deferred Tax Liabilities (Recognized as Other Liabilities)	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Ending Balance
Temporary differences				
Difference in revenue recognition	\$ (14,058)	\$ (955)	\$ -	\$ (15,013)
Income from equity investments in foreign company under the equity method	<u>(88)</u>	<u>(3,308)</u>	<u>-</u>	<u>(3,396)</u>
	<u>\$ (14,146)</u>	<u>\$ (4,263)</u>	<u>\$ -</u>	<u>\$ (18,409)</u>

d. Items not recognized as deferred tax assets

	December 31	
	2018	2017
<u>Loss carryforwards</u>		
The Bank		
Expire in 2018	\$ -	\$ 2,044,870
Expire in 2021	<u>133,968</u>	<u>133,968</u>
	<u>\$ 133,968</u>	<u>\$ 2,178,838</u>
FEIS		
Expire in 2021	\$ 4,942	\$ 4,942
Expire in 2022	22,380	22,380
Expire in 2023	10,626	10,626
Expire in 2024	<u>1,920</u>	<u>1,920</u>
	<u>\$ 39,868</u>	<u>\$ 39,868</u>
Deductible temporary differences		
Allowance for possible losses in excess of the limit	<u>\$ 905,618</u>	<u>\$ -</u>

e. Information about unused loss carryforwards

As of December 31, 2018, loss carryforwards comprised:

Expiry Year	Unused Amount
<u>The Bank</u>	
2021	\$ 133,968 (assessed)
<u>FEIS</u>	
2019	44,350 (assessed)
2020	53,563 (assessed)
2021	38,085 (assessed)
2022	22,380 (assessed)
2023	10,626 (assessed)
2024	<u>1,920 (assessed)</u>
	<u>\$ 170,924</u>

f. Income tax assessments

The income tax returns of the Bank through 2014 had been assessed by the tax authorities. The income tax returns of FEAMC, and FEIS through 2016 had been assessed by the tax authorities.

38. EARNINGS PER SHARE

The earnings per share (EPS) disclosed in the consolidated income statement are based on net income attributable to owners of the Bank.

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	2018	2017
Basic EPS	<u>\$ 1.08</u>	<u>\$ 0.87</u>
Diluted EPS	<u>\$ 1.07</u>	<u>\$ 0.84</u>

The net income and weighted average number of ordinary shares outstanding for EPS calculation were as follows:

Net Income for the Year

	<u>For the Year Ended December 31</u>	
	2018	2017
Net income attributable to owners of the Bank	\$ 3,524,201	\$ 2,853,883
Effect of dilutive potential ordinary shares		
Euro Convertible Bonds	<u>3,420</u>	<u>44,029</u>
Net income used in the computation of diluted EPS	<u>\$ 3,527,621</u>	<u>\$ 2,897,912</u>

Number of Ordinary Shares (In Thousand Shares)

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in the computation of basic EPS	3,269,186	3,269,186
Effect of dilutive potential ordinary shares		
Euro Convertible Bonds	15,785	151,621
Employees' compensation	<u>18,516</u>	<u>16,289</u>
Weighted average number of ordinary shares used in the computation of diluted EPS	<u>3,303,487</u>	<u>3,437,096</u>

The weighted average number of ordinary shares outstanding for 2017 EPS calculation was retroactively adjusted to the issuance of stock dividends. The basic and diluted after-tax EPS were adjusted retrospectively as follows:

	Before Adjustment	After Adjustment
Basic EPS	<u>\$ 0.90</u>	<u>\$ 0.87</u>
Diluted EPS	<u>\$ 0.86</u>	<u>\$ 0.84</u>

Employees' compensation for the current year should be considered in calculating the weighted-average number of shares outstanding used for calculating diluted EPS. The dilutive effect of the potential shares should be included in the calculation of diluted EPS until the board meeting resolves the number of shares to be distributed as employees' compensation at their board meeting in the following year.

39. RELATED-PARTY TRANSACTIONS

The Bank and its subsidiaries had significant business transactions with the following related parties:

Related Party	Relationship with the Bank and Its Subsidiaries
Dah Chung Bills Finance Corp.	Association
Ding Ding Integrated Marketing Service Co.	Chairman is the vice-chairman of the Bank
Asia Cement Corp.	Chairman is the vice-chairman of the Bank
Far Eastern Department Store Corp.	Chairman is the vice-chairman of the Bank
Yuan Ding Co., Ltd.	Chairman is the vice-chairman of the Bank
Ding Ding Hotel Co., Ltd.	Chairman is the vice-chairman of the Bank
New Century InfoComm Tech Co., Ltd.	Chairman is the vice-chairman of the Bank
U-Ming Marine Transport Corp.	Chairman is the vice-chairman of the Bank
Oriental Union Chemical Corporation	Chairman is the vice-chairman of the Bank
Far Eastern New Century Corp.	Chairman is the vice-chairman of the Bank
Far EasTone Telecommunications Corporation	Chairman is the vice-chairman of the Bank
U-Ming Marine Transport (Singapore) Private, Ltd.	Chairman of parent company is the vice-chairman of the Bank
Everest Textile Co., Ltd.	Chairman is a second-degree relative of the vice chairman of the Bank
Yuan Long Stainless Steel Co.	Substantive related party since September 2017
Pacific SOGO Department Stores Corporation	Substantive related party since September 2017
Others	The Bank's chairman, vice-chairman, managers, their second-degree relatives or substantive related party

The significant transactions and account balances with the above parties (in addition to those disclosed in other notes) are summarized as follows:

a. Loans to other banks

Related Party	Highest Balance in Current Year	Ending Balance	Interest Revenues	Interest Rates
<u>Dah Chung Bills Finance Corp.</u>				
For the year ended December 31				
2018	<u>\$ 1,600,000</u>	<u>\$ -</u>	<u>\$ 1,153</u>	0.34%-0.41%
2017	<u>\$ 2,300,000</u>	<u>\$ 500,000</u>	<u>\$ 2,095</u>	0.20%-0.42%

b. Loans

Category	Number of Accounts and Related Party	Highest Balance in Current Year	Ending Balance	Normal Loans	Nonperforming Loans	Collateral	Transactions Terms Different from Those for Unrelated Parties
For the year ended December 31, 2018							
Consumer loans	Five individuals	\$ 1,847	\$ 801	\$ 801	\$ -	Unsecured loan	Note 2
Loans for residential mortgage	Twenty five individuals	281,695	254,190	254,190	-	Real estate	Note 2
Others	Yuan Long Stainless Steel Co.	1,706,572	1,706,000	1,706,000	-	Real estate	Note 2
	Asia Cement Corp.	600,000	400,000	400,000	-	Stock listed on TWSE	Note 2
	Far Eastern New Century Corp.	390,000	300,000	300,000	-	Machinery	Note 2
	Others(Note 1)	1,889,065	86,000	86,000	-	Real estate, ship and certificates of deposit, unquoted stock, and listed on TWSE	Note 2
			<u>\$ 2,746,991</u>	<u>\$ 2,746,991</u>	<u>\$ -</u>		
For the year ended December 31, 2017							
Consumer loans	Three individuals	\$ 1,885	\$ 1,645	\$ 1,645	\$ -	Unsecured loan	Note 2
Loans for residential mortgage	Twenty one individuals	207,796	193,154	193,154	-	Real estate	Note 2
Others	Yuan Long Stainless Steel Co.	1,740,000	1,520,000	1,520,000	-	Real estate	Note 2
	Asia Cement Corp.	600,000	600,000	600,000	-	Stock listed on TWSE	Note 2
	Others(Note 1)	3,050,000	75,000	75,000	-	Unquoted stock, ship and certificates of deposit, machinery, real estate, and stock listed on TWSE and list stock	Note 2
			<u>\$ 2,389,799</u>	<u>\$ 2,389,799</u>	<u>\$ -</u>		

Note 1: The individual amount does not exceed 10% of the total disclosure amount.

Note 2: The terms of the loans were no superior to those for unrelated parties.

	Interest Rate	Interest Revenues	Provision for Possible Losses
For the year ended December 31			
2018	0.99% - 3.68%	<u>\$ 30,835</u>	<u>\$ 3,877</u>
2017	0.90% - 2.24%	<u>\$ 18,138</u>	<u>\$ 7,809</u>

Balances of related allowance for possible losses were \$28,741 thousand and \$24,864 thousand as of December 31, 2018 and 2017, respectively.

c. Guarantees

Related Party	Highest Balance in Current Year	Ending Balance	Reserve for Guarantee Obligations	Interest Rate	Collateral
<u>For the year ended December 31, 2018</u>					
Yuan Long Stainless Steel Co.	\$ 60,000	\$ 30,000	\$ 300	0.60%	Machinery
Ding Ding Hotel Co., Ltd.	20,000	20,000	200	0.80%	Unquoted stock
Yuan Ding Investment Co.	13,000	13,000	130	0.80%	Unquoted stock
Others(Note)	749,835	-	-	0.45%-0.80%	Real estate, unquoted stock, ship and certificates of deposit
		<u>\$ 63,000</u>	<u>\$ 630</u>		
<u>For the year ended December 31, 2017</u>					
Oriental Union Chemical Corporation	130,000	\$ 130,000	\$ 1,300	0.50%	Unquoted stock
Yuan Long Stainless Steel Co.	30,000	30,000	300	0.60%	Machinery
Ding Ding Hotel Co., Ltd.	70,000	20,000	200	0.50%-0.80%	Unquoted stock
Others(Note)	33,935	32,835	328	0.50%-0.80%	Real estate, unquoted stock, and certificates of deposit
		<u>\$ 212,835</u>	<u>\$ 2,128</u>		

Note: The individual amount does not exceed 10% of the total disclosure amount.

d. Letters of credit issued

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Yuan Long Stainless Steel Co.	\$ 8,664	\$ -
Everest Textile Co., Ltd.	3,331	10,537
Far Eastern Department Store Corp.	-	17,908
	<u>\$ 11,995</u>	<u>\$ 28,445</u>

e. Security transactions - buy and sell

	<u>Held for Trading</u>		<u>Short Sales</u>		<u>Resale Agreement - Bonds</u>	<u>Repurchase Agreement - Bonds</u>
	<u>Buy</u>	<u>Sell</u>	<u>Buy</u>	<u>Sell</u>		
Dah Chung Bills Finance Corp.						
For the year ended December 31						
2018	\$ -	\$ 100,000	\$ -	\$ -	\$ 9,977,023	\$ -
2017	\$ 150,000	\$ 150,000	\$ 150,000	\$ 50,000	\$ 39,362,203	\$ -

f. Derivative instruments

Related Party	Derivative Instrument	Contract Period	Nominal Amount	Valuation Gain (Loss)	Balance Sheet	
					Account	Balance
For the year ended December 31, 2018						
U-Ming Marine Transport Corp.	Cross-currency swap contracts	2018.12.03 - 2019.01.07	\$ 307,330	\$ (805)	Financial liabilities at FVTPL	\$ 335
U-Ming Marine Transport (Singapore) Private, Ltd.	Interest rate swap contracts	2012.09.27 - 2027.09.30	3,489,425	15,320	Financial assets at FVTPL	16,413
					Financial liabilities at FVTPL	13,051
Far Eastern New Century Corp.	Forward exchange contracts	2018.11.27 - 2019.03.27	439,107	3,354	Financial assets at FVTPL	4,194
					Financial liabilities at FVTPL	840
New Century InfoComm Tech Co., Ltd.	Foreign-currency swap contracts	2018.10.29 - 2019.01.31	537,828	(928)	Financial assets at FVTPL	30
					Financial liabilities at FVTPL	958
Asia Cement Corp.	Cross-currency swap contracts	2018.12.25 - 2021.09.15	460,995	489	Financial assets at FVTPL	2,244
Dah Chung Bills Finance Corp.	Domestic convertible (exchangeable) bond asset swap contracts	2016.01.19 - 2019.06.16	20,000	(14,405)	Financial assets at FVTPL	450
					Financial liabilities at FVTPL	69
For the year ended December 31, 2017						
U-Ming Marine Transport Corp.	Cross-currency swap contracts	2017.06.16 - 2018.06.28	5,671,120	(8,066)	Financial assets at FVTPL	\$ 48,734
U-Ming Marine Transport (Singapore) Private, Ltd.	Interest rate swap contracts	2012.09.27 - 2022.10.25	966,329	(112)	Financial liabilities at FVTPL	11,959
Far Eastern New Century Corp.	Forward exchange contracts	2017.11.06 - 2018.02.26	1,007,212	5,651	Financial assets at FVTPL	7,391
					Financial liabilities at FVTPL	1,740
New Century InfoComm Tech Co., Ltd.	Foreign-currency swap contracts	2017.12.27 - 2018.02.26	298,480	(458)	Financial liabilities at FVTPL	458
Dah Chung Bills Finance Corp.	Domestic convertible (exchangeable) bond asset swap contracts	2015.05.18 - 2019.06.16	225,000	(30,224)	Financial assets at FVTPL	15,416
					Financial liabilities at FVTPL	630

g. Deposits

	December 31	
	2018	2017
Deposits of related parties (each account balance did not exceed 5% of total deposits)	<u>\$44,743,009</u>	<u>\$44,426,319</u>
Interest rate	0% - 6.08%	0% - 6.08%
	For the Year Ended December 31	For the Year Ended December 31
	2018	2017
Interest expenses	<u>\$ 473,588</u>	<u>\$ 228,739</u>

h. Service fee expense

	For the Year Ended December 31	
	2018	2017
Ding Ding Integrated Marketing Service Co.	\$ 128,252	\$ 144,650
Far EasTone Telecommunications Corporation	21,418	-
Far Eastern Department Store Corp.	<u>19,465</u>	<u>18,534</u>
	<u>\$ 169,135</u>	<u>\$ 163,184</u>

i. Operating expenses

	For the Year Ended December 31	
	2018	2017
Marketing and advertising - Pacific SOGO Department Stores Corp.	\$ 86,303	\$ 44,663
Rental - Yuan Ding Co., Ltd.	84,617	79,068
Marketing and advertising - Far Eastern Department Store Corp.	84,393	116,629
Marketing and advertising - Ding Ding Hotel Co., Ltd.	<u>13,422</u>	<u>16,801</u>
	<u>\$ 268,735</u>	<u>\$ 257,161</u>

Note: Pacific SOGO Department Stores Corp. has been a related party since September 2017, as a result, the prior period accounts were prepared for comparison with the same period.

The Bank rented part of its office premises from Yuan Ding Co., Ltd. Based on the lease agreements, the rents were payable monthly.

j. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 177,647	\$ 166,913
Post-employment benefits	<u>2,189</u>	<u>2,618</u>
	<u>\$ 179,836</u>	<u>\$ 169,531</u>

40. PLEDGED ASSETS

	December 31	
	2018	2017
FVTOCI - 2018		
Government bonds	\$ 3,586,922	\$ -
Negotiable certificates of deposits issued by the central bank	3,306,146	-
Available-for-sale financial assets - 2017		
Government bonds	-	3,602,186
Negotiable certificates of deposits issued by the central bank	-	3,003,045
Other financial assets - deposits with original maturity more than 3 months	<u>894,600</u>	<u>549,240</u>
	<u>\$ 7,787,668</u>	<u>\$ 7,154,471</u>

The negotiable certificates of deposits issued by the Central Bank and deposits with original maturity more than 3 months have been pledged as collaterals to back the extension of intraday credit in the Central Bank's real-time gross settlement system. The balance of intraday credit and the amount of collateral may vary at any time. The government bonds had been provided as the reserve for compensation of trust department as well as security bond for provisional seizures of the debtors' properties.

41. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those mentioned in Note 44, the Bank and its subsidiaries' contingent liabilities and commitments resulting from operating activities as of December 31, 2018 and 2017 are summarized as follows:

a. Operating leases commitment

The maturity analysis of rental payments under non-cancellable operating leases was as follows:

	December 31	
	2018	2017
Within one year	\$ 374,568	\$ 366,779
After one year but within five years	528,106	687,092
After five years	<u>49,598</u>	<u>69,942</u>
	<u>\$ 952,272</u>	<u>\$ 1,123,813</u>

b. Balance sheets and income statements of trust accounts and the trust assets lists were as follows:

Balance Sheets of Trust Accounts

	December 31	
	2018	2017
<u>Assets</u>		
Deposits in banks	\$ 5,397,051	\$ 5,495,110
Accounts receivable	17,043	14,672
Funds	41,006,506	38,592,345
Equity stocks	4,955,244	5,175,789
Bond investments	5,468	5,434
Real estate, net	3,878,851	1,240,973
Marketable securities in custody	10,924,845	7,942,426
Others	<u>1,793,961</u>	<u>1,513,200</u>
	<u>\$ 67,978,969</u>	<u>\$ 59,979,949</u>
<u>Liabilities</u>		
Accounts payable	\$ 1,920	\$ 3,158
Income tax payable	196	189
Marketable securities in custody payable	10,924,845	7,942,426
Trust capital	56,058,747	50,359,002
Reserve and earnings	<u>993,261</u>	<u>1,675,174</u>
	<u>\$ 67,978,969</u>	<u>\$ 59,979,949</u>

Income Statements of Trust Accounts

	For the Year Ended December 31	
	2018	2017
Trust revenue		
Interest	\$ 37,404	\$ 35,618
Cash dividends	1,870,890	1,640,769
Unrealized investment gain	-	4,851
Revenue from stock lending	16	75
Others	<u>159</u>	<u>19,075</u>
	<u>1,908,469</u>	<u>1,700,388</u>
Trust expenses		
Management	41,951	48,014
Supervision	487	477
Service charges	8,743	16,259
Taxes	33,976	2,177
Service fee for stock affairs	-	1
Service fee for stock lending	1	2
Realized investment loss	569,646	366,599
Unrealized investment loss	<u>89,346</u>	<u>-</u>
	<u>744,150</u>	<u>433,529</u>
Income before tax	1,164,319	1,266,859
Income tax	<u>396</u>	<u>391</u>
Net income	<u>\$ 1,163,923</u>	<u>\$ 1,266,468</u>

Trust Asset Lists

	December 31	
	2018	2017
Deposits in banks	\$ 5,397,051	\$ 5,495,110
Accounts receivable	17,043	14,672
Funds	41,006,506	38,592,345
Equity stocks	4,955,244	5,175,789
Bonds investments	5,468	5,434
Real estate, net		
Land	2,766,640	591,940
Building	39,743	25,211
Construction in progress	1,072,468	623,822
Marketable securities in custody	10,924,845	7,942,426
Others	<u>1,793,961</u>	<u>1,513,200</u>
	<u>\$ 67,978,969</u>	<u>\$ 59,979,949</u>

As of December 31, 2018 and 2017, funds amounting to \$1,393,772 thousand and \$1,183,824 thousand, respectively, had been recognized in the OBU's books as investment in overseas securities through Non-discretionary Pecuniary Trust of the OBU.

42. UNSETTLED LITIGATION EVENTS

Regarding the claims of the Bank against Allied Material Technology Co., in October 2017, the Taiwan High Court ruled that the Bank shall pay \$244,563 thousand plus interest to other banks (the amount was derived from the reorganization of Allied Material Technology Co.). The Bank has appealed in accordance with laws and regulations. The Supreme Court remanded the case to the Taiwan High Court on December 20, 2018. Based on attorney's assessment of the remand, the probability of winning the litigation may be high. Accordingly, the Bank hasn't evaluated related liabilities.

43. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31						
2018			2017			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 3,847,847	30.733	\$ 118,255,874	\$ 3,349,475	29.848	\$ 99,975,133
HKD	3,129,424	3.924	12,279,860	2,978,848	3.819	11,376,220
AUD	457,217	21.670	9,907,900	506,770	23.260	11,787,470
CNY	928,509	4.473	4,153,219	1,174,009	4.577	5,373,440
JPY	12,639,326	0.278	3,518,788	8,504,053	0.265	2,253,574
ZAR	1,316,853	2.130	2,804,897	1,034,693	2.421	2,504,990
EUR	64,066	35.210	2,255,778	53,261	35.700	1,901,434
SGD	36,216	22.480	814,145	1,643	22.320	36,675
GBP	7,840	38.880	304,813	7,809	40.210	314,007
CAD	10,243	22.580	231,284	16,429	23.780	390,683
NZD	7,251	20.620	149,518	9,076	21.200	192,406
<u>Financial liabilities</u>						
Monetary items						
USD	3,728,931	30.733	114,601,236	3,115,598	29.848	92,994,369
HKD	3,086,761	3.924	12,112,450	2,934,977	3.819	11,208,676
AUD	456,347	21.670	9,889,048	503,348	23.260	11,707,874
CNY	932,046	4.473	4,169,043	1,181,070	4.577	5,405,758
JPY	12,397,679	0.278	3,451,514	8,156,806	0.265	2,161,554
ZAR	1,319,968	2.130	2,811,532	1,082,688	2.421	2,621,187
EUR	66,480	35.210	2,340,753	53,705	35.700	1,917,278
SGD	36,159	22.480	812,851	1,698	22.320	37,889
GBP	7,782	38.880	302,562	7,929	40.210	318,839
CAD	10,244	22.580	231,300	15,874	23.780	377,478
NZD	7,326	20.620	151,067	9,527	21.200	201,970

44. FINANCIAL INSTRUMENTS

a. Information of fair value

1) Overview

Fair value is defined as the price the trader collected or paid in an ordinary transaction for disposal or acquisition of assets or transfer of liabilities on the measurement date.

Financial instruments are initially recognized at fair value which is the transaction price in general terms. All financial instruments are subsequently measured at fair value except for financial instruments which are valued at amortized cost.

2) The definition of three levels of fair value information

a) Level 1

Level 1 inputs are observable inputs that reflect quoted prices for identical financial instruments in an active market. A market is active if it has these characteristics: Products traded in the market are homogeneous; willing buyers and sellers can be found immediately and the price information is publicly available.

b) Level 2

Level 2 inputs are observable inputs other than quoted prices for identical assets or liabilities in active markets, including direct inputs (such as market prices) or indirect inputs (such as prices derived from market prices).

c) Level 3

Level 3 inputs are unobservable items such as inputs derived through extrapolation or interpolation and thus cannot be corroborated by observable market data.

b. Fair value information - Financial instrument measured at fair value under repetitive basis

1) Information of the financial instruments measured at fair value categorized by level is as follows:

Repetitive Financial Instruments	December 31, 2018			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial assets and liabilities</u>				
<u>Assets</u>				
Mandatorily at FVTPL				
Bonds investments	\$ 8,324,585	\$ 8,324,585	\$ -	\$ -
Equity investments	64,115	64,115	-	-
Bills investments	18,556,024	-	18,556,024	-
FVTOCI				
Equity instruments	1,265,822	930,492	-	335,330
Debt instruments				
Bonds investments	55,562,384	55,562,384	-	-
Bills investments	62,950,846	-	62,950,846	-
<u>Derivative financial assets and liabilities</u>				
<u>Assets</u>				
Mandatorily at FVTPL	3,783,114	351	3,698,910	83,853
<u>Liabilities</u>				
Financial liabilities at FVTPL	(2,752,479)	(161)	(2,685,579)	(66,739)
<u>Hybrid contract</u>				
Mandatorily at FVTPL	<u>15,779,663</u>	<u>544,395</u>	<u>15,235,268</u>	<u>-</u>
	<u>\$ 163,534,074</u>	<u>\$ 65,426,161</u>	<u>\$ 97,755,469</u>	<u>\$ 352,444</u>

Repetitive Financial Instruments	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Non-derivative financial assets and liabilities				
<u>Assets</u>				
Financial assets at FVTPL				
Held for trading				
Bonds investments	\$ 5,238,586	\$ 5,238,586	\$ -	\$ -
Equity investments	347,783	347,783	-	-
Bills investments	15,830,287	-	15,830,287	-
Beneficiary certificates	50,473	50,473	-	-
Financial assets designated as at FVTPL				
Convertible (exchangeable) bonds	5,680,038	5,680,038	-	-
Available-for-sale				
Bonds investments	46,349,663	46,349,663	-	-
Equity investments	758,711	758,711	-	-
Bill investments	62,523,204	-	62,523,204	-
<u>Liabilities</u>				
Financial liabilities at FVTPL				
Settlement coverage bonds payable of short sale	(50,241)	(50,241)	-	-
<u>Derivative financial assets and liabilities</u>				
<u>Assets</u>				
Financial assets at FVTPL				
Held for trading	3,061,166	477	2,950,088	110,601
<u>Liabilities</u>				
Financial liabilities at FVTPL	(4,268,880)	(1,668)	(4,263,385)	(3,827)
	<u>\$ 135,520,790</u>	<u>\$ 58,373,822</u>	<u>\$ 77,040,194</u>	<u>\$ 106,774</u>

2) Valuation techniques for fair value measurement

When the Bank and its subsidiaries determine the fair value of financial instruments, they consider the market. If the market is active, then the fair value of the instruments will be consistent with quoted market prices. If the market is not active, then the fair value will be estimated by using a valuation model that is widely adopted by market participants or by referring to counterparties' parameters or to parameters based on conditions and characteristics of financial instruments that are similar to those of the Bank and its subsidiaries' instruments.

The parameters of valuation model used to measure fair value of financial instruments are usually observable data from market, such as OTC, Reuters and Bloomberg's offering price. The valuation department determines the scope of valuation model and assesses any uncertainty and its impact. In its assessment, the valuation department ensures the following:

- The consistency and adequacy of the market parameters used in the valuation;
- The appropriateness of the valuation model in light of the assumptions to be used, the internal control and risk management framework, and the degree of mathematical expertise required for an independent unit to make the valuation;

- c) Reliability of price information and other parameters used in the valuation and any model adjustments to be made on the basis of current market conditions.

3) Credit risk valuation adjustment

Credit risk valuation adjustment is for financial instrument transactions made outside the stock exchange, namely the transactions made over-the-counter, which could be mainly divided into credit value adjustment and debit value adjustment. The definition is as follows:

- a) Credit Value Adjustment (the “CVA”) is the reflection of possibility that counterparty is likely to default and the possible loss that the counter party may not be able to reimburse entire market value.
- b) Debit Value Adjustment (the “DVA”) is the reflection of possibility that the Bank is likely to default and the uncertainty that the Bank may not be able to reimburse for the entire market value.

The CVA is calculated by multiplying the probability of default (the “PD”), loss given default (the “LGD”) and exposure at default (the “EAD”) of counterparty together. In contrast, DVA is calculated by multiplying PD (under zero default rate of the counterparty), LGD and EAD of the Bank together.

To take into account all risk factors involved in model-based fair value measurements, the Bank uses the disclosure guidelines issued by the TWSE on CVA and DVA, which are marked to market, using appropriate ratios such as LGD, PD, and EAD. This way, the credit risks on counterparties in OTC-derivative transactions as well as the Bank’s credit quality can be considered.

4) Transfers between Levels 1 and level 2

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

5) Level 3 financial instruments

- a) Movement of Level 3 financial assets

December 31, 2018

Item	Beginning Balance	Valuation		Increase in the Current Year		Decrease in the Current Year		Ending Balance
		Included in Profit or Loss	Included in Other Comprehensive Income	Purchase or Issue	Transfer-in (Note)	Sale, Disposition or Settlement	Transfer-out from Level 3	
Mandatorily at FVTPL	\$ 110,601	\$ (18,265)	\$ -	\$ 8,321	\$ -	\$ (16,804)	\$ -	\$ 83,853
Financial assets at FVTOCI	-	-	25,675		309,655	-	-	335,330
Total	\$ 110,601	\$ (18,265)	\$ 25,675	\$ 8,321	\$ 309,655	\$ (16,804)	\$ -	\$ 419,183

Note: Due to retroactive classification IFRS 9 in beginning balance of 2018.

December 31, 2017

Item	Beginning Balance	Valuation	Increase in the Current Year		Decrease in the Current Year		Ending Balance
			Purchase or Issue	Transfer-in	Sale, Disposition or Settlement	Transfer-out from Level 3	
Financial assets at FVTPL Held for trading - derivative financial assets	\$ 92,774	\$ 32,470	\$ 48,024	\$ -	\$ (62,667)	\$ -	\$ 110,601

b) Movements of Level 3 financial liabilities

December 31, 2018

Item	Beginning Balance	Valuation	Increase in the Current Year		Decrease in the Current Year		Ending Balance
			Purchase or Issue	Transfer-in	Sale, Disposition or Settlement	Transfer-out from Level 3	
Financial liabilities at FVTPL Derivative financial liabilities	\$ 3,827	\$ (1,675)	\$ 66,739	\$ -	\$ (2,152)	\$ -	\$ 66,739

December 31, 2017

Item	Beginning Balance	Valuation	Increase in the Current Year		Decrease in the Current Year		Ending Balance
			Purchase or Issue	Transfer-in	Sale, Disposition or Settlement	Transfer-out from Level 3	
Financial liabilities at FVTPL Derivative financial liabilities	\$ 6,818	\$ (1,198)	\$ 3,481	\$ -	\$ (5,274)	\$ -	\$ 3,827

c) Quantitative information of significant unobservable parameters used in fair value measurement (Level 3 financial instruments)

Level 3 financial instruments mainly consist of credit default swap and investment in equity instrument at FVTOCI which have single major unobservable parameters; quantitative information is as follows:

Measured at Fair Value Based on Repetition	Fair Value as of December 31, 2018	Valuation Techniques	Significant Unobservable Parameters	Interval (Weighted-average)	Relationship Between Parameters and Fair Value
<u>Derivative financial assets</u>					
December 31, 2018	\$ 83,853	Default probability model	Credit separation	0.40%-3.50%	The increase of credit separation decreases its fair value. The increase of credit separation decreases its fair value.
December 31, 2017	110,601	Default probability model	Credit separation	0.80%-3.65%	
<u>Investments in equity</u>					
December 31, 2018	299,678	Income approach - cash dividend discount method	Without open market marketable discount	20.16%	The increase of discount decreases its fair value.
	24,809	Market approach - analogy company law	Without open market marketable discount	10.00%	The increase of discount decreases its fair value.
	10,843	Net asset value method	N/A	N/A	N/A
<u>Derivative financial liabilities</u>					
December 31, 2018	66,739	Default probability model	Credit separation	0.40%-3.50%	The increase of credit separation decreases its fair value. The increase of credit separation decreases its fair value.
December 31, 2017	3,827	Default probability model	Credit separation	0.80%-3.65%	

d) Valuation procedures for Level 3 fair value

Valuation of Level 3 financial instruments is executed by a specific department and external expert responsible for fair value measurement which is independent from operating department. The Bank uses data from independent source to make valuation results close to market status, confirms whether the data source is independent, reliable and consistent with other data, inspects valuation parameters on a regular basis, updates parameters of the valuation model and makes any other necessary fair value adjustments in order to ensure proper valuation results.

- e) The sensitivity analysis of reasonably possible alternative assumptions for fair value measurements categorized within Level 3

Had the valuation parameters for financial instruments categorized within Level 3 been 0.01% higher/lower, the impact on the profit or loss for the year would have been as follows:

Item	Impact on Gains and Losses			
	December 31, 2018		December 31, 2017	
	Favorable	Unfavorable	Favorable	Unfavorable
<u>Assets</u>				
Mandatorily at FVTPL	\$ 2,892	\$ (2,893)	\$ 2,706	\$ (2,706)
<u>Liabilities</u>				
Financial liabilities at FVTPL	4,300	(4,302)	958	(958)

Had the valuation parameters for financial instruments categorized within Level 3 been 0.01% higher/lower, the impact on other comprehensive income or loss for the current year would have been as follows:

Item	Impact on Other Comprehensive Income and Losses			
	December 31, 2018		December 31, 2017	
	Favorable	Unfavorable	Favorable	Unfavorable
<u>Assets</u>				
Financial assets at FVTOCI	\$ 59	\$ (59)	\$ -	\$ -

The favorable and unfavorable movement refers to the fluctuation of fair values, which is calculated on the basis of valuation techniques involving the use of input parameters. However, the table above does not reflect the correlation between input parameters and their volatility.

c. Fair Value information - financial instruments not measured at fair value

The Bank and its subsidiaries consider that the book value of financial assets and liabilities which not measured at fair value is close to fair value, except for the book value of those measured at cost and of the items below:

	2018		The fair value hierarchy of financial instruments	
	Book Value	Fair Value	Level 1	Level 2
<u>Financial asset</u>				
Investments in debt instrument at amortized cost	\$ 2,588,654	\$ 2,577,856	\$ 2,577,856	\$ -
	2017		The fair value hierarchy of financial instruments	
	Book Value	Fair Value	Level 1	Level 2
<u>Financial asset</u>				
Held-to-maturity financial assets	\$ 2,135,246	\$ 2,135,189	\$ 2,135,189	\$ -
Debt investments with no active market	6,677,076	6,669,817	-	6,669,817

The evaluation methods and assumptions for Level 2 financial instruments above are quoted from the offering price of Bloomberg and Reuters.

45. FINANCIAL RISK MANAGEMENT

a. Overview

The Bank's risk management policy is to form a risk management-oriented culture, and to use both qualitative and quantitative indexes from internal and external risk management regulations in developing operating strategies.

The Bank has set up an independent risk control department to implement and monitor risk management policies.

The Bank's risk management policies are established to identify and measure the risks faced by the Bank, to set appropriate risk limits and controls, to monitor risks and adherence to limits, and to achieve the target profit.

b. Risk management framework

The Board of Directors, the highest decision-making body of the Bank, has overall responsibility for the establishment and oversight of the Bank's risk management framework.

Asset and Liability Management Committee and Risk Management Committee have been formed to examine and manage the Bank's risks, to assess the execution of risk management policies and to evaluate risk tolerance. The general manager is the convener, and is responsible for appointing members of committees.

Risk Management Department comprising of corporate banking and consumer banking groups which directly manage credit extension risks with regard to their respective areas, and present risk management report to Risk Management Committee and the Board of Directors, regularly. The Internal Audit Department undertakes regular reviews of risk management controls and procedures, including risk management framework, operating procedures of risk management, and provides timely suggestion and improvement.

c. Credit risk

1) Definition and scope of credit risk

Credit risk is the risk of financial loss to the Bank if a borrower, issuer or counterparty to a financial instrument fails to meet its contractual obligations due to its credit deterioration or other factors, such as a dispute between the borrower and its counterparty.

Credit risk includes all risks derived from on- and off-balance sheet business, and all credit risk related to products, businesses and positions.

2) Management policies on credit risk

The Bank shall identify risk factors and consider appropriate risk evaluation and control process prior to taking the existing or new business. For all credit risks identified on- and off-balance sheet, adequate credit limits are set based on the same borrower, counterparty, related party, group, or industry. The Bank shall establish review mechanism to track and assess changes in each borrower's or issuer's financial position; regularly assess and manage asset quality, also strengthen the management of unusual borrowers and make appropriate allowance for possible losses if applicable.

3) The credit risk management processes and valuation methods for credit extension are as follows:

2018

a) The credit risk has increased significantly after original recognition

The Bank assesses the change in the risk of default over the expected duration of each type of credit asset on each reporting date in order to determine whether the credit risk has increased significantly since original recognition. For this assessment, the Bank's considerations show that the credit risk has increased significantly since original recognition and can be corroborated. The main considerations include the following:

Qualitative Index

The debtor's payment is overdue for 30 - 89 days.

Quantitative Index

- i. Unfavorable changes in current or projected operating, financial or economic conditions that are expected to result in significant changes in the ability of the debtor to perform its debt obligations.
- ii. Significant changes in actual or expected results of the debtor's operations.
- iii. The credit risk of other financial instruments of the same debtor has increased significantly.

b) The definition of default and credit impairment on financial assets

The Bank's definition of default on financial assets is the same as the judgment of credit impairment on financial assets. If one or more of the following conditions are met, the Bank determines that the financial assets have defaulted and have credit impairment:

Qualitative Index

The debtor's payment is overdue for more than 90 days.

Quantitative Index

If there is any evidence indicates that the debtor can not pay the contract, or the debtor is in a material financial difficulties as follows:

- i. The debtor has become bankrupt or may file for bankruptcy or financial restructuring.
- ii. The debtor has conformed to a non-performed loan by authorities.
- iii. The debtor has conducted a negotiation of debts or self-negotiating.

iv. The active market of the financial assets disappeared due to financial difficulties.

The aforementioned default and credit impairment definitions apply to all financial assets held by the Bank and are consistent with the definitions used for the internal credit risk management purposes of the financial assets and are applied to the relevant impairment assessment model.

If the financial assets have not conformed to the definition of default and credit impairment on financial assets for 6 consecutive months, it would not be classified as a default and credit impairment on financial assets.

c) Write off policy

When the Bank can not reasonably expect the recoverable from the entire or partial financial assets, the entire or partial financial assets will be written off. The index of unexpected reasonably recoverable amount includes the following:

- i. The recovery of debt has stopped.
- ii. The debtor doesn't have enough assets or income resource to pay the debt after assessment.

Financial asset which has been written-off can do the recovery of debt and institute legal proceedings continuously under related policies.

d) Measurement of expected credit loss

i. Loan and receivables

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

The above "PD" and "LGD" are applied to the credit business according to each group's historical information (such as credit loss experience) from internal statistical data, and adjust historical data based on current observable and forward-looking macroeconomic information (such as GDP and unemployment rate), then calculate by applying the progressive one factor model respectively.

When the Bank measured the credit loss of assets combination, the forward-looking information were taken into the PD's consideration. Among them, the index of forward-looking adjustment in PD is predicted by the Corporate banking Sector which adopted the growth rate of real GDP in Taiwan and the Consumer banking Sector which adopted the unemployment rate in Taiwan.

According to the measurement of predict loss in IFRS 9, the forward-looking adjustment in PD is requested to assess any consequences (at least 2 circumstances) and expresses with weighted-average probability. As a result, the Bank took the prediction authorities' consensus forecasting into consideration and adopted the prediction value by at least 2 macroeconomic prediction authorities as the index of forward-looking adjustment.

The Bank considered the estimate on credit loss with the forward-looking information by the above methods.

- ii. The investments in debt instrument at amortized cost and at FVTOCI

The measurement of predict credit loss consider the information of PD and LGD which is announced from the external credit ratings and Moody's to calculate. The international credit rating authority has considered the forward-looking information when assessed the credit rating which is taken consideration to measure the predict credit loss by the Bank consequently.

2017

- a) Classification of credit assets

Credit assets are grouped into 5 different categories according to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans." Normal credit assets shall be classified as "Category One", the remaining credit assets shall be further classified based on the collateral for loans and past due status as follows: Category Two-Special Mention loans; Category Three-Substandard; Category Four-Doubtful, and Category Five-Unrecoverable. Moreover, the Bank establishes internal requirements, such as the "Principles Governing the Procedures to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans," to manage problematic credit extension and credit collection and management.

- b) Credit quality

Discounts and loans and receivables

The Bank sets credit quality grades according to product features, business types, operating conditions, collaterals and credit rating. Credit risk from corporate banking is categorized according to the business types, collaterals, credit rating and financial position of borrowers; credit risk from consumer banking is assessed on a case-by-case basis, except for unsecured loans and credit card products, which are assessed by internal credit rating models.

Interbank facilities, derivative financial instruments and investments in debt instruments

Total trading limits are determined each year by reference to financial institutions' operating results, credit rating, rating on THE BANKER, net worth and background of shareholders, with summaries submitted to the Credit Committee, and to the Managing Directors for approval. In each quarter, view the transaction limits for each financial institution in the Risk Management Committee.

Derivative financial instruments transactions entered into counterparties from banking sectors are those categorized as investment grade, and they are controlled using relevant transaction limits for each counterparty. For individual counterparty, credit exposure is controlled using the limits placed on derivative instruments by both amounts and terms in the general credit approval process.

Credit risk on debt instruments is evaluated by identifying the risk using the credit rating obtained from external institutions, credit quality, geographic situations and counterparty credit risk.

4) Credit risk hedging and mitigation policies

- a) The terms of credit facilities are determined in the light of assessments of probability and amounts of default and collateral and guarantees are obtained, including bank deposit receipts, securities (such as treasury securities, government bonds, bank debentures, stocks and bonds guaranteed by financial institutions) and real estate such as land and buildings. Stocks listed on TWSE and TPEx are marked to market day to day, and changes in the value of their collaterals are monitored all the time; values of land and buildings are examined every time the contract is renewed.
- b) Reduce loans to non-target customers to mitigate credit risk.
- c) Through policy mechanism, such as credit limits and credit regulation prior to the credit being committed to customers, to control the quality of credit assets. Via post-loan management, concentration analysis, midway credit and review tracking to view assets quality and changes of each case. Master and monitor risk in time. Periodic reports and feedbacks to understand credit portfolios and overall credit risks, ensure risk offsets for continued effectiveness.
- d) According to the Bank's "Principles for Acceptance and Disposal of Collaterals," collateral of nonperforming loans secured through compulsory enforcement or participating distribution, if the minimum auction price or liquidation price of the collateral is too low and damage the Bank's credit right, the Bank will participate in the auction or declare to undertake, for example, the minimum auction price is too low to compensate the principal and interest of loans but the collateral must not be difficult to dispose in the future. For collaterals tendered or undertaken, the Bank should actively seek buyers, and if the collateral is real estate, the Bank should dispose of it within the period prescribed under the Banking Law.
- e) Other credit enhancements

If there are guarantee, strategic alliance or collaterals provided in the terms of the loan contracts which the Bank recognized as unsecured loan, when default events occur, the Bank will demand compensation from the guarantor, strategic alliance, transfer of credits to the Bank or disposal of collaterals to decrease credit risk.

5) The maximum credit risk exposure

The carrying amount represents the Bank's maximum exposure to credit risk of the on-balance sheet assets, without taking into account the collaterals held or other credit enhancements. The amounts of the maximum credit exposure of the irrevocable off-balance commitments and guarantees, without taking into account the collaterals held or other credit enhancements, were as follows:

	December 31	
	2018	2017
Unused portion of credit card lines	\$ 179,890,598	\$ 171,589,511
Guarantees and standby L/Cs	19,271,353	17,455,518
Irrevocable loan commitments	15,866,641	12,171,019

The breakdown of maximum credit risk exposure of the Bank according to whether collaterals are held or other credit enhancements exist is as follows:

December 31, 2018

	Maximum Credit Risk Exposure			
	With Collaterals	Other Credit Enhancements	Without Collaterals	Total
<u>Balance sheet items</u>				
Discounts and loans	\$ 248,098,498	\$ 60,682,444	\$ 76,142,075	\$ 384,923,017
Receivables - credit card	-	-	14,417,111	14,417,111
Receivables - acceptances	-	98,272	341,087	439,359
<u>Off-Balance sheet items</u>				
Unused portion of credit card lines	-	-	179,890,598	179,890,598
Guarantee	5,843,474	6,147,476	6,609,086	18,600,036
Letters of credit issued	11,995	220,265	439,057	671,317
Irrevocable loan commitments	<u>798,815</u>	<u>-</u>	<u>15,067,826</u>	<u>15,866,641</u>
	<u>\$ 254,752,782</u>	<u>\$ 67,148,457</u>	<u>\$ 292,906,840</u>	<u>\$ 614,808,079</u>

December 31, 2017

	Maximum Credit Risk Exposure			
	With Collaterals	Other Credit Enhancements	Without Collaterals	Total
<u>Balance sheet items</u>				
Discounts and loans	\$ 234,344,356	\$ 52,712,990	\$ 68,883,273	\$ 355,940,619
Receivables - credit card	-	-	14,786,253	14,786,253
Receivables - acceptances	-	175,516	245,900	421,416
<u>Off-Balance sheet items</u>				
Unused portion of credit card lines	-	-	171,589,511	171,589,511
Guarantee	4,592,188	5,387,303	6,529,898	16,509,389
Letters of credit issued	35,601	244,973	665,555	946,129
Irrevocable loan commitments	<u>1,795,770</u>	<u>-</u>	<u>10,375,249</u>	<u>12,171,019</u>
	\$ 240,767,915	\$ 58,520,782	\$ 273,075,639	\$ 572,364,336

The Bank set the procedure for the range of available to classify as collaterals and estimation of collaterals with collaterals assessed management and estimation loans of collaterals which is in order to check the nonperforming loans.

When loan contracts set the security of nonperforming loans, article of collaterals and definition of credit event occurrence, the quota and the repayment period can be reduced or regard as maturity to reduce the credit risk.

6) Concentrations of credit risk

The concentration of credit risk exists when counterparties to financial transactions are individuals or groups engaging in similar business activities and having similar economic features. The similarity would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank's concentrations of credit risk by industry, geography and type of collaterals were as follows:

a) By industry

Credit Risk Profile by Industry Sector	December 31, 2018	
	Amount	%
Finance and insurance	\$ 53,669,412	14
Manufacturing	43,696,595	11
Wholesale and retail trade	<u>15,946,673</u>	<u>4</u>
	<u>\$ 113,312,680</u>	<u>29</u>

Credit Risk Profile by Industry Sector	December 31, 2017	
	Amount	%
Finance and insurance	\$ 52,415,634	15
Manufacturing	41,373,608	12
Wholesale and retail trade	<u>11,331,381</u>	<u>3</u>
	<u>\$ 105,120,623</u>	<u>30</u>

b) By geography

Region	December 31			
	2018		2017	
	Amount	% to Total	Amount	% to Total
Taiwan	\$ 319,847,652	83	\$ 299,813,491	84
Asia Pacific except Taiwan	32,731,935	9	30,750,120	9
Others	<u>32,343,430</u>	<u>8</u>	<u>25,377,008</u>	<u>7</u>
	<u>\$ 384,923,017</u>	<u>100</u>	<u>\$ 355,940,619</u>	<u>100</u>

c) By type of collaterals

Type of Collaterals	December 31			
	2018		2017	
	Amount	%	Amount	%
Unsecured	\$ 136,824,519	36	\$ 121,596,263	34
Secured				
Real estate	209,070,047	54	191,379,527	54
Movable property	18,601,434	5	19,630,122	5
Financial collateral	17,274,959	4	20,035,658	6
Others	<u>3,152,058</u>	<u>1</u>	<u>3,299,049</u>	<u>1</u>
	<u>\$ 384,923,017</u>	<u>100</u>	<u>\$ 355,940,619</u>	<u>100</u>

7) Continuing assessment of credit quality and any impairment of financial assets

Some of the financial assets held by the Bank and its subsidiaries, such as cash and cash equivalents, due from the central bank and other banks, financial assets at FVTPL, securities purchased under resale agreements, refundable deposits and operating deposits, are assessed with low credit risk due to the good credit rating of the counterparties.

An analysis of credit quality of financial assets other than those listed above is shown below:

a) Credit quality analysis of discounts and loans and receivables - December 31, 2017

December 31, 2017	Neither Past due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Allowance for Possible Losses (D)		Net Amount (A)+(B)+(C)-(D)
	Excellent	Good	Moderate	Special Mention	Subtotal (A)				With Objective Evidence of Individual Impairment	Without Objective Evidence of Individual Impairment	
Discounts and loans	\$ 202,127,029	\$ 91,546,163	\$ 53,657,111	\$ 1,464,776	\$ 348,795,079	\$ 3,604,981	\$ 3,540,559	\$ 355,940,619	\$ 1,005,118	\$ 3,878,739	\$ 351,056,762
Receivables											
Credit card	5,553,263	2,525,409	4,676,783	14,347	12,769,802	574,604	1,441,847	14,786,253	469,259	2,209	14,314,785
Others	1,285,406	686,972	4,203,354	-	6,175,732	2,572	670,909	6,849,213	579,375	68,084	6,201,754

- b) An analysis of credit quality of discounts and loans neither past due nor impaired by business types-December 31, 2017

	Neither Past Due Nor Impaired				
	Excellent	Good	Moderate	Special Mention	Total
Corporate banking					
Secured	\$ 24,577,665	\$ 19,672,117	\$ 4,307,119	\$ 30,498	\$ 48,587,399
Unsecured	9,855,194	39,597,169	45,050,962	1,107,894	95,611,219
Consumer banking					
Housing mortgage	156,815,282	9,900,793	617,144	-	167,333,219
Credit loans	6,506,427	7,654,052	2,574,079	326,384	17,060,942
Others	4,372,461	14,722,032	1,107,807	-	20,202,300
Total	\$ 202,127,029	\$ 91,546,163	\$ 53,657,111	\$ 1,464,776	\$ 348,795,079

- c) Loans and receivables past due but not impaired-December 31, 2017

Financial assets past due 90 days or less are not considered impaired unless there is objective evidence that an impairment loss has been incurred. Financial assets might become past due but not impaired by reasons of borrowers' late processing or other administrative delays.

The aging analysis of loans and receivables past due but not impaired was as follows:

Past Due Items	December 31, 2017		
	Up to 1 Month	Over 1 Month to 3 Months	Total
Discounts and loans			
Corporate banking	\$ 80,944	\$ 154,465	\$ 235,409
Consumer banking			
Housing mortgage	2,116,878	283,789	2,400,667
Credit loans	485,657	114,219	599,876
Others	344,203	24,826	369,029
Total	3,027,682	577,299	3,604,981
Receivables			
Credit card	505,595	69,009	574,604
Others	-	2,572	2,572

d) An analysis of credit quality of security investments-December 31, 2017

December 31, 2017	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Allowance for Possible Losses (D)	Net Amount (A)+(B)+(C)-(D)
	Excellent	Good	Moderate	Special Mention	Subtotal (A)					
Available-for-sale financial assets										
Bond investments	\$ 46,349,663	\$ -	\$ -	\$ -	\$ 46,349,663	\$ -	\$ -	\$ 46,349,663	\$ -	\$ 46,349,663
Bill investments	62,523,204	-	-	-	62,523,204	-	-	62,523,204	-	62,523,204
Held-to-maturity financial assets										
Bond investments	2,135,246	-	-	-	2,135,246	-	-	2,135,246	-	2,135,246
Debt investments with no active market	4,009,518	2,667,558	-	-	6,677,076	-	-	6,677,076	-	6,677,076
Total	\$ 115,017,631	\$ 2,667,558	\$ -	\$ -	\$ 117,685,189	\$ -	\$ -	\$ 117,685,189	\$ -	\$ 117,685,189

The analysis above excludes equity investments.

d. Liquidity risk

1) Sources and definition of liquidity risk

Liquidity risk is the risk that the Bank is unable to liquidate assets or obtain loans to meet its obligations when they fall due as a result of customer deposits being early withdrawn, deteriorating access to and terms of interbank facilities, deteriorating delinquency by borrowers, or financial instruments not easily liquidated. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfill lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activities, systemic shocks and natural disasters, etc.

2) Risk management policies on liquidity risk

The Bank's liquidity management processes, which are managed by an independent department, include:

- a) Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met;
- b) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- c) Monitoring the liquidity ratios against internal and regulatory requirements; and
- d) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections respectively for the next ten days, one month, two months, etc., to, one year and over one year. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Related information is submitted regularly to the Bank's Asset and Liability Management Committee and the Board of Directors.

3) Financial assets held for liquidity risk management purposes

To support payment obligation and contingent funding in a stressed market environment, the Bank holds high-quality and highly-liquid interest-earning assets comprising cash and cash equivalent, due from the central bank and other banks, securities purchased under resale agreements and financial assets at FVTPL for which there is an active and liquid market and maintain legal ratio related to liquidity.

4) Maturity analysis of non-derivative financial liabilities

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the date of the consolidated balance sheet.

December 31, 2018	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Due to the central bank and other banks	\$ 8,715,791	\$ 55,32,147	\$ 1,382,985	\$ 59,800	\$ -	\$ 15,726,723
Securities sold under repurchase agreement	14,704,830	-	-	-	-	14,704,830
Payables	3,975,153	1,254,124	672,467	619,621	743,857	7,265,222
Deposits and remittances	196,945,980	92,549,698	68,393,781	136,525,003	13,993,510	508,407,972
Bank debentures	1,900	-	3,000,000	-	15,000,000	18,001,900
Principal received on structured products	65,452	16,965	71,214	-	12,325,539	12,479,170
Other financial liabilities	480,000	134,190	39,909	92,791	689,285	1,436,175
Total	\$ 224,925,106	\$ 99,487,124	\$ 73,560,356	\$ 137,297,215	\$ 42,752,191	\$ 578,021,992

December 31, 2017	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Due to the central bank and other banks	\$ 3,005,470	\$ 3,731,384	\$ 200,000	\$ 23,920	\$ -	\$ 6,960,774
Settlement coverage bonds payable of short sale	50,241	-	-	-	-	50,241
Securities sold under repurchase agreement	12,943,304	-	-	-	-	12,943,304
Payables	3,487,254	1,270,370	604,546	450,368	675,747	6,488,285
Deposits and remittances	193,355,538	85,621,816	64,791,402	105,119,158	23,504,269	472,392,183
Bank debentures	1,900	1,617,762	-	3,500,000	15,100,000	20,219,662
Principal received on structured products	277,530	70,989	193,172	41,586	5,899,236	6,482,513
Other financial liabilities	110,000	27,821	125,609	134,582	536,250	934,262
Total	\$ 213,231,237	\$ 92,340,142	\$ 65,914,729	\$ 109,269,614	\$ 45,715,502	\$ 526,471,224

Note: The amounts disclosed in the tables are the contractual undiscounted cash flows, some of which may not reconcile to the corresponding items in the consolidated balance sheet.

In the maturity analysis of “deposits and remittance” disclosed in the above table, it is assumed that demand deposits are expected to be drawn down in the earliest period.

5) Maturity analysis of derivative financial liabilities

- a) Derivative instruments settled on a net basis are include foreign exchange derivatives (foreign exchange options, non-deliverable forwards) and interest rate derivatives (interest rate swap options, interest rate swaps and other interest rate contracts settled on net cash flow). Maturity analysis of derivative financial liabilities that will be settled on a net basis is as follows:

December 31, 2018	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Derivative financial liabilities at FVTPL						
Foreign exchange derivatives	\$ 382	\$ 558	\$ 199	\$ -	\$ -	\$ 1,139
Interest rate derivatives	3,675	6,361	8,378	5,375	552,531	576,320
Total	\$ 4,057	\$ 6,919	\$ 8,577	\$ 5,375	\$ 552,531	\$ 577,459

December 31, 2017	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Derivative financial liabilities at FVTPL						
Foreign exchange derivatives	\$ 4,098	\$ 2,077	\$ 425	\$ 615	\$ -	\$ 7,215
Interest rate derivatives	1,894	7,571	312,944	29,936	405,449	757,794
Total	\$ 5,992	\$ 9,648	\$ 313,369	\$ 30,551	\$ 405,449	\$ 765,009

Note: The amounts disclosed in the table are the contractual undiscounted cash flows, some of which may not reconcile to the corresponding items in the consolidated balance sheet.

- b) Derivative instruments settled on a gross basis include foreign exchange derivatives (foreign exchange swaps, foreign exchange options), interest rate derivatives (cross currency swaps) and credit derivatives (credit default swap). Maturity analysis of derivative financial liabilities that will be settled on a gross basis is as follows:

December 31, 2018	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Derivative financial liabilities at FVTPL						
Foreign exchange derivatives						
Cash outflow	\$ 66,817,020	\$ 66,620,982	\$ 43,980,954	\$ 14,101,278	\$ 1,363,279	\$ 192,883,513
Cash inflow	66,388,975	66,181,803	43,707,316	14,043,361	1,386,102	191,707,557
Interest rate derivatives						
Cash outflow	921,990	-	-	-	614,660	1,536,650
Cash inflow	903,800	-	-	-	603,750	1,507,550
Credit derivatives						
Cash outflow	-	-	-	-	-	-
Cash inflow	3,299	20,218	28,563	45,507	292,691	390,278
Subtotal of cash outflow	67,739,010	66,620,982	43,980,954	14,101,278	1,977,939	194,420,163
Subtotal of cash inflow	67,296,074	66,202,021	43,735,879	14,088,868	2,282,543	193,605,385
Net cash flow	\$ (442,936)	\$ (418,961)	\$ (245,075)	\$ (12,410)	\$ 304,604	\$ (814,778)

December 31, 2017	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Derivative financial liabilities at FVTPL						
Foreign exchange derivatives						
Cash outflow	\$ 64,250,569	\$ 74,585,209	\$ 37,070,197	\$ 20,639,148	\$ 304,920	\$ 196,850,043
Cash inflow	63,978,148	74,429,371	37,137,723	20,870,950	298,480	196,714,672
Interest rate derivatives						
Cash outflow	-	-	-	1,498,750	-	1,498,750
Cash inflow	-	-	-	1,492,400	-	1,492,400
Credit derivatives						
Cash outflow	-	-	-	-	-	-
Cash inflow	2,232	9,058	11,665	23,331	144,496	190,782
Subtotal of cash outflow	64,250,569	74,585,209	37,070,197	22,137,898	304,920	198,348,793
Subtotal of cash inflow	63,980,380	74,438,429	37,149,388	22,386,681	442,976	198,397,854
Net cash flow	\$ (270,189)	\$ (146,780)	\$ 79,191	\$ 248,783	\$ 138,056	\$ 49,061

Note: The amounts disclosed in the table are the contractual undiscounted cash flows, some of which may not reconcile to the corresponding items in the consolidated balance sheet.

6) Maturity analysis of off-balance sheet items

Maturity analysis of the off-balance sheet items that are requested to pay or realize the guarantee on the basis of their earliest possible contractual maturity is as follows:

December 31, 2018	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Developed and irrevocable loan commitments	\$ 15,866,641	\$ -	\$ -	\$ -	\$ -	\$ 15,866,641
Irrevocable credit card commitments	179,890,598	-	-	-	-	179,890,598
Issued but unused letters of credit	671,317	-	-	-	-	671,317
Other guarantees	13,012,636	5,117,400	20,000	-	450,000	18,600,036
Total	\$ 209,441,192	\$ 5,117,400	\$ 20,000	\$ -	\$ 450,000	\$ 215,028,592

December 31, 2017	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Developed and irrevocable loan commitments	\$ 12,171,019	\$ -	\$ -	\$ -	\$ -	\$ 12,171,019
Irrevocable credit card commitments	171,589,511	-	-	-	-	171,589,511
Issued but unused letters of credit	946,129	-	-	-	-	946,129
Other guarantees	9,977,989	5,751,100	102,000	200,000	478,300	16,509,389
Total	\$ 194,684,648	\$ 5,751,100	\$ 102,000	\$ 200,000	\$ 478,300	\$ 201,216,048

e. Market risk

1) Definition and scope of market risk

Market risk is the risk that unfavorable changes in market prices, such as interest rates, foreign exchange rates, equity prices and commodity prices will affect the Bank's income or its holdings of on- and off-balance sheet positions. The Bank's market risk mainly comes from equity investment securities, interest rates and foreign exchange rates. Equity investment securities risk positions include stocks listed on TWSE and TPEX and convertible (exchangeable) bonds; interest rate risk positions include bonds and interest rate derivative instruments, such as fixed and floating interest rate swap; foreign exchange rate risk positions include foreign currencies and related derivative instruments, such as spot exchange, forward exchange, foreign currency swap and option.

2) Management policies of market risk

The Bank develops appropriate management process to identify, measure and monitor market risk, and to effectively manage and control credit limits, valuation of profits and losses, sensitivity analysis and stress tests of each financial instrument position. Besides, the Bank takes appropriate management strategy while facing market risk in its daily operating activities and management processes.

The Bank separates its exposure to market risk in banking book and trading book, which are managed, monitored and disclosed by the Risk Management Department. A summary report, including suggestion, is submitted regularly to the Risk Management Committee and the Board of Directors.

3) Market risk management process

a) Recognition and measurement

The Group's operation and risk management sections both identify market risk factors of exposure positions, which are used to measure market risks. Market risk factors include interest rates, foreign exchange rates and market price of equity securities, and exposures, gains and losses and sensitivity (PVO1, Delta, Beta) etc. Measurement of investment portfolio is affected by interest rate risk, foreign exchange risk and price of equity securities.

b) Monitoring and reporting

The Group's risk management department regularly reviews market risk management objective, positions and control of gains and losses, sensitivity analysis and pressure test and reports to the Board of Directors. Therefore, the Board of Directors could well understand market risk control. The Group has established explicit notification process, the limit and stop-loss regulation for various transactions. Stop-loss order must be taken when the limit is reached, otherwise the trading department's reasons and plans must be approved by the management, and the department should report to relevant committee regularly.

4) Management process of interest risk

Interest rate risk is the risk of loss or changes in the fair value resulting from interest rate or credit spread fluctuations. It includes interest rates or credit spread related to securities and derivative instruments.

The Bank separates the interest rate risk positions between trading book and banking book. Financial instruments and commodity positions held for trading purpose or to hedge against trading book positions are carried in trading book. Positions held for trading purpose are those held with the intention of profiting from actual or forecast spread. Positions not belonging to trading book are carried in banking book.

Management of interest rate risk in trading book

a) Management process

To limit the loss within acceptable range, the Bank imposes trading limits and stop loss limits on trading room, traders and commodity; it also imposes monthly maximum loss limit on trading positions.

b) Valuation methods

Securities are marked-to-market, and the risk of interest rate related derivative instruments are measured using DV01 and Vega. Both stop loss limits are controlled on a daily basis.

Management of interest rate risk in banking book

Interest rate risk management of banking book is to improve interest risk management, capital efficiency and business operations.

a) Strategies

To improve its capacity to adapt to changes, the Bank measures, manages and hedges changes in its profits and losses and economic values of balance sheet items arising from interest rate fluctuations.

b) Management process

Prior to undertaking interest rates related business, the Bank identifies re-pricing and yield curve risks, and measures the possible impact of changes in interest rate on profits and losses. The Bank analyzes and monitors position limits and various risk management objectives in respect of interest rates on a quarterly basis, and the results are submitted regularly to the Asset and Liability Management Committee and the Board of Directors.

If the risk management objectives are found to be in excess of designated limits during the monitoring process, the Bank will report to the Asset and Liability Management Committee and propose remedial action to be taken.

c) Valuation methods

Interest rate risk measures the re-pricing risk arising from different maturity or re-pricing dates of assets and liabilities carried in the banking book. To stabilize long-term profitability taking into account business growth, the Bank sets up various monitoring indexes, such as the ratio of interest rate sensitivity gap over total assets, for key holding periods. Those indexes are reported to and reviewed by management periodically.

5) Management of foreign exchange risk

a) Definition of foreign exchange risk

Foreign exchange risk is the risk of loss or changes in fair value arising from open positions in currency due to exchange rate fluctuations. Foreign exchange transactions include spot exchange, forward exchange, non-deliverable forward and foreign currency option between New Taiwan dollars and a foreign currency or between two foreign currencies.

b) Foreign exchange risk management policies, process and valuation methods

To manage foreign exchange risk and limit the loss within acceptable range, the Bank imposes trading limits and stop loss limits on trading room, traders and commodity; it also imposes monthly maximum loss limit on trading positions. Spot exchange, forward exchange, non-deliverable forward and foreign currency option are controlled collectively using Delta; foreign currency option is controlled using Vega. The stop loss limits are controlled on a daily basis.

6) Management of equity securities market risk

a) Definition of equity market risk

Equity market risk is the risk arising from open positions in equity securities as a result of fluctuations in the market prices of individual securities.

b) Management processes of equity market risk

The Bank sets gross limits on overall positions, by industries, and by groups. For stock listed on TWSE and TPEX and beneficiary certificates, the Bank sets the limit of investment in each stock and stop loss/gain limits on overall and particular positions, which are monitored daily.

A stop loss/gain order would be executed once a given stop price has been reached; otherwise, traders should report to the manager of its department, including reasons for not executing stop loss/gain order.

c) Measurement

The Bank manages market risk on the basis of closing prices of equity securities.

7) Valuation techniques of market risk

a) Stress tests

Stress tests are performed by the Risk Management Department at least once a year to assess the impact of risk factors that have become extremely volatile on asset portfolios and risk tolerance, and to ensure that the Bank will be able to handle potential losses incurred during extreme, but plausible, events.

The Bank applies market risk factors sensitivity analysis to analyze the impact on asset that could arise under extreme scenarios:

- i. Interest rate: Evaluate impacts on the values of interest-rate-based securities if yield curves move in parallel manner.
- ii. Foreign exchange: Evaluate impacts on changes in foreign exchange rates.
- iii. Equity securities: Evaluate impacts on volatility of changes in stock prices and its related derivatives.
- iv. Commodity: Evaluate impacts on volatility of changes in commodity prices and its related derivatives.

The Bank will submit the results of stress tests to the Board of Directors and Risk Management Committee as a reference of the Bank's ability to counter adverse economic conditions.

b) Sensitivity analysis

i. Interest rate sensitivity

Interest rate factor sensitivity ("DV01" or "PVBP") measured at the balance sheet date is the impact on the discounted future cash flows of bonds and interest-rate-based derivative instruments for 1 basis points ("bps") parallel shift in all yield curves or credit spread.

Assuming all other variables remain constant, where the interest rate increases/decreases by 1 bps, there would be a decrease of \$10,472 thousand and an increase of \$10,462 thousand in income before income tax for the year ended December 31, 2018. There would be a decrease of \$1,811 thousand and an increase of \$1,810 thousand in income before income tax for the year ended December 31, 2017. There would be a decrease/increase of \$18,572 thousand and \$12,268 thousand in other comprehensive income for the years ended December 31, 2018 and 2017, respectively.

ii. Foreign exchange sensitivity

Foreign exchange rate factor sensitivity ("FX Delta") measured at the balance sheet date is the impact on the values of foreign exchange positions for a 1% change in foreign exchange rates.

Where the foreign exchange increases/decreases by 1%, assuming all other variables remain constant, there would be an increase/decrease of \$169,021 thousand and \$374,288 thousand in income before income tax for the year ended December 31, 2018 and 2017, respectively.

iii. Equity securities market risk

Equity securities market factor sensitivity measured at the balance sheet date is the impact on the values of open positions in equity securities for a 1% change in stock market prices.

Where the securities prices increases/decreases by 1%, assuming all other variables remain constant, there would be an increase/decrease of \$6,085 thousand and \$60,783 thousand in income before income tax for the year ended December 31, 2018 and 2017 respectively. There would be an increase/decrease of \$12,658 thousand and \$7,587 thousand in other comprehensive income for the years ended December 31, 2018 and 2017, respectively.

8) Concentration of foreign exchange risk

Information on concentration of foreign currency exposures at the balance sheet date is shown in Note 42.

f. Transfer of financial assets

In the daily transactions of the Bank, most of the transferred financial assets not eligible for derecognition in full are notes and bonds under repurchase agreement. The cash flows of those financial assets have been transferred to outsiders and the liabilities of repurchasing the transferred financial assets in an agreed amount have been recognized. The Bank is not eligible to conduct, sell, or pledge the transferred financial assets during the effective period. However, the Bank is still exposed to interest rate risks and credit risks. As a result, the transferred financial assets are not derecognized. The following tables show the transferred financial assets not eligible for derecognition in full and related amounts.

Types of Financial Assets	Book Value of Transferred Financial Assets	Book Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Position of Fair Value
FVTOCI- transactions under repurchase agreements December 31, 2018	\$ 15,447,755	\$ 14,665,794	\$ 15,447,755	\$ 14,665,794	\$ 781,961
Available-for-sale financial assets - transactions under repurchase agreements December 31, 2017	\$ 13,528,971	\$ 12,921,364	\$ 13,528,971	\$ 12,921,364	\$ 607,607

- g. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

1) Asset quality of loans

Nonperforming loans and nonperforming receivables of the Bank

Item			December 31, 2018				
			Nonperforming Loans (Note a)	Loans	Ratio of Nonperforming Loans (Note b)	Allowance for Possible Losses	Coverage Ratio (Note c)
Corporate Banking	Secured		\$ 399,735	\$ 55,072,485	0.73%	\$ 771,445	192.99%
	Unsecured		26,210	109,101,455	0.02%	1,307,531	4,988.67%
Consumer Banking	Residential mortgage (Note d)		175,415	123,690,577	0.14%	1,950,925	1,112.18%
	Cash card		-	-	-	-	-
	Small-scale credit loan (Note e)		229,975	22,122,691	1.04%	390,942	169.99%
	Others (Note f)	Secured	78,062	69,335,436	0.11%	744,497	953.73%
		Unsecured	2,941	5,600,373	0.05%	69,559	2,365.15%
Total			912,338	384,923,017	0.24%	5,234,899	573.79%
Item			Nonperforming Receivables	Accounts Receivable	Ratio of Nonperforming Receivables	Allowance for Possible Losses	Coverage Ratio
Credit card			42,987	14,417,111	0.30%	432,188	1,005.39%
Accounts receivable factored without recourse (Note g)			-	2,769,097	-	31,690	-

Item			December 31, 2017				
			Nonperforming Loans (Note a)	Loans	Ratio of Nonperforming Loans (Note b)	Allowance for Possible Losses	Coverage Ratio (Note c)
Corporate Banking	Secured		\$ 323,017	\$ 49,671,241	0.65%	\$ 647,700	200.52%
	Unsecured		145,293	96,610,855	0.15%	1,284,894	884.35%
Consumer Banking	Residential mortgage (Note d)		209,669	118,290,563	0.18%	1,826,450	871.11%
	Cash card		-	-	-	-	-
	Small-scale credit loan (Note e)		207,115	20,109,172	1.03%	363,383	175.45%
	Others (Note f)	Secured	132,177	66,382,552	0.20%	710,877	537.82%
		Unsecured	2,634	4,876,236	0.05%	50,553	1,919.24%
Total			1,019,905	355,940,619	0.29%	4,883,857	478.85%
Item			Nonperforming Receivables	Accounts Receivable	Ratio of Nonperforming Receivables	Allowance for Possible Losses	Coverage Ratio
Credit card			46,132	14,786,253	0.31%	471,468	1,022.00%
Accounts receivable factored without recourse (Note g)			-	4,646,743	-	58,061	-

Note a: Nonperforming credit cards receivables represent the amounts of nonperforming receivables 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 b: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.

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

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

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

Note d: Residential mortgage is a loan given to the borrower who provides a house, to be purchased (or already owned) by the borrower or the spouse or the minor children of the borrower, as a mortgage to the Bank and will use the loan for house purchase or refurbishment.

Note e: Small-scale credit loans refer to the loans under the Banking Bureau's regulation, dated December 19, 2005 (Ref. No. 09440010950), but excluding small-scale unsecured loans obtained through credit cards and cash cards.

Note f: Other loans of consumer banking refer to secured or unsecured loans, excluding residential mortgage, cash card, small-scale credit loans and credit card.

Note g: As required by the Banking Bureau's letter dated July 19, 2005 (Ref. No. 0945000494), factoring without recourse is disclosed as nonperforming receivables in three months upon the factors' or insurance companies' rejection of claims.

Nonperforming loans and nonperforming receivables excluded from the information stated above

Item	December 31, 2018		December 31, 2017	
	Nonperforming Loans Excluded	Nonperforming Receivables Excluded	Nonperforming Loans Excluded	Nonperforming Receivables Excluded
Business				
Loans not classified as NPL upon debt restructuring and performed as agreed (Note a)	\$ 64,037	\$ 184,939	\$ 88,969	\$ 250,530
Loans upon performance of a debt discharge program and rehabilitation program (Note b)	791,658	1,005,612	721,064	1,076,306
Total	855,695	1,190,551	810,033	1,326,836

Note a: Supplementary disclosure related to the loans which need not be classified as NPL upon debt restructuring and performed as agreed, as stipulated in the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note b: About the Bank disclosures information and enumerates credit for case of pre-negotiation, pre-mediation, debt settlement proceedings and liquidation under Statute for Consumer Debt Clearance, as stipulated in the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940) and dates September 20, 2016 (Ref. No. 10500134790).

2) Concentration of credit extensions

Ranking (Note a)	December 31, 2018		
	Group Entity (Note b) Industry and Code (Note a)	Total Balances of Credit Extensions (Note c)	Ratio of Credit Extensions to Net Worth (%)
1	A Group - 6700 - real estate development	\$ 9,501,000	21%
2	B Group - 6499 - non-categorized and other financial services	3,831,176	9%
3	C Group - 6496 - private financing industry	3,725,413	8%
4	D Group - 4841 - retail of motor vehicles	3,027,281	7%
5	E Group - 6700 - real estate development	2,971,350	7%
6	F Group - 4210 - road engineering	2,820,240	6%
7	G Group - 5260 - air transportation assistance	2,815,985	6%
8	H Group - 2411 - smelting and refining of iron and steel	2,469,000	6%
9	I Group - 2630 - bare Printed Circuit Boards Manufacturing	2,225,583	5%
10	J Group - 2859 - other household appliances manufacturing	2,161,075	5%

Ranking (Note a)	December 31, 2017		
	Group Entity (Note b) Industry and Code (Note a)	Total Balances of Credit Extensions (Note c)	Ratio of Credit Extensions to Net Worth (%)
1	B Group - 6499 - non-categorized and other financial services	\$ 4,194,556	10%
2	J Group - 2859 - other household appliances manufacturing	3,614,918	8%
3	C Group - 6496 - private financing industry	3,119,667	7%
4	K Group - 3010 - manufacture of motor vehicles	2,743,460	6%
5	L Group - 6499 - non-categorized and other financial services	2,655,873	6%
6	M Group - 0850 - manufacture of dairy products	2,566,960	6%
7	I Group - 2630 - printed circuit board manufacturing	2,359,822	6%
8	F Group - 4210 - ocean freight transportation forwarding services	2,333,686	5%
9	H Group - 2411 - smelting and refining of iron and steel	2,332,835	5%
10	N Group - 6499 - non-categorized and other financial services	2,279,666	5%

Note a: The rankings above represent the top 10 corporate entities except for government or state-owned enterprises, based on the total balance of credit extension granted by the Bank. The amount of credit extensions should be disclosed in aggregate for each group entity, the code and industry of which are also required. The industry of the group entities is designated as the industry of the individual group entity with the greatest risk exposure. The lines of industry should conform to the industry sub-categorization of 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 b: “Group Entity” is defined in Article 6 of “Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.”

Note c: Credit extension balance includes various loans (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 nonaccrual loans), bills purchased, factored accounts receivable without recourse, acceptances and guarantees.

3) Interest rate sensitivity

Table 1: For New Taiwan dollar items

**Interest Rate Sensitivity Analysis
December 31, 2018**

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 290,024,783	\$ 146,052,263	\$ 5,650,758	\$ 30,665,306	\$ 472,393,110
Interest rate-sensitive liabilities	152,122,187	152,884,130	102,738,671	18,929,935	426,674,923
Interest rate sensitivity gap	137,902,596	(6,831,867)	(97,087,913)	11,735,371	45,718,187
Net worth					44,744,740
Ratio of interest rate-sensitive assets to liabilities					110.71%
Ratio of interest rate-sensitivity gap to net worth					102.18%

**Interest Rate Sensitivity Analysis
December 31, 2017**

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 268,141,068	\$ 143,810,222	\$ 6,514,486	\$ 24,444,616	\$ 442,910,392
Interest rate-sensitive liabilities	139,781,032	157,548,328	82,244,155	19,628,693	399,202,208
Interest rate sensitivity gap	128,360,036	(13,738,106)	(75,729,669)	4,815,923	43,708,184
Net worth					42,786,672
Ratio of interest rate-sensitive assets to liabilities					110.95%
Ratio of interest rate-sensitivity gap to net worth					102.15%

Note a: The New Taiwan dollar amounts held by the Bank.

Note b: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities that were affected by interest rate changes.

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

Note d: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities.

Table 2: For U.S. dollar items

Interest Rate Sensitivity Analysis
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	\$ 2,920,039	\$ 202,692	\$ 35,945	\$ 99,853	\$ 3,258,529
Interest rate-sensitive liabilities	2,483,940	1,112,830	159,579	-	3,756,349
Interest rate sensitivity gap	436,099	(910,138)	(123,634)	99,853	(497,820)
Net worth					1,455,918
Ratio of interest rate-sensitive assets to liabilities					86.75%
Ratio of interest rate-sensitivity gap to net worth					(34.19%)

Interest Rate Sensitivity Analysis
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	\$ 2,188,090	\$ 289,348	\$ 6,968	\$ 480	\$ 2,484,886
Interest rate-sensitive liabilities	1,996,952	1,022,244	132,994	-	3,152,190
Interest rate sensitivity gap	191,138	(732,896)	(126,026)	480	(667,304)
Net worth					1,433,485
Ratio of interest rate-sensitive assets to liabilities					78.83%
Ratio of interest rate-sensitivity gap to net worth					(46.55%)

Note a: The total U.S. dollar amounts held by the Bank, excluding contingent assets and liabilities.

Note b: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities that were affected by interest rate changes.

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

Note d: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities.

4) Profitability

Items		For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Return on total assets	Before tax	0.68%	0.57%
	After tax	0.59%	0.50%
Return on equity	Before tax	9.30%	7.80%
	After tax	8.05%	6.82%
Net income ratio		31.41%	27.45%

Note a: Return on total assets = Income before (after) income tax ÷ Average total assets.

Note b: Return on equity = Income before (after) income tax ÷ Average equity.

Note c: Net income ratio = Income after income tax ÷ Total net profit.

5) Maturity analysis of assets and liabilities

a) For New Taiwan dollar items

December 31, 2018

	Total	Amount for Remaining Period to Maturity					
		0 to 10 Days	11 to 30 Days	31 Days to 90 Days	91 Days to 180 Days	181 Days to One Year	Over One Year
Main capital inflow on maturity	\$ 657,048,134	\$ 108,223,432	\$ 83,033,715	\$ 99,353,166	\$ 67,996,227	\$ 60,087,823	\$ 238,353,771
Main capital outflow on maturity	793,951,803	46,921,837	80,819,341	163,285,185	146,268,581	190,698,533	165,958,326
Gap	(136,903,669)	61,301,595	2,214,374	(63,932,019)	(78,272,354)	(130,610,710)	72,395,445

December 31, 2017

	Total	Amount for Remaining Period to Maturity					
		0 to 10 Days	11 to 30 Days	31 Days to 90 Days	91 Days to 180 Days	181 Days to One Year	Over One Year
Main capital inflow on maturity	\$ 615,404,461	\$ 109,522,593	\$ 69,866,772	\$ 108,263,448	\$ 54,146,537	\$ 59,583,162	\$ 214,021,949
Main capital outflow on maturity	748,567,793	48,174,540	69,271,164	157,563,789	138,649,895	162,691,952	172,216,453
Gap	(133,163,332)	61,348,053	595,608	(49,300,341)	(84,503,358)	(103,108,790)	41,805,496

Note: This table refers to the New Taiwan dollar amounts held by the Bank.

b) For U.S. dollar items

December 31, 2018

(In Thousands of U.S. Dollars)

	Total	Amount for Remaining Period to Maturity				
		1 to 30 Days	31 Days to 90 Days	91 Days to 180 Days	181 Days to One Year	Over One Year
Main capital inflow on maturity	\$ 10,744,093	\$ 4,099,117	\$ 2,644,604	\$ 1,443,831	\$ 567,614	\$ 1,988,927
Main capital outflow on maturity	11,435,866	5,053,597	3,122,668	1,643,749	747,525	868,327
Gap	(691,773)	(954,480)	(478,064)	(199,918)	(179,911)	1,120,600

December 31, 2017

(In Thousands of U.S. Dollars)

	Total	Amount for Remaining Period to Maturity				
		1 to 30 Days	31 Days to 90 Days	91 Days to 180 Days	181 Days to One Year	Over One Year
Main capital inflow on maturity	\$ 9,004,471	\$ 3,082,670	\$ 2,617,797	\$ 1,172,558	\$ 689,521	\$ 1,441,925
Main capital outflow on maturity	9,398,646	3,748,072	3,377,047	881,325	750,334	641,868
Gap	(394,175)	(665,402)	(759,250)	291,233	(60,813)	800,057

Note: This table refers to the U.S. dollar amounts held by the Bank.

46. CAPITAL MANAGEMENT

a. Objective of capital management

- 1) Unconsolidated regulatory capital and the consolidated regulatory capital should meet the requirements of the related regulations. The basic goal of the Bank's capital management is to meet the minimum ratio of regulatory capital and risk assets (the "capital adequacy ratio") according to the "Regulations Governing the Capital Adequacy and Capital Category of Banks" enacted based on the "Banking law."

- 2) In order to maintain an adequate level of capital to bear various risks, the Bank makes capital planning based on the operating plans and budget, the development strategies, dividend policy and stress tests and forecasts of capital adequacy which are approved by the Board of Directors. The objective is to optimize assets allocation and strengthen capital structure.

b. Procedure of capital management

- 1) The calculation of the Bank's capital adequacy ratio is based on the "Regulations Governing the Capital Adequacy and Capital Category of Banks" enacted by the Financial Supervisory Commission and the related information is reported to the competent authority on a regular basis.
- 2) In order to monitor capital adequacy ratio, the execution and changes in the parameters of the capital planning are reviewed quarterly by the Bank's Assets and Liabilities Management Committee. The committee assesses whether the Bank's capital is able to respond to various risks and whether the objective of capital management is met.

The calculations of regulatory capital, risk-weighted assets and capital adequacy ratio were as follows:

			December 31, 2018	
			Unconsolidated	Consolidated
Regulatory capital	Common equity		\$ 41,848,384	\$ 42,076,829
	Additional Tier I capital		2,193,441	2,448,097
	Tier II capital		9,014,910	9,544,444
	Total common capital		53,056,735	54,069,370
Risk-weighted assets	Credit risk	Standardized approach	367,484,931	369,490,534
		Internal rating-based approach	-	-
		Asset securitization	215,318	215,318
	Operational risk	Basic indicator approach	19,200,700	19,686,600
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	11,098,400	11,098,400
		Internal models approach	-	-
	Total risk-weighted assets		397,999,349	400,490,852
Capital adequacy ratio			13.33%	13.50%
Ratio of common equity to risk-weighted assets			10.51%	10.51%
Ratio of Tier I capital to risk-weighted assets			11.07%	11.12%
Leverage ratio			6.14%	6.19%

			December 31, 2017	
			Unconsolidated	Consolidated
Regulatory capital	Common equity		\$ 39,236,233	\$ 39,698,325
	Additional Tier I capital		-	-
	Tier II capital		11,680,665	12,185,406
	Total common capital		50,916,898	51,883,731
Risk-weighted assets	Credit risk	Standardized approach	320,791,287	322,187,276
		Internal rating-based approach	-	-
		Asset securitization	-	-
	Operational risk	Basic indicator approach	19,112,088	19,646,350
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	14,948,088	14,948,088
		Internal models approach	-	-
	Total risk-weighted assets		354,851,463	356,781,714
Capital adequacy ratio			14.35%	14.54%
Ratio of common equity to risk-weighted assets			11.06%	11.13%
Ratio of Tier I capital to risk-weighted assets			11.06%	11.13%
Leverage ratio			6.06%	6.12%

Note a: Regulatory capital, risk-weighted assets and exposure measurement are calculated under the “Regulations Governing the Capital Adequacy and capital category of Banks” and the “The Methods for Calculating the Bank’s regulatory Capital and Risk-weighted Assets amended by the FSC on November 16, 2017.

Note b: An annual report should include both the current year’s and prior year’s capital adequacy ratio, but a semiannual report should include the capital adequacy ratio of the most recent year.

Note c: Formulas used were as follows:

- 1) Regulatory capital = Common equity + Additional Tier I capital + Tier II capital.
- 2) Total risk-weighted assets = Risk-weighted assets for credit risk + (Capital requirements for operational risk and market risk) × 12.5.
- 3) Capital adequacy ratio = Regulatory capital/Total risk-weighted assets.
- 4) Ratio of Common equity to risk-weighted assets = Common equity/Total risk-weighted assets.
- 5) Ratio of Tier I capital to risk-weighted assets = (Common equity + Additional Tier I capital)/Total risk-weighted assets.
- 6) Leverage ratio = Net Tier I capital/Exposure measurement.

47. SEGMENT INFORMATION

Information provided to the Bank’s and its subsidiaries’ chief operating decision makers for resource allocation and segment performance assessment focuses on nature of operation and profits. Based on IFRS 8 - “Operating Segments,” the reportable segments were as follows:

- a. Individual banking: Mainly includes consumer banking loans such as mortgages, credit loans, car loans, installment, etc.; credit cards; individual deposits; and wealth management;

- b. Corporate banking: Mainly includes corporate-related business, foreign-currency business and financial market business;
- c. Others: Any business not included in individual and corporate banking.

The accounting policies of the reportable segments are the same as those stated in Note 4 to the consolidated financial reports.

Segment Income and Operating Results

The income and operating results of the reportable segments of the Bank and its subsidiaries were as follows:

	Individual Banking	Corporate Banking (Including Overseas Branches)	Others	Total
<u>For the year ended December 31, 2018</u>				
Net interests	\$ 4,536,177	\$ 2,500,350	\$ (1,355,724)	\$ 5,680,803
Net revenues other than interest				
Net service fee income	2,173,824	713,603	243,346	3,130,773
Other net income	<u>262,960</u>	<u>1,387,386</u>	<u>756,355</u>	<u>2,406,701</u>
Consolidated net revenues	6,972,961	4,601,339	(356,023)	11,218,277
Provision for possible losses	(158,110)	(280,608)	(76,085)	(514,803)
Operating expenses	<u>(4,721,871)</u>	<u>(1,349,304)</u>	<u>(563,820)</u>	<u>(6,634,995)</u>
Segment income before income tax	<u>\$ 2,092,980</u>	<u>\$ 2,971,427</u>	<u>\$ 995,928 ()</u>	<u>\$ 4,068,479</u>
<u>For the year ended December 31, 2017</u>				
Net interests	\$ 4,361,617	\$ 2,579,276	\$ (1,536,019)	\$ 5,404,874
Net revenues other than interest				
Net service fee income	2,202,360	691,003	235,837	3,129,200
Other net income	<u>291,567</u>	<u>1,441,747</u>	<u>129,741</u>	<u>1,863,055</u>
Consolidated net revenues	6,855,544	4,712,026	(1,170,441)	10,397,129
Provision for possible losses	(112,037)	(616,342)	(3,468)	(731,847)
Operating expenses	<u>(4,739,977)</u>	<u>(1,315,019)</u>	<u>(342,642)</u>	<u>(6,397,638)</u>
Segment income before income tax	<u>\$ 2,003,530</u>	<u>\$ 2,780,665</u>	<u>\$ (1,516,551)</u>	<u>\$ 3,267,644</u>

48. ADDITIONAL DISCLOSURES

a. Information about significant transactions:

- 1) Marketable securities acquired and disposed of at cost or prices at least NT\$300 million or 10% of the paid-in capital: Nil
- 2) Acquisition of individual real estate at cost of at least NT\$300 million or 10% of the paid-in capital: Nil
- 3) Disposal of individual real estate at prices of at least NT\$300 million or 10% of the paid-in capital: Table 1 (attached)

- 4) Service charge discounts on transactions with related parties in aggregated amount of at least NT\$5 million: Nil
 - 5) Receivables from related parties amounting to at least NT\$300 million or 10% of the paid-in capital: Nil
 - 6) Sale of nonperforming loans: Nil
 - 7) The type and related information of any securitization product that has been approved in accordance with the Financial Asset Securitization Act or the Real Estate Securitization Act: Nil
 - 8) Intercompany relationships and significant intercompany transactions: Table 2 (attached)
 - 9) Other significant transactions which may have effects on decision making of financial statement users: Nil
- b. Information of subsidiaries' financings provided, endorsement/guarantee provided, marketable securities held, marketable securities acquired and disposed of at cost or prices at least NT\$300 million or 10% of the paid-in capital and derivative transactions: Table 3 and Table 4 (attached)
 - c. Related information of investees on which the Bank and its subsidiaries exercises significant influence: Table 5 (attached)
 - d. Information about branches and investments in mainland China: Table 6 (attached)

TABLE 1

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

**Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Company Name	Type of Asset	Transaction Date	Acquisition Date	Book Value	Transaction Amount	Receipt Status	Disposition of Benefits	Counter-party	Nature of Relationship	Purpose	Reference of the Price	Other Appointments
Far Eastern International Bank Ltd.	Hsinchu Jingguo building and land	2018/9/27	2010/4/3	\$ 196,255	\$ 385,166	Receipt in full	\$ 174,755 (Note)	A company	Nil	Activated assets	Valuation report	N/A

Note: Has deducted transaction costs of \$14,156 thousand.

TABLE 2

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

No.	Company Name	Counterparty	Flow of Transaction	Transaction Details			
				Financial Statement Account	Amount	Terms	Percentage of Consolidated Net Profit or Consolidated Total Assets (Note b)
0	Far Eastern International Bank Ltd.	Far Eastern Asset Management Co., Ltd.	From parent company to subsidiary	Deposits and remittances	\$ 9,163	Note 3	-
		Far Eastern International Securities Co., Ltd.	From parent company to subsidiary	Deposits and remittances	230,754	Note 3	0.04
		Far Eastern International Securities Co., Ltd.	From parent company to subsidiary	Service charge	11,455	Note 3	0.10
1	Far Eastern Asset Management Co., Ltd.	Far Eastern International Bank Ltd.	From subsidiary to parent company	Cash and cash equivalents	9,163	Note 3	-
2	Far Eastern International Securities Co., Ltd.	Far Eastern International Bank Ltd.	From subsidiary to parent company	Cash and cash equivalents	230,754	Note 3	0.04
		Far Eastern International Bank Ltd.	From subsidiary to parent company	Service fee	11,455	Note 3	0.10

Note 1: Transacting parties are identified as follows: Number 0 - parent company; and number 1 and the following numbers - subsidiaries.

Note 2: The ratio is calculated as follows: For asset and liability accounts = Transaction amount/Consolidated total assets; and for income and expenses = Transaction amount/Consolidated net profit.

Note 3: The terms of intercompany transactions are not significantly different from those to third parties.

TABLE 3

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

SUBSIDIARIES' FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, In Thousand Shares)

No. (Note 1)	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing (Note 2)	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 3)	Aggregate Financing Limit (Note 3)
													Item	Value		
1	FEIB Financial Leasing Co., Ltd.	A company	Entrusted loan receivables	No	\$ 134,190	\$ 134,190	\$ 99,748	6%-10%	a	\$ 4,026	-	\$ 997	Real estate	\$ 301,455	\$ 306,040	\$ 306,040
		B company	Entrusted loan receivables	No	26,838	26,838	26,838	6%-10%	a	805	-	268	Real estate	51,257	306,040	306,040
		C company	Entrusted loan receivables	No	26,838	26,838	26,838	6%-10%	a	805	-	268	Stock	379,526	306,040	306,040
		D company	Entrusted loan receivables	No	22,365	22,365	22,365	6%-10%	a	926	-	224	Real estate	33,748	306,040	306,040

Note 1: No. column is coded as follows:

- a. The Issuer is coded “0”.
- b. The investees are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: The nature of financing is described as follows:

- a. Business transaction is coded “1”.
- b. Short-term financing is coded “2”.

Note 3: The limits on financing are as follows:

- a. Financing limit for each borrower
 - 1) In the case of lending funds to companies or firms who have a business relationship with the lender, the total lending amount to an individual borrower shall not exceed two times of the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.
 - 2) In the case of lending funds to the companies or firms in need of short-term financing, the total lending amount to an individual borrower shall not exceed 40% of the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.
- b. Aggregate financing limit
 - 1) In the case of lending funds to companies or firms who have a business relationship with the lender, the total accumulation lending amount to an individual borrower shall not exceed two times of the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.
 - 2) In the case of lending funds to the companies or firms in need of short-term financing, the total accumulation lending amount to an individual borrower shall not exceed 40% of the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.

TABLE 4

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

Information of subsidiaries’ guarantee provided at cost or prices at least NT\$300 million or 10% of the paid-in capital and derivative transactions
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, In Thousand Shares)

No. (Note 1)	Company Providing Endorsements/Guarantees	Receiving Party		Limits on Endorsements/ Guarantees Amount Provided to Each Entity (Note 3)	Maximum Balance for the Period	Ending Balance	Drawdown Amounts	Amount of Endorsements/ Guarantees Collateralized by Property	Ratio of Accumulated Endorsements/ Guarantees to Net Worth of the Most Current Financial Statement (%)	Maximum Endorsements/ Guarantees Amount Allowable (Note 3)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship (Note 2)											
1	Far Eastern Asset Management Co., Ltd.	FEIB Financial Leasing Co., Ltd.	b	\$ 3,073,300	\$ 71,568	\$ 71,568	\$ -	\$ -	10.46	\$ 6,839,231	N	N	Y	

Note 1: No. column is coded as follows:

- a. The Issuer is coded “0”.
- b. The investees are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: No. column is coded as follows:

- a. A company with which it does business.
- b. A company in which the public company directly and indirectly holds more than 50 percent of the voting shares.
- c. A company that directly and indirectly holds more than 50 percent of the voting shares in the public company.
- d. Companies hold, directly or indirectly, 90% or more of the voting shares for each other.
- e. Where a company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project
- f. Where all capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages
- g. Where companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other

Note 3: According to the FEAMC's "Regulations of Endorsements/Guarantees", the limit of amount of its endorsements/guarantees for any single subsidiaries is 10 times of the total amount invested in this subsidiaries, and the amount of endorsements/guarantees may not exceed 10% of the net worth of the company.

TABLE 5

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

RELATED INFORMATION OF INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business and Product	Percentage of Ownership (%)	Carrying Amount	Investment Income (Loss) Recognized	The Proportionate Share of the Bank, Its Subsidiaries and Their Affiliates in Investees				Note
						Present Shares (In Thousands)	Pro Forma Shares	Total		
								Shares (In Thousands)	Percentage of Ownership (%)	
<u>Held by the Bank</u>										
Financial business										
Deutsche Far Eastern Asset Management Co., Ltd.	7F, No. 207 Dun Hwa South Road, Sec. 2, Taipei, Taiwan	Securities investment trust funds	40.00	\$ 108,845	\$ (18,595)	12,000	-	12,000	40.00	
Dah Chung Bills Finance Corp.	4F, 4F-1, 4F-2, 4F-3, Np. 88 Dun Hwa North Road, Taipei, Taiwan	Underwriting, dealing and brokering of short-term bills	22.06	1,667,505	111,062	99,440	-	99,440	22.07	
Far Eastern Asset Management Co., Ltd.	Room B, 17F, No. 207, Dun Hwa South Road, Sec. 2, Taipei, Taiwan	Purchase, evaluation, auction and management of creditor’s rights to financial institutions	100.00	683,922	24,926	68,400	-	68,400	100.00	
Far Eastern International Securities Co., Ltd.	51F, No. 7, Xinyi Road, Sec. 5, Taipei, Taiwan	Foreign securities broker, wealth management and offshore fund consulting	100.00	334,705	43,196	20,000	-	20,000	100.00	
Taipei Foreign Exchange Agency Co., Ltd.	8F., No. 400, Bade Road, Sec. 2, Taipei, Taiwan	Foreign exchange, cross-currency swaps, etc.	0.40	3,802	-	80	-	80	0.40	
Sunshine Asset Management Co., Ltd.	15F., No. 218, Dun Hwa South Road, Sec. 2, Taipei, Taiwan	Management of creditor’s rights and rendering of commercial detective services	3.46	2,616	-	207	-	207	3.46	
Financial Information Service Co., Ltd.	No. 81, Kangning Road, Sec. 3, Taipei, Taiwan	Data processing service and electronic information supply	1.14	299,678	-	5,938	-	5,938	1.14	
Yuan Hsin Digital Payment Co., Ltd.	Room A, 5F., No. 1, Yuandong Road, Banqiao Dist., New Taipei City, Taiwan	Issuing electronic tickets and signing contracted institutions	4.99	24,809	-	5,094	-	5,094	4.99	
Nonfinancial business										
An Feng Enterprise Co., Ltd.	3F., No. 139, Jhengjhou Road, Taipei, Taiwan	ATM maintenance, replacement and repair	10.00	4,425	-	300	-	300	10.00	
<u>Held by Far Eastern Asset Management Co., Ltd.</u>										
Financial business										
FEIB Financial Leasing Co., Ltd.	Room 2806, Tower 1,Grand Gateway 66,No.1 Hong Qiao Road, Xuhui District, Shanghai, China	Leasing operation	100.00	306,040	12,598	N/A	-	N/A	100.00	

TABLE 6

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

**INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investee Company Name	Main Business and Product	Total Paid-in Capital (Note 4)	Investment Type (Note 1)	Accumulated Outflow of Investment as of December 31, 2017	Investment Flow (Note 4)		Accumulated Outflow of Investment as of December 31, 2018 (Note 4)	Net Income (Loss) of Investee (Note 5)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 2 and 5)	Carrying Value as of December 31, 2018 (Note 2)	Accumulated Inward Remittance of Earnings as of December 31, 2018	Note
					Outflow	Inflow							
FEIB Financial Leasing Co., Ltd.	Leasing operation	\$ 305,110 (US\$ 10,000 thousand)	a	\$ 305,110 (US\$ 10,000 thousand)	\$ -	\$ -	\$ 305,110 (US\$ 10,000 thousand)	\$ 12,598 (CNY 2,825 thousand)	100%	\$ 12,598 (CNY 2,825 thousand)	\$ 306,040	\$ -	

Accumulated Investment in Mainland China as of December 31, 2018 (Note 4)	Investment Amount Authorized by Investment Commission, MOEA (Note 4)	Limit on Investment Authorized by Investment Commission MOEA (Note 3)
\$305,110 (US\$10,000 thousand)	\$305,110 (US\$10,000 thousand)	\$410,354

Note 1: Routes of investment in Mainland China are listed below:

- a. Direct investment.
- b. Investment via third place company (state third place investment company).
- c. Others.

Note 2: Calculation based on investee company’s financial statements audited by a local CPA and covering the same reporting period as that of Far Eastern International Bank.

Note 3: Under the “Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China” announced by Investment Commission, MOEA, upper limit is calculated by applicant company - Far Eastern Asset Management Co., Ltd.

Note 4: Calculated using the exchange rate at remittance date.

Note 5: Calculated using the average exchange rate for the year ended 2018.