

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

**Consolidated Financial Statements for the
Years Ended December 31, 2022 and 2021 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, 2022 and 2021, 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, 2022 and 2021, 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 the 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 Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of 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, 2022. 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, 2022 for the Bank and its subsidiaries, which are described as follows:

Allowance for Expected Credit Losses on Loans

As of December 31, 2022, the balance of loans in the aggregate amounted to NT\$437,897,093 thousand, which accounted for 59% of the total assets of the consolidated financial statements; an amount that is deemed to be significant to the consolidated financial statements. Besides assessing expected credit losses on loans in accordance with IFRS 9 "Financial Instruments", the Bank complies with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans and related regulations when assessing classification of credit assets and recognizing allowance for possible losses, and the higher amount of allowance for expected credit losses on loans is recognized. As the assessment on the impairment of loans involved the management's critical judgments in accounting estimation and the underlying assumptions, we deemed the allowance for expected credit losses on loans as a key audit matter. Refer to Note 5 to the consolidated financial statements for the critical accounting judgments and estimation uncertainty.

Refer to Notes 4, 5, 14 and 44 to the consolidated financial statements for disclosures related to impairment on loans.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. Understand and perform tests on the Bank's internal controls relevant to loans impairment assessment.
2. 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.
3. Sample and review credit files to evaluate whether the loans are reasonably categorized per regulatory stipulation and recalculate for the correctness of the allowance.

Other Matter

We have also audited the parent company only financial statements of the Bank as of and for the years ended December 31, 2022 and 2021 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 the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC, 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 Standards on Auditing of 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 Standards on Auditing of 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, 2022 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 Chun-Hung Chen and Yin-Chou Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 2, 2023

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, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

ASSETS	2022		2021	
	Amount	%	Amount	%
ASSETS				
Cash and cash equivalents (Note 6)	\$ 8,237,870	1	\$ 5,017,087	1
Due from the Central Bank and other banks (Notes 7, 39 and 40)	35,591,182	5	45,873,426	6
Financial assets at fair value through profit or loss (Notes 4, 8, 39 and 43)	46,652,529	6	37,662,767	5
Financial assets at fair value through other comprehensive income (Notes 4, 5, 9, 11, 21, 28, 40, 43 and 44)	76,739,907	10	113,429,715	16
Investment in debt instruments at amortized cost, net (Notes 4, 5, 10, 11, 21, 40 and 43)	100,836,081	14	71,374,127	10
Securities purchased under resale agreements, net (Notes 4 and 12)	1,146,775	-	5,888,595	1
Receivables, net (Notes 4, 5, 13 and 44)	18,999,211	3	24,331,835	3
Discounts and loans, net (Notes 4, 5, 14, 39 and 44)	437,897,093	59	407,441,765	56
Investment accounted for using the equity method (Notes 4, 15 and 28)	1,886,047	-	1,970,175	-
Other financial assets, net (Notes 16 and 40)	4,790,483	1	3,971,314	1
Property and equipment, net (Notes 4, 17 and 39)	4,760,573	1	2,984,077	1
Right-of-use assets, net (Notes 4, 18 and 39)	954,076	-	1,018,720	-
Intangible assets, net (Notes 4 and 19)	1,597,670	-	1,623,153	-
Deferred tax assets (Notes 4 and 36)	179,701	-	209,623	-
Other assets (Note 39)	270,445	-	258,134	-
TOTAL	\$ 740,539,643	100	\$ 723,054,513	100
LIABILITIES AND EQUITY				
LIABILITIES				
Due to the Central Bank and other banks (Notes 20 and 44)	\$ 1,475,448	-	\$ 1,791,820	-
Funds borrowed from the Central Bank and other banks (Notes 44 and 46)	-	-	77,240	-
Financial liabilities at fair value through profit or loss (Notes 4, 8, 39 and 43)	8,689,238	1	3,002,289	1
Securities sold under repurchase agreements (Notes 4, 9, 10, 21, 44 and 46)	4,598,749	1	4,959	-
Payables (Notes 22 and 44)	5,346,372	1	5,564,647	1
Current tax liabilities (Note 4)	311,114	-	175,662	-
Deposits and remittances (Notes 23, 39 and 44)	607,423,881	82	612,106,685	85
Bank debentures (Notes 24, 43, 44 and 46)	20,901,900	3	23,901,900	3
Principal received on structured products (Note 44)	31,812,340	4	23,050,606	3
Other financial liabilities (Notes 25, 44 and 46)	2,731,071	1	979,213	-
Provisions (Notes 4, 26 and 39)	760,392	-	1,056,482	-
Lease liabilities (Notes 4, 18, 39, 44 and 46)	965,817	-	1,026,881	-
Other liabilities (Note 39)	550,988	-	614,178	-
Total liabilities	685,567,310	93	673,352,562	93
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK (Notes 4, 9, 15, 28, 38 and 39)				
Share capital	40,694,838	5	35,139,632	5
Capital surplus	302,926	-	456,426	-
Retained earnings				
Legal reserve	11,206,638	1	10,294,866	1
Special reserve	5,922	-	5,922	-
Unappropriated earnings	4,467,881	1	3,786,263	1
Total retained earnings	15,680,441	2	14,087,051	2
Other equity	(1,705,872)	-	18,842	-
Total equity	54,972,333	7	49,701,951	7
TOTAL	\$ 740,539,643	100	\$ 723,054,513	100

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, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2022		2021		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
INTEREST REVENUES (Notes 4, 29 and 39)	\$ 12,304,922	105	\$ 9,391,605	87	31
INTEREST EXPENSES (Notes 4, 18, 29 and 39)	<u>5,261,369</u>	<u>45</u>	<u>2,950,709</u>	<u>27</u>	78
NET INTERESTS	<u>7,043,553</u>	<u>60</u>	<u>6,440,896</u>	<u>60</u>	9
NET REVENUES AND GAINS OTHER THAN INTEREST					
Net service fee income (Notes 4, 30 and 39)	2,521,960	22	3,157,353	29	(20)
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4, 31, 39 and 43)	1,244,942	11	982,273	9	27
Realized gain on financial assets at fair value through other comprehensive income (Notes 4, 9 and 28)	152,173	1	83,125	1	83
Net foreign exchange gain (Note 4)	405,834	3	77,988	1	420
Shares of profit of associates for using equity method (Notes 4 and 15)	112,357	1	144,746	1	(22)
Others (Notes 22 and 39)	<u>258,112</u>	<u>2</u>	<u>(93,492)</u>	<u>(1)</u>	376
Total net revenues and gains other than interest	<u>4,695,378</u>	<u>40</u>	<u>4,351,993</u>	<u>40</u>	8
NET REVENUES	<u>11,738,931</u>	<u>100</u>	<u>10,792,889</u>	<u>100</u>	9
NET PROVISION FOR LOSS ON BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE (Notes 4, 5, 13, 14, 16, 26 and 39)	<u>544,102</u>	<u>4</u>	<u>813,218</u>	<u>8</u>	(33)
OPERATING EXPENSES					
Employee benefits expense (Notes 4, 27, 32, 33, 38 and 39)	4,239,619	36	4,079,617	38	4
Depreciation and amortization (Notes 4, 17, 18, 19 and 34)	732,480	6	711,442	7	3
Other general and administrative expenses (Notes 18, 35 and 39)	<u>2,031,614</u>	<u>18</u>	<u>1,885,790</u>	<u>17</u>	8
Total operating expenses	<u>7,003,713</u>	<u>60</u>	<u>6,676,849</u>	<u>62</u>	5

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FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

	2022		2021		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
INCOME BEFORE INCOME TAX	\$ 4,191,116	36	\$ 3,302,822	30	27
INCOME TAX EXPENSE (Notes 4 and 36)	<u>513,614</u>	<u>5</u>	<u>363,700</u>	<u>3</u>	41
NET INCOME FOR THE YEAR	<u>3,677,502</u>	<u>31</u>	<u>2,939,122</u>	<u>27</u>	25
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 9, 11, 15, 27, 28 and 36)					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans	108,511	1	(61,744)	-	276
Gain (loss) on valuation of investments in equity instruments at fair value through other comprehensive income	(374,443)	(3)	43,728	-	(956)
Share of other comprehensive income of associates for using equity method	6,218	-	3,121	-	99
Income tax benefit (expense) relating to items that will not be reclassified subsequently to profit or loss	<u>(21,702)</u>	<u>-</u>	<u>12,349</u>	<u>-</u>	(276)
	<u>(281,416)</u>	<u>(2)</u>	<u>(2,546)</u>	<u>-</u>	(10,953)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	96,628	1	(45,776)	(1)	311
Share of other comprehensive loss of associates for using equity method	(98,986)	(1)	(39,917)	-	(148)

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FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2022		2021		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
Loss on investments in debt instruments measured at fair value through other comprehensive income	\$ (1,455,943)	(13)	\$ (770,158)	(7)	(89)
Income tax benefit (expense) relating to items that may be reclassified subsequently to profit or loss	<u>(2,899)</u>	<u>-</u>	<u>1,603</u>	<u>-</u>	(281)
	<u>(1,461,200)</u>	<u>(13)</u>	<u>(854,248)</u>	<u>(8)</u>	(71)
Other comprehensive loss for the year	<u>(1,742,616)</u>	<u>(15)</u>	<u>(856,794)</u>	<u>(8)</u>	(103)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,934,886</u>	<u>16</u>	<u>\$ 2,082,328</u>	<u>19</u>	(7)
NET INCOME ATTRIBUTABLE TO:					
Owners of the Bank	<u>\$ 3,677,502</u>	<u>31</u>	<u>\$ 2,939,122</u>	<u>27</u>	25
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of the Bank	<u>\$ 1,934,886</u>	<u>16</u>	<u>\$ 2,082,328</u>	<u>19</u>	(7)
EARNINGS PER SHARE (Note 37)					
Basic	<u>\$1.00</u>		<u>\$0.82</u>		
Diluted	<u>\$0.99</u>		<u>\$0.82</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, 2022 AND 2021
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Shareholders of the Parent					Others		Total Equity
	Share Capital (Note 28)	Capital Surplus (Note 28 and 38)	Retained Earnings (Notes 9 and 28)			Exchange Differences on Translating Foreign Operations (Note 4)	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income (Notes 4, 9, 15 and 28)	
			Legal Reserve	Special Reserve	Unappropriated Earnings			
BALANCE AT JANUARY 1, 2021	\$ 34,481,044	\$ 456,426	\$ 9,547,845	\$ 23,543	\$ 3,259,093	\$ (196,471)	\$ 1,172,225	\$ 48,743,705
Appropriation of the 2020 earnings								
Legal reserve	-	-	747,021	-	(747,021)	-	-	-
Reversal of special reserves	-	-	-	(17,621)	17,621	-	-	-
Cash dividends - NT\$0.326 per share	-	-	-	-	(1,124,082)	-	-	(1,124,082)
Stock dividends - NT\$0.191 per share	658,588	-	-	-	(658,588)	-	-	-
	658,588	-	747,021	(17,621)	(2,512,070)	-	-	(1,124,082)
Net income for the year ended December 31, 2021	-	-	-	-	2,939,122	-	-	2,939,122
Other comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	(49,894)	(44,173)	(762,727)	(856,794)
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	2,889,228	(44,173)	(762,727)	2,082,328
Disposal of investments in equity instruments at fair value through other comprehensive income (loss)	-	-	-	-	150,012	-	(150,012)	-
BALANCE AT DECEMBER 31, 2021	35,139,632	456,426	10,294,866	5,922	3,786,263	(240,644)	259,486	49,701,951
Appropriation of the 2021 earnings								
Legal reserve	-	-	911,772	-	(911,772)	-	-	-
Cash dividends - NT\$ 0.430 per share	-	-	-	-	(1,511,004)	-	-	(1,511,004)
Stock dividends - NT\$ 0.158 per share	555,206	-	-	-	(555,206)	-	-	-
	555,206	-	911,772	-	(2,977,982)	-	-	(1,511,004)
Net income for the year ended December 31, 2022	-	-	-	-	3,677,502	-	-	3,677,502
Other comprehensive income (loss) for the year ended December 31, 2022	-	-	-	-	89,422	93,729	(1,925,767)	(1,742,616)
Total comprehensive income (loss) for the year ended December 31, 2022	-	-	-	-	3,766,924	93,729	(1,925,767)	1,934,886
Issuance of ordinary shares for cash	5,000,000	(195,000)	-	-	-	-	-	4,805,000
Share-based payments	-	41,500	-	-	-	-	-	41,500
Disposal of investments in equity instruments at fair value through other comprehensive income (loss)	-	-	-	-	(107,324)	-	107,324	-
BALANCE AT DECEMBER 31, 2022	\$ 40,694,838	\$ 302,926	\$ 11,206,638	\$ 5,922	\$ 4,467,881	\$ (146,915)	\$ (1,558,957)	\$ 54,972,333

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, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 4,191,116	\$ 3,302,822
Adjustments for:		
Depreciation	706,997	685,959
Amortization	25,483	25,483
Provision for loss on bad debts expense, commitment and guarantee	930,101	1,199,772
Net valuation loss (gain) on financial assets and liabilities at fair value through profit or loss	225,705	(17,713)
Interest expenses	5,261,369	2,950,709
Interest revenues	(12,304,922)	(9,391,605)
Dividend revenue	(215,560)	(140,065)
Share-based payments	41,500	-
Shares of profit from associates	(112,357)	(144,746)
Unrealized net loss (gain) on foreign currency exchange	(165,809)	41,973
Other adjustments	3,561	4,491
Changes in operating assets and liabilities		
Increase in due from the Central Bank and other banks	(1,421,701)	(1,104,701)
Increase in financial assets at fair value through profit or loss	(7,309,324)	(6,290,490)
Decrease in financial assets at fair value through other comprehensive income	36,706,490	62,799,415
Increase in investments in debt instruments at amortized cost	(29,227,667)	(70,320,732)
Decrease (increase) in receivables	8,143,763	(3,951,120)
Increase in discounts and loans	(25,225,464)	(26,905,129)
Increase (decrease) in due to the Central Bank and other banks	(533,978)	886,105
Increase (decrease) in financial liabilities at fair value through profit or loss	5,413,537	(2,163,442)
Increase (decrease) in payables	(622,777)	931,782
Increase (decrease) in deposits and remittances	(18,312,752)	33,374,304
Increase in principal received on structured products	8,474,977	14,927,990
Decrease in provisions for employee benefits	(83,183)	(39,160)
Decrease in other liabilities	(59,968)	(14,198)
Cash generated from (used in) operations	(25,470,863)	647,704
Interest received	11,813,030	9,369,433
Dividends received	215,425	142,524
Interest paid	(4,794,328)	(3,086,077)
Income tax paid	(367,406)	(304,387)
Net cash generated from (used in) operating activities	<u>(18,604,142)</u>	<u>6,769,197</u>

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FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	\$ (2,074,870)	\$ (288,438)
Proceeds from disposal of property and equipment	124	152
Decrease (increase) in other financial assets	(465,448)	602,478
Decrease (increase) in other assets	(11,782)	17,882
Dividends received from associates	<u>103,717</u>	<u>49,704</u>
Net cash generated from (used in) investing activities	<u>(2,448,259)</u>	<u>381,778</u>
CASH FLOWS FROM FINANCING ACTIVITIES (Note 46)		
Increase (decrease) in funds borrowed from the Central Bank and other banks	(77,240)	54,900
Proceeds from the issuance of bank debentures	-	2,400,000
Repayments of bank debentures	(3,000,000)	(1,100,000)
Increase (decrease) in securities sold under repurchase agreements	4,690,600	(3,465,911)
Repayments of the principal portion of lease liabilities	(412,561)	(407,958)
Increase in other financial liabilities	1,751,858	111,011
Cash dividends	(1,511,004)	(1,124,082)
Issuance of ordinary shares for cash	<u>4,805,000</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>6,246,653</u>	<u>(3,532,040)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>1,580,766</u>	<u>(452,064)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,224,982)	3,166,871
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>42,158,013</u>	<u>38,991,142</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 28,933,031</u>	<u>\$ 42,158,013</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	
	2022	2021
Cash and cash equivalents in consolidated balance sheets	\$ 8,237,870	\$ 5,017,087
Due from the Central Bank and other banks that meet the IAS 7 definition of “cash and cash equivalents”	19,548,386	31,252,331
Securities purchased under resale agreements that meet the IAS 7 definition of “cash and cash equivalents”	<u>1,146,775</u>	<u>5,888,595</u>
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 28,933,031</u>	<u>\$ 42,158,013</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 STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (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, 2022, 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 and two foreign representative offices (Vietnam and Singapore).

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

2. APPROVAL OF FINANCIAL REPORTS

The financial statements were approved by the Bank’s Board of Directors on March 2, 2023.

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

- a. The Bank and its subsidiaries’ initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC) and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC) did not have material impact on the Bank and its subsidiaries’ accounting policies.
- b. The IFRSs endorsed by the FSC for application starting from 2023

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB</u>
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 1)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 2)
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 3)

Note 1: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 2: The amendments will be applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 3: Except for deferred taxes that were be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments were be applied prospectively to transactions that occur on or after January 1, 2022.

As of the date the financial statements were authorized for issue, the Bank and its subsidiaries are assessing the application of above standards and interpretations will not have a material impact on the Bank and its subsidiaries' financial position and financial performance.

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

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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
Amendments to IFRS 16 "Leases Liability in a Sale and leaseback"	January 1, 2024 (Note 2)
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2024
Amendments to IAS 1 "Non-current Liabilities with Covenants"	January 1, 2024

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

Note 2: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

The financial reports have been prepared on the historical cost basis except for financial instruments which are measured at fair value 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 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 44 for the maturity analysis of liabilities.

Basis of Consolidation

a. Principles of preparing consolidated financial reports

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

Account balances, income and expenses arising from intercompany transactions 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, 2022	December 31, 2021
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 operations (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 and the OBU 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 to allocation the cost of assets averagely 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 Property, Equipment, Right-of-use Assets and Intangible Assets

At the end of each reporting period, the Bank and its subsidiaries review the carrying amounts of their property, equipment, right-of-use assets 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 in the balance sheets 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 and its subsidiaries own financial assets which are classified into the following specified categories:

1) Financial assets 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 gain or loss arising on dividends, interest and 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.

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

A financial asset is credit impaired when significant financial difficulty of the issuer or the borrower; breach of contract; default; it is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization, the disappearance of an active market for that financial asset because of financial difficulties.

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 gain and loss 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.

b. Impairment of financial assets

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 (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.

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; the higher amount of allowance for expected credit losses on loans is recognized.

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.

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 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 and its subsidiaries 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. Instruments issued by the Bank and its subsidiaries are recognized at the proceeds received, net of direct issue costs.

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 gain or loss arising on remeasurement, including interest paid on the financial liability, is recognized in profit or loss.

2) Financial guarantee contracts

The financial guarantee contracts issued by the Bank which are not measured at FVTPL are measured at the higher of the allowance for the expected credit losses or the amortized amount after original recognition. Also, they are according to the “Regulations” issued by the FSC.

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

Levies

A levy imposed by a government is accrued as payables when the transaction or activity that triggers the payment of the levy occurs. If the obligating event occurs over a period of time, the liability is recognized progressively.

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 discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Revenue Recognition

Interest revenue 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.

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

The points earned by customers under loyalty program are treated as multiple-element arrangements, in which consideration is allocated to the services and the award credits based on fair value through the eyes of the customer. The consideration is not recognized in earnings at the original sales transactions but at the time when the points are redeemed and the Bank's obligation is fulfilled.

Service revenue is the consideration received for relevant services provided as agent in the execution of the order of the court; the income is recognized during the period of service.

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.

Leases

The Bank and its subsidiaries assess whether or not an agreement is a lease or contains a lease on the date of the agreement.

The Bank recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities.

Right-of-use assets are depreciated using the straight-line method over the lease terms.

The lease payable is discounted at the lessee's incremental borrowing rate of interest. Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, should remeasure the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss.

Retirement Benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement 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 gain and loss, 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.

Share Based Payment Arrangements

The fair value at the grant date of the employee share options is based on the Bank's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in salary expense and capital surplus - employee share options. The Bank increases its capital by issuing ordinary shares and allocates part of shares as provision for subscription by employees. The grant date of issued ordinary shares for cash which are reserved for employees is the date on which the number of shares that the employees purchase is confirmed.

Income Tax

Income tax expense represents the sum of current tax expense and deferred tax expense. Income tax expense is recognized in profit or loss, except when it relates to items that are directly recognized in equity or other comprehensive income.

a. Current tax expense

Income tax payable is based on taxable profit for the year and determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

b. Deferred tax 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.

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 management will review estimates and basic assumptions continuously. 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.

Estimating impairment of financial assets

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.

6. CASH AND CASH EQUIVALENTS

	December 31, 2022	December 31, 2021
Cash on hand	\$ 4,446,644	\$ 2,693,069
Notes and checks for clearing	930,022	640,766
Deposits due from other banks	2,458,559	1,396,069
Balance with other banks	<u>402,645</u>	<u>287,183</u>
	<u>\$ 8,237,870</u>	<u>\$ 5,017,087</u>

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31, 2022	December 31, 2021
Due from other banks	\$ 11,861,642	\$ 19,610,970
New Taiwan dollar reserve deposits - Type A	4,039,838	8,013,890
New Taiwan dollar reserve deposits - Type B	16,042,796	14,621,095
Foreign-currency reserve deposits	146,510	126,532
Due from the Central Bank - Interbank fund transfer account	<u>3,500,396</u>	<u>3,500,939</u>
	<u>\$ 35,591,182</u>	<u>\$ 45,873,426</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.

As of December 31, 2022 and 2021, 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 \$19,548,386 thousand and \$31,252,331 thousand, respectively, and were included in cash and cash equivalents in the statements of cash flows.

The part of New Taiwan dollar reserve deposits - Type B pledged as collaterals are disclosed in Note 40.

8. FINANCIAL INSTRUMENTS AT FVTPL

Financial assets mandatorily classified as at FVTPL

	December 31, 2022	December 31, 2021
Non-derivative financial assets		
Government bond	\$ 14,911,749	\$ 14,040,793
Stock listed on TWSE and TPEX	926,269	928,354
Beneficiary certificates	<u>-</u>	<u>475,023</u>
	<u>15,838,018</u>	<u>15,444,170</u>
Derivative financial assets		
Foreign-currency swap contracts	4,261,111	1,227,313
Interest rate swap contracts	3,828,660	1,399,793
Cross-currency swap contracts	586,811	26,322
Forward exchange contracts	424,534	84,204
Currency option contracts	219,149	592,104
Others	<u>169,778</u>	<u>89,186</u>
	<u>9,490,043</u>	<u>3,418,922</u>
Hybrid contract		
Asset swap fixed-income	18,913,127	15,515,661
Credit linked note contracts	1,239,144	277,903
Credit linked loan contracts	1,018,973	2,888,818
Convertible bonds	<u>153,224</u>	<u>117,293</u>
	<u>21,324,468</u>	<u>18,799,675</u>
Total financial assets classified as at FVTPL	<u>\$ 46,652,529</u>	<u>\$ 37,662,767</u>

Financial liabilities held for trading

	December 31, 2022	December 31, 2021
Non-derivative financial liabilities		
Short-covering debentures	\$ -	\$ 148,325
Derivative financial liabilities		
Foreign-currency swap contracts	4,552,508	1,128,939
Interest rate swap contracts	3,234,998	946,575
Cross-currency swap contracts	330,039	39,203
Currency option contracts	219,549	592,515
Forward exchange contracts	172,168	106,825
Others	<u>179,976</u>	<u>39,907</u>
	<u>8,689,238</u>	<u>2,853,964</u>
Total financial liabilities at FVTPL	<u>\$ 8,689,238</u>	<u>\$ 3,002,289</u>

The Bank engages in derivative transactions mainly to accommodate customers' needs, manage its exposure positions and to accommodate its fund needs in different currencies.

Outstanding derivative contract (notional) amounts were as follows:

	December 31, 2022	December 31, 2021
Foreign-currency swap contracts	\$ 370,699,233	\$ 398,603,744
Interest rate swap contracts	310,841,788	230,051,929
Currency option contracts	39,199,022	91,280,105
Seller of credit default swap contracts	23,860,116	17,602,632
Forward exchange contracts	22,446,595	15,128,180
Cross-currency swap contracts	9,189,720	6,119,210
Interest rate option contracts	7,000,000	4,000,000
Forward contracts	529,996	204,236
Non-deliverable forward contracts	279,308	177,175
Government bond futures contracts	30,708	497,639
Stock index futures contracts	28,429	3,282

9. FINANCIAL ASSETS AT FVTOCI

	December 31, 2022	December 31, 2021
<u>Investments in equity instruments</u>		
Stock listed on TWSE and TPEX	\$ 2,220,940	\$ 1,090,772
Stock unlisted on TWSE and TPEX	<u>259,368</u>	<u>267,768</u>
	<u>2,480,308</u>	<u>1,358,540</u>
<u>Investments in debt instruments</u>		
Government bonds	26,682,124	39,031,626
Bank debentures	20,109,910	14,685,474
Corporate bonds	18,318,731	19,034,217
Commercial paper	7,184,492	27,013,177
Collateralized mortgage obligation	1,964,342	2,286,959
Negotiable certificates of deposit	<u>-</u>	<u>10,019,722</u>
	<u>74,259,599</u>	<u>112,071,175</u>
Total financial assets at FVTOCI	<u>\$ 76,739,907</u>	<u>\$ 113,429,715</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. The Bank recognized dividend revenue from equity instruments at FVTOCI as below:

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Dividend revenue recognized in profit or loss		
On equity held at year end	\$ 147,998	\$ 67,225
On equity disposed of in current year	<u>26,557</u>	<u>45,277</u>
	<u>\$ 174,555</u>	<u>\$ 112,502</u>

Because of the consideration of asset allocation, the management adjusted the portfolio; the information about disposal of equity instruments in the current year is as below:

	For the Year Ended December 31	
	2022	2021
Fair value at the date of disposal	<u>\$ 418,214</u>	<u>\$ 1,367,927</u>
Accumulated gain (loss) transferred to retained earnings due to disposal	<u>\$ (107,327)</u>	<u>\$ 148,214</u>

For the above information of credit risk management and impairment assessment on investments in debt instruments at FVTOCI, refer to Note 11. The assets pledged as collaterals are disclosed in 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 21 for related information.

	December 31, 2022	December 31, 2021
Bank debentures	<u>\$ 1,135,462</u>	<u>\$ 5,572</u>
Government bonds	<u>\$ 582,408</u>	<u>\$ -</u>

10. DEBT INSTRUMENT INVESTMENT MEASURED AT AMORTIZED COST

	December 31, 2022	December 31, 2021
Negotiable certificates of deposits - issued by the CBC	\$ 87,200,000	\$ 70,600,000
Government bonds	5,339,929	-
Corporate bonds	4,797,107	-
Bank debentures	<u>3,500,449</u>	<u>774,192</u>
	100,837,485	71,374,192
Less: Allowance for loss	<u>1,404</u>	<u>65</u>
	<u>\$ 100,836,081</u>	<u>\$ 71,374,127</u>

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

Part of government bonds and bank debentures have been issued under repurchase agreements. Refer to Note 21 for related information.

	December 31, 2022	December 31, 2021
Government bonds	<u>\$ 3,052,512</u>	<u>\$ -</u>

11. CREDIT RISK MANAGEMENT OF INVESTMENTS IN DEBT INSTRUMENTS

The policy which the Bank implements is to invest mainly 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 investments in debt instruments are classified as financial assets at FVTOCI and financial assets at amortized cost. The information of changes in carrying amount was as follows:

December 31, 2022

	At FVTOCI	At Amortized Cost	Total
Total carrying amount	\$ 75,690,056	\$ 100,837,485	\$ 176,527,541
Less: Impairment loss	<u>8,784</u>	<u>1,404</u>	<u>10,188</u>
Amortized cost	75,681,272	<u>\$ 100,836,081</u>	176,517,353
Fair value adjustment	<u>(1,421,673)</u>		<u>(1,421,673)</u>
	<u>\$ 74,259,599</u>		<u>\$ 175,095,680</u>

December 31, 2021

	At FVTOCI	At Amortized Cost	Total
Total carrying amount	\$ 112,052,598	\$ 71,374,192	\$ 183,426,790
Less: Impairment loss	<u>15,693</u>	<u>65</u>	<u>15,758</u>
Amortized cost	112,036,905	<u>\$ 71,374,127</u>	183,411,032
Fair value adjustment	<u>34,270</u>		<u>34,270</u>
	<u>\$ 112,071,175</u>		<u>\$ 183,445,302</u>

The investments in debt instruments indicates normal credit level under assessment. The information of changes in allowance for loss which is 12-month expected credit loss were as follows:

For the year ended December 31, 2022

	At FVTOCI	At Amortized Cost	Total
Beginning on January 1, 2022	\$ 15,693	\$ 65	\$ 15,758
Purchase of new debt instruments	3,646	1,299	4,945
Derecognition	(10,311)	-	(10,311)
Exchange rate changes	(175)	(10)	(185)
Expected credit losses and other changes	<u>(69)</u>	<u>50</u>	<u>(19)</u>
Balance on December 31, 2022	<u>\$ 8,784</u>	<u>\$ 1,404</u>	<u>\$ 10,188</u>

For the year ended December 31, 2021

	At FVTOCI	At Amortized Cost	Total
Beginning on January 1, 2021	\$ 15,946	\$ 117	\$ 16,063
Purchase of new debt instruments	10,438	50	10,488
Derecognition	(10,247)	(101)	(10,348)
Exchange rate changes	85	-	85
Expected credit losses and other changes	<u>(529)</u>	<u>(1)</u>	<u>(530)</u>
Balance on December 31, 2021	<u>\$ 15,693</u>	<u>\$ 65</u>	<u>\$ 15,758</u>

12. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	December 31, 2022	December 31, 2021
Government bonds	\$ 931,736	\$ 4,694,198
Commercial paper	<u>215,075</u>	<u>1,194,780</u>
	1,146,811	5,888,978
Less: Allowance for loss	<u>36</u>	<u>383</u>
	<u>\$ 1,146,775</u>	<u>\$ 5,888,595</u>
Resale price	<u>\$ 1,148,310</u>	<u>\$ 5,890,209</u>
Resale date	2023.01.05- 2023.02.13	2022.01.03- 2022.01.25

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

13. RECEIVABLES, NET

	December 31, 2022	December 31, 2021
Credit card	\$ 12,853,159	\$ 12,899,257
Factoring	1,959,157	6,451,669
Interest	1,352,379	860,488
Buying debt receivable	1,274,078	1,192,120
Lease receivables	731,687	894,428
Spot exchange transactions	469,945	402,381
Acceptances	207,327	419,489
Forfeiting	102,824	568,844
Proceeds from disposal of securities	11,737	549,300
Others	<u>510,381</u>	<u>648,889</u>
	19,472,674	24,886,865
Less: Allowance for possible losses	<u>473,463</u>	<u>555,030</u>
	<u>\$ 18,999,211</u>	<u>\$ 24,331,835</u>

The changes in the total carrying amount of receivables and other financial assets categorized by credit evaluation stage were as follows:

For the year ended December 31, 2022

	Stage 1 (Note 1)	Stage 2 (Note 2)	Stage 3 (Note 3)	Total Receivables and Other Financial Assets
Balance on January 1, 2022	\$ 21,802,022	\$ 67,547	\$ 1,077,425	\$ 22,946,994
Changes in financial instruments recognized at the beginning of the year:				
Transfer to Stage 2	(46,634)	50,493	(63)	3,796
Transfer to Stage 3	(86,702)	(22,594)	118,343	9,047
Transfer to Stage 1	8,760	(11,521)	(795)	(3,556)
Financial assets derecognized in the current period	(10,863,894)	(7,877)	(211,458)	(11,083,229)
Purchased or originated financial assets	6,147,300	8,638	40,462	6,196,400
Write-offs	(84,715)	(19,486)	(41,918)	(146,119)
Exchange rate and other changes	<u>81,736</u>	<u>(1,420)</u>	<u>42,801</u>	<u>123,117</u>
Balance on December 31, 2022	<u>\$ 16,957,873</u>	<u>\$ 63,780</u>	<u>\$ 1,024,797</u>	<u>\$ 18,046,450</u>

For the year ended December 31, 2021

	Stage 1 (Note 1)	Stage 2 (Note 2)	Stage 3 (Note 3)	Total Receivables and Other Financial Assets
Balance on January 1, 2021	\$ 19,336,317	\$ 61,434	\$ 1,178,967	\$ 20,576,718
Changes in financial instruments recognized at the beginning of the year:				
Transfer to Stage 2	(53,265)	57,180	(64)	3,851
Transfer to Stage 3	(99,664)	(20,258)	127,166	7,244
Transfer to Stage 1	6,695	(8,208)	(386)	(1,899)
Financial assets derecognized in the current period	(7,741,209)	(10,489)	(222,763)	(7,974,461)
Purchased or originated financial assets	10,416,350	9,184	40,691	10,466,225
Write-offs	(52,053)	(19,093)	(41,633)	(112,779)
Exchange rate and other changes	<u>(11,149)</u>	<u>(2,203)</u>	<u>(4,553)</u>	<u>(17,905)</u>
Balance on December 31, 2021	<u>\$ 21,802,022</u>	<u>\$ 67,547</u>	<u>\$ 1,077,425</u>	<u>\$ 22,946,994</u>

Note 1: 12-month ECLs (evaluate the receivables and other financial assets whose credit risk has not increased significantly since initial recognition).

Note 2: Lifetime ECLs (evaluate the receivables and other financial assets whose credit risk has increased significantly since initial recognition).

Note 3: Lifetime ECLs (evaluate impaired financial assets).

The changes in the allowance for possible loss of receivables and other financial assets categorized by credit evaluation stage were as follows:

For the year ended December 31, 2022

	12-Month Expected Credit Loss (Stage 1)	Lifetime Expected Credit Loss (Stage 2)	Lifetime Expected Credit Loss (Credit Impairment on Financial Assets) (Stage 3)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment under the Regulations	Total Allowance for Possible Losses
Balance on January 1, 2022	\$ 62,163	\$ 8,064	\$ 363,726	\$ 433,953	\$ 121,256	\$ 555,209
Changes in financial instruments recognized at the beginning of the year:						
Transfer to Stage 2	(22)	4,897	-	4,875	-	4,875
Transfer to Stage 3	(40)	(2,327)	35,639	33,272	-	33,272
Transfer to Stage 1	3	(1,723)	(141)	(1,861)	-	(1,861)
Financial assets derecognized in the current period	(22,494)	(1,152)	(61,809)	(85,455)	-	(85,455)
Purchased or originated financial assets	21,245	1,008	14,098	36,351	-	36,351
The difference of impairment under the Regulations	-	-	-	-	(47,115)	(47,115)
Write-offs	(84,715)	(19,486)	(41,918)	(146,119)	-	(146,119)
Exchange rate and other changes	49,689	17,121	57,671	124,481	-	124,481
Balance on December 31, 2022	<u>\$ 25,829</u>	<u>\$ 6,402</u>	<u>\$ 367,266</u>	<u>\$ 399,497</u>	<u>\$ 74,141</u>	<u>\$ 473,638</u>

For the year ended December 31, 2021

	12-Month Expected Credit Loss (Stage 1)	Lifetime Expected Credit Loss (Stage 2)	Lifetime Expected Credit Loss (Credit Impairment on Financial Assets) (Stage 3)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment under the Regulations	Total Allowance for Possible Losses
Balance on January 1, 2021	\$ 33,195	\$ 6,387	\$ 376,307	\$ 415,889	\$ 103,403	\$ 519,292
Changes in financial instruments recognized at the beginning of the year:						
Transfer to Stage 2	(26)	6,617	(7)	6,584	-	6,584
Transfer to Stage 3	(49)	(1,905)	39,463	37,509	-	37,509
Transfer to Stage 1	3	(1,236)	(43)	(1,276)	-	(1,276)
Financial assets derecognized in the current period	(11,705)	(1,127)	(51,338)	(64,170)	-	(64,170)
Purchased or originated financial assets	40,880	1,349	13,309	55,538	-	55,538
The difference of impairment under the Regulations	-	-	-	-	17,853	17,853
Write-offs	(52,053)	(19,093)	(41,633)	(112,779)	-	(112,779)
Exchange rate and other changes	51,918	17,072	27,668	96,658	-	96,658
Balance on December 31, 2021	<u>\$ 62,163</u>	<u>\$ 8,064</u>	<u>\$ 363,726</u>	<u>\$ 433,953</u>	<u>\$ 121,256</u>	<u>\$ 555,209</u>

14. DISCOUNTS AND LOANS, NET

	December 31, 2022	December 31, 2021
Negotiations, discounts and overdraft	\$ 62,683	\$ 221,873
Short-term loans	84,666,192	82,338,850
Medium-term loans	169,842,660	146,666,334
Long-term loans	188,241,006	183,152,384
Overdue receivable	<u>1,269,783</u>	<u>492,259</u>
	444,082,324	412,871,700
Less: Allowance for possible losses	<u>6,185,231</u>	<u>5,429,935</u>
	<u>\$ 437,897,093</u>	<u>\$ 407,441,765</u>

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

	<u>For the Year Ended December 31</u>	
	2022	2021
Provision for possible losses - discounts and loans	\$ 988,086	\$ 1,083,358
Provision for possible losses - receivables and other financial assets	48,529	144,799
Reversal of possible losses - reserve for commitment and guarantee obligations	(106,514)	(28,385)
Amounts recovered - discounts and loans	(233,467)	(230,598)
Amounts recovered - receivables and other financial assets	<u>(152,532)</u>	<u>(155,956)</u>
	<u>\$ 544,102</u>	<u>\$ 813,218</u>

The changes in the total carrying amount of discounts and loan categorized by credit evaluation stage were as follows:

For the year ended December 31, 2022

	Stage 1 (Note 1)	Stage 2 (Note 2)	Stage 3 (Note 3)	Total Discounts and Loans
Beginning on January 1, 2022	\$ 409,668,614	\$ 387,363	\$ 2,815,723	\$ 412,871,700
Changes of financial instruments recognized at the beginning of the year:				
Transfer to Stage 2	(311,079)	281,814	(5,423)	(34,688)
Transfer to Stage 3	(849,869)	(54,024)	942,142	38,249
Transfer to Stage 1	82,426	(93,578)	(3,564)	(14,716)
Financial assets derecognized in the current period	(114,760,467)	(96,344)	(761,418)	(115,618,229)
Purchased or originated financial assets	145,531,779	26,027	92,688	145,650,494
Write-offs	(105,793)	(58,492)	(154,209)	(318,494)
Exchange rate and other changes	<u>1,503,033</u>	<u>1,420</u>	<u>3,555</u>	<u>1,508,008</u>
Balance on December 31, 2022	<u>\$ 440,758,644</u>	<u>\$ 394,186</u>	<u>\$ 2,929,494</u>	<u>\$ 444,082,324</u>

For the year ended December 31, 2021

	Stage 1 (Note 1)	Stage 2 (Note 2)	Stage 3 (Note 3)	Total Discounts and Loans
Beginning on January 1, 2021	\$ 383,428,760	\$ 1,054,943	\$ 4,373,009	\$ 388,856,712
Changes of financial instruments recognized at the beginning of the year:				
Transfer to Stage 2	(311,962)	281,787	(629)	(30,804)
Transfer to Stage 3	(438,961)	(322,058)	742,976	(18,043)
Transfer to Stage 1	110,187	(117,451)	(60,695)	(67,959)
Financial assets derecognized in the current period	(106,372,257)	(331,080)	(1,667,820)	(108,371,157)
Purchased or originated financial assets	134,076,603	32,207	76,199	134,185,009
Write-offs	(261,430)	(213,273)	(638,354)	(1,113,057)
Exchange rate and other changes	<u>(562,326)</u>	<u>2,288</u>	<u>(8,963)</u>	<u>(569,001)</u>
Balance on December 31, 2021	<u>\$ 409,668,614</u>	<u>\$ 387,363</u>	<u>\$ 2,815,723</u>	<u>\$ 412,871,700</u>

Note 1: 12-month ECLs (evaluate the discounts and loans whose credit risk has not increased significantly since initial recognition).

Note 2: Lifetime ECLs (evaluate the discounts and loans whose credit risk has increased significantly since initial recognition).

Note 3: Lifetime ECLs (evaluate impaired financial assets).

The changes in the allowance of discounts and loan categorized by credit evaluation stage were as follows:

For the year ended December 31, 2022

	12-Month Expected Credit Loss (Stage 1)	Lifetime Expected Credit Loss (Stage 2)	Lifetime Expected Credit Loss (Credit Impairment on Financial Assets) (Stage 3)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment Under the Regulations	Total Allowance for Possible Losses
Beginning on January 1, 2022	\$ 553,444	\$ 107,687	\$ 781,459	\$ 1,442,590	\$ 3,987,345	\$ 5,429,935
Changes of financial instruments recognized at the beginning of the year:						
Transfer to Stage 2	(1,407)	82,506	(1,270)	79,829	-	79,829
Transfer to Stage 3	(3,738)	(32,378)	757,897	721,781	-	721,781
Transfer to Stage 1	149	(19,448)	(3,202)	(22,501)	-	(22,501)
Financial assets derecognized in the current period	(195,856)	(13,323)	(147,680)	(356,859)	-	(356,859)
Purchased or originated financial assets	518,198	16,317	16,527	551,042	-	551,042
The difference of impairment under the Regulations	-	-	-	-	(128,037)	(128,037)
Write-offs	(105,793)	(58,492)	(154,209)	(318,494)	-	(318,494)
Exchange rate and other changes	<u>150,287</u>	<u>23,117</u>	<u>55,131</u>	<u>228,535</u>	<u>-</u>	<u>228,535</u>
Balance on December 31, 2022	<u>\$ 915,284</u>	<u>\$ 105,986</u>	<u>\$ 1,304,653</u>	<u>\$ 2,325,923</u>	<u>\$ 3,859,308</u>	<u>\$ 6,185,231</u>

For the year ended December 31, 2021

	12-month Expected Credit Loss (Stage 1)	Lifetime Expected Credit Loss (Stage 2)	Lifetime Expected Credit Loss (Credit Impairment on Financial Assets) (Stage 3)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment Under the Regulations	Total Allowance for Possible Losses
Beginning on January 1, 2021	\$ 478,683	\$ 132,020	\$ 1,633,428	\$ 2,244,131	\$ 3,419,812	\$ 5,663,943
Changes in financial instruments recognized at the beginning of the year:						
Transfer to Stage 2	(941)	80,200	(572)	78,687	-	78,687
Transfer to Stage 3	(1,776)	(39,931)	323,034	281,327	-	281,327
Transfer to Stage 1	195	(21,447)	(2,118)	(23,370)	-	(23,370)
Financial assets derecognized in the current period	(162,525)	(17,712)	(631,321)	(811,558)	-	(811,558)
Purchased or original financial assets	243,296	20,402	28,448	292,146	-	292,146
The difference of impairment under the Regulations	-	-	-	-	567,533	567,533
Write-offs	(261,430)	(213,273)	(638,354)	(1,113,057)	-	(1,113,057)
Exchange rate and other changes	<u>257,942</u>	<u>167,428</u>	<u>68,914</u>	<u>494,284</u>	<u>-</u>	<u>494,284</u>
Balance on December 31, 2021	<u>\$ 553,444</u>	<u>\$ 107,687</u>	<u>\$ 781,459</u>	<u>\$ 1,442,590</u>	<u>\$ 3,987,345</u>	<u>\$ 5,429,935</u>

15. INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

	December 31, 2022	December 31, 2021
Associates that are not individually material	<u>\$ 1,886,047</u>	<u>\$ 1,970,175</u>

The above associates included Dah Chung Bills Finance Corp (Dah Chung). The Bank invested 22.06% of the shares and is the single largest shareholder. The Bank does not have absolute difference in shareholding ratio compared with other shareholders, does not control more than half of the seats in the board of directors, does not have the control power to dominate the related activities, and only has significant influence over the invested company. Therefore, Dah Chung is reported as an associate in the financial statements.

The share of the Bank and its subsidiaries in these associates' financial performance was summarized as follows:

	<u>For the Year Ended December 31</u>	
	2022	2021
Net income from continuing operation	\$ 112,357	\$ 144,746
Other comprehensive income	<u>(92,768)</u>	<u>(36,796)</u>
Total comprehensive income	<u>\$ 19,589</u>	<u>\$ 107,950</u>

16. OTHER FINANCIAL ASSETS, NET

	December 31, 2022	December 31, 2021
Nonaccrual loans other than discounts and loans	\$ 349	\$ 384
Less: Allowance for possible losses (Note 13)	<u>175</u>	<u>179</u>
	174	205
Refundable deposits	2,585,868	3,026,473
Less: Allowance for loss	<u>259</u>	<u>673</u>
	<u>2,585,609</u>	<u>3,025,800</u>
Restricted time deposits (Note 40)	2,204,700	869,200
Restricted assets	<u>-</u>	<u>76,109</u>
	<u>\$ 4,790,483</u>	<u>\$ 3,971,314</u>

The above restricted assets are margin and collection charged from customers placed in specified current deposit of FEIL.

17. PROPERTY AND EQUIPMENT, NET

For the year ended December 31, 2022

	Land	Buildings and Improvements	Computer Equipment	Transportation Equipment	Miscellaneous Equipment	Properties and Equipment Prepayment	Total
<u>Cost</u>							
Beginning balance	\$ 1,447,433	\$ 1,149,596	\$ 2,395,907	\$ 1,184	\$ 1,579,391	\$ 99,524	\$ 6,673,035
Additions	-	916	148,872	62	69,654	1,855,366	2,074,870
Disposals	-	(5,076)	(131,532)	(112)	(133,516)	-	(270,236)
Others	<u>1,277,055</u>	<u>-</u>	<u>143,673</u>	<u>-</u>	<u>53,447</u>	<u>(1,472,041)</u>	<u>2,134</u>
Ending balance	<u>2,724,488</u>	<u>1,145,436</u>	<u>2,556,920</u>	<u>1,134</u>	<u>1,568,976</u>	<u>482,849</u>	<u>8,479,803</u>
<u>Accumulated depreciation</u>							
Beginning balance	-	629,172	1,649,785	1,174	1,408,827	-	3,688,958
Depreciation	-	25,902	214,620	16	49,970	-	290,508
Disposals	-	(5,048)	(131,528)	(112)	(131,284)	-	(267,972)
Others	<u>-</u>	<u>-</u>	<u>6,450</u>	<u>-</u>	<u>1,286</u>	<u>-</u>	<u>7,736</u>
Ending balance	<u>-</u>	<u>650,026</u>	<u>1,739,327</u>	<u>1,078</u>	<u>1,328,799</u>	<u>-</u>	<u>3,719,230</u>
Net ending balance	<u>\$ 2,724,488</u>	<u>\$ 495,410</u>	<u>\$ 817,593</u>	<u>\$ 56</u>	<u>\$ 240,177</u>	<u>\$ 482,849</u>	<u>\$ 4,760,573</u>

For the year ended December 31, 2021

	Land	Buildings and Improvements	Computer Equipment	Transportation Equipment	Miscellaneous Equipment	Properties and Equipment Prepayment	Total
<u>Cost</u>							
Beginning balance	\$ 1,447,433	\$ 1,148,967	\$ 2,296,186	\$ 1,281	\$ 1,563,669	\$ 24,576	\$ 6,482,112
Additions	-	629	131,076	-	31,236	125,497	288,438
Disposals	-	-	(74,342)	(97)	(15,301)	-	(89,740)
Others	<u>-</u>	<u>-</u>	<u>42,987</u>	<u>-</u>	<u>(213)</u>	<u>(50,549)</u>	<u>(7,775)</u>
Ending balance	<u>1,447,433</u>	<u>1,149,596</u>	<u>2,395,907</u>	<u>1,184</u>	<u>1,579,391</u>	<u>99,524</u>	<u>6,673,035</u>
<u>Accumulated depreciation</u>							
Beginning balance	-	603,003	1,520,111	1,247	1,372,798	-	3,497,159
Depreciation	-	26,166	205,933	24	51,723	-	283,846
Disposals	-	-	(74,342)	(97)	(15,301)	-	(89,740)
Others	<u>-</u>	<u>3</u>	<u>(1,917)</u>	<u>-</u>	<u>(393)</u>	<u>-</u>	<u>(2,307)</u>
Ending balance	<u>-</u>	<u>629,172</u>	<u>1,649,785</u>	<u>1,174</u>	<u>1,408,827</u>	<u>-</u>	<u>3,688,958</u>
Net ending balance	<u>\$ 1,447,433</u>	<u>\$ 520,424</u>	<u>\$ 746,122</u>	<u>\$ 10</u>	<u>\$ 170,564</u>	<u>\$ 99,524</u>	<u>\$ 2,984,077</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	3 to 20 years

At the Board of Directors' meeting held in November 2020, the Bank resolved to acquisition of a parcel of land in Xinyi District, Taipei City, and participated in the planning of joint construction on the land to build the Bank's headquarters office. The upper limit of the land transaction amount was \$2,011,780 thousand. The negotiated total price for the land, for which contracts were signed with the landlords, was \$2,011,507 thousand, and payments for the land had been made since October 2022. As of December 31, 2022, the Bank has paid \$1,643,907 thousand (\$1,276,307 thousand accounted for as land and \$367,600 thousand accounted for as properties prepayment). The Bank has paid off the remaining transaction amount and completed the legal procedures for the land transfer in January 2023.

18. LEASE ARRANGEMENTS

The Bank and its subsidiaries lease property mainly for the use of the Bank's branches and offices within 2 to 20 years. Right-of-use assets, lease liabilities and recognition of depreciation expense and interest expense are as follows:

	December 31, 2022	December 31, 2021
Net carrying amount of right-of-use assets	<u>\$ 954,076</u>	<u>\$ 1,018,720</u>
Carrying amount of lease liabilities	<u>\$ 965,817</u>	<u>\$ 1,026,881</u>
The range of discount rate	0.83%-4.82%	0.83%-2.01%
	For the Year Ended December 31	
	2022	2021
Additions to right-of-use assets	<u>\$ 349,949</u>	<u>\$ 598,218</u>
Cash outflow for leases	<u>\$ 429,696</u>	<u>\$ 423,764</u>
Depreciation expense of right-of-use assets	<u>\$ 416,489</u>	<u>\$ 402,113</u>
Interest expense of lease liabilities	<u>\$ 10,076</u>	<u>\$ 9,407</u>
Other lease information		
Short-term lease expenses	<u>\$ 7,059</u>	<u>\$ 6,399</u>

19. INTANGIBLE ASSETS, NET

	December 31, 2022	December 31, 2021
Operation rights	\$ 1,538,210	\$ 1,538,210
Fair value of core deposits	428,887	428,887
Less: Accumulated amortization	<u>369,427</u>	<u>343,944</u>
	<u>59,460</u>	<u>84,943</u>
	<u>\$ 1,597,670</u>	<u>\$ 1,623,153</u>

In April 2010, the Bank acquired the assets and liabilities of Chinfon Bank's domestic branch Package B through a bidding process. The acquired 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.

After assessed the operation rights of branches is a franchise business right without definite useful life, and the operation rights are expected to generate net cash flows continuously; therefore, the operation rights are not amortized annually.

The Bank assessed the recoverable amount of the cash generating unit of the operation rights for impairment in 2022 and 2021. To reflect risks specific to the operation right, the net fair value of the recoverable amount was calculated using the discounted cash flows based on the Bank's financial forecast, and no impairment was assessed.

20. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31, 2022	December 31, 2021
Call loans to banks	\$ 1,402,035	\$ 1,757,547
Due to banks	70,349	14,583
Bank overdrafts	<u>3,064</u>	<u>19,690</u>
	<u>\$ 1,475,448</u>	<u>\$ 1,791,820</u>

21. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	December 31, 2022	December 31, 2021
Government bonds (Notes 9 and 10)	\$ 3,501,590	\$ -
Bank debentures (Note 9)	<u>1,097,159</u>	<u>4,959</u>
	<u>\$ 4,598,749</u>	<u>\$ 4,959</u>
Repurchase price	<u>\$ 4,617,001</u>	<u>\$ 4,960</u>
Repurchase date	2023.01.09- 2023.01.13	2022.01.27

22. PAYABLES

	December 31, 2022	December 31, 2021
Expenses	\$ 1,496,899	\$ 1,491,425
Interest	994,066	527,025
Notes and checks for clearing	930,022	640,766
Accounts payable factoring	485,671	868,908
Credit card	209,229	189,019
Acceptances	207,327	419,489
Securities settlement	169,159	379,701
Litigation settlement	-	317,222
Others	<u>853,999</u>	<u>731,092</u>
	<u>\$ 5,346,372</u>	<u>\$ 5,564,647</u>

In September 2015, 18 creditor banks of Zhanmao Optoelectronics Co., Ltd. (“Zhanmao”), a debtor with restructured overdue loan from the Bank, filed a lawsuit against the Bank demanding that the Bank abides by the restructuring procedures, recovers the claims against Zhanmao and compensates the creditor banks for losses caused by overpayments in the restructuring procedures. The Supreme Court ruled in December 2021 that the Bank was liable for damages of \$317,222 thousand. The relevant liabilities had been accrued in the 2021 annual financial statements and were paid in January 2022.

23. DEPOSITS AND REMITTANCES

	December 31, 2022	December 31, 2021
Checking deposits	\$ 3,863,727	\$ 3,156,272
Demand deposits	102,334,898	129,604,806
Demand savings	94,983,370	93,795,634
Time savings	95,879,926	80,740,147
Negotiable certificates of deposit	18,445,500	6,714,500
Time deposits	291,838,528	297,778,762
Remittances	<u>77,932</u>	<u>316,564</u>
	<u>\$ 607,423,881</u>	<u>\$ 612,106,685</u>

24. BANK DEBENTURES

Domestic Bank Debentures

Item	Issuance Period	Note	December 31, 2022	December 31, 2021
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
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 each year fixed interest rate at 3.20%	2,900,000	2,900,000
General bank debentures - five-year maturity; first issue in 2019	2019.02.21-2024.02.21	Interest payable on February 21 each year fixed interest rate at 0.95%	2,500,000	2,500,000
Subordinated bank debentures - seven-year maturity; second issue in 2019	2019.07.30-2026.07.30	Interest payable on July 30 each year fixed interest rate at 1.15%	2,000,000	2,000,000
Subordinated bank debentures - ten-year maturity; second issue in 2019	2019.07.30-2029.07.30	Interest payable on July 30 each year fixed interest rate at 1.25%	2,000,000	2,000,000
General bank debentures - five-year maturity; third issue in 2019	2019.09.26-2024.09.26	Interest payable on September 26 each year fixed interest rate at 0.75%	3,500,000	3,500,000
Subordinated bank debentures - seven-year maturity; first issue in 2020	2020.11.26-2027.11.26	Interest payable on November 26 each year fixed interest rate at 0.75%	1,600,000	1,600,000
Subordinated bank debentures - seven-year maturity; first issue in 2021	2021.04.27-2028.04.27	Interest payable on April 27 each year fixed interest rate at 0.83%	2,400,000	2,400,000
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>\$ 20,901,900</u>	<u>\$ 23,901,900</u>

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

25. OTHER FINANCIAL LIABILITIES

	December 31, 2022	December 31, 2021
Deposit received	\$1,955,437	\$ 356,386
Bank loan	321,017	173,038
Commercial paper	455,000	450,000
Less: Unamortized discount on commercial paper	<u>383</u>	<u>211</u>
	<u>\$2,731,071</u>	<u>\$ 979,213</u>

Interest rates

Bank loan	1.75%-4.67%	1.00%-4.82%
Commercial paper	2.04%-2.15%	0.97%-1.02%

26. PROVISIONS

	December 31, 2022	December 31, 2021
Reserve for employee benefits liability - defined benefit plans (Note 27)	\$ 531,867	\$ 723,561
Reserve for obligations guarantee (Note 44)	174,194	279,683
Reserve for financing commitment (Note 44)	<u>54,331</u>	<u>53,238</u>
	<u>\$ 760,392</u>	<u>\$ 1,056,482</u>

The changes in provision for losses on financing commitments and obligations guarantees categorized by credit evaluation stage are as follows:

For the year ended December 31, 2022

	12-Month Expected Credit Loss (Stage 1)	Lifetime ECLs (Stage 2)	Lifetime ECLs (Credit Impairment on Financial Assets) (Stage 3)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment Under the Regulations	Total Provision for Losses on Financing Commitments and Obligations Guarantee
Balance on January 1, 2022	\$ 84,892	\$ 13,201	\$ 20,950	\$ 119,043	\$ 213,878	\$ 332,921
Changes at the beginning of the year:						
Transfer to Stage 2	(8)	6,666	-	6,658	-	6,658
Transfer to Stage 3	-	(76)	387	311	-	311
Transfer to Stage 1	6	(8,469)	(80)	(8,543)	-	(8,543)
Financial assets derecognized in the current period	(29,810)	(1,369)	(203)	(31,382)	-	(31,382)
Purchased or originated	33,253	1,747	31	35,031	-	35,031
The difference of impairment under the Regulations	-	-	-	-	(100,622)	(100,622)
Exchange rate and other changes	<u>(2,791)</u>	<u>(3,052)</u>	<u>(6)</u>	<u>(5,849)</u>	<u>-</u>	<u>(5,849)</u>
Balance on December 31, 2022	<u>\$ 85,542</u>	<u>\$ 8,648</u>	<u>\$ 21,079</u>	<u>\$ 115,269</u>	<u>\$ 113,256</u>	<u>\$ 228,525</u>

For the year ended December 31, 2021

	12-Month Expected Credit Loss (Stage 1)	Lifetime ECLs (Stage 2)	Lifetime ECLs (Credit Impairment on Financial Assets) (Stage 3)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment Under the Regulations	Total Provision for Losses on Financing Commitments and Obligations Guarantee
Balance on January 1, 2021	\$ 83,913	\$ 12,417	\$ 21,140	\$ 117,470	\$ 244,644	\$ 362,114
Changes at the beginning of the year:						
Transfer to Stage 2	(9)	7,591	-	7,582	-	7,582
Transfer to Stage 3	-	(34)	256	222	-	222
Transfer to Stage 1	6	(7,190)	(129)	(7,313)	-	(7,313)
Financial assets derecognized in the current period	(23,630)	(1,319)	(294)	(25,243)	-	(25,243)
Purchased or originated	23,196	2,300	33	25,529	-	25,529
The difference of impairment under the Regulations	-	-	-	-	(30,766)	(30,766)
Exchange rate and other changes	<u>1,416</u>	<u>(564)</u>	<u>(56)</u>	<u>796</u>	<u>-</u>	<u>796</u>
Balance on December 31, 2021	<u>\$ 84,892</u>	<u>\$ 13,201</u>	<u>\$ 20,950</u>	<u>\$ 119,043</u>	<u>\$ 213,878</u>	<u>\$ 332,921</u>

27. RETIREMENT BENEFIT PLANS

Defined contribution plans

The pension plan under the Labor Pension Act (the Act) is a defined contribution plan. Based on the Act, the Bank and its subsidiaries' make monthly contributions to employees' individual pension accounts in the Bureau of Labor Insurance at 6% of monthly salaries and wages, related pension expense of \$139,656 thousand and \$135,499 thousand for the year ended December 31, 2022 and 2021, respectively.

Defined benefit plans

Applicable 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, which are deposited in the Bank of Taiwan by the pension fund monitoring committee's name. 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. According to Labor Standards Act, 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 amounts of employee benefits included in the consolidated balance sheets were as follows:

	December 31, 2022	December 31, 2021
Present value of defined benefit obligation	\$ 1,039,710	\$ 1,142,294
Fair value of plan assets	<u>(507,843)</u>	<u>(418,733)</u>
Reserve for employee benefits liability	<u>\$ 531,867</u>	<u>\$ 723,561</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, 2022	\$ 1,142,294	\$ (418,733)	\$ 723,561
Service cost			
Current service cost	5,698	-	5,698
Net interest expense (revenue)	6,636	(2,561)	4,075
Recognized in profit or loss	<u>12,334</u>	<u>(2,561)</u>	<u>9,773</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(32,529)	(32,529)
Actuarial loss - experience adjustments	29,775	-	29,775
Actuarial loss - changes in financial assumptions	<u>(105,757)</u>	<u>-</u>	<u>(105,757)</u>
Recognized in other comprehensive income	<u>(75,982)</u>	<u>(32,529)</u>	<u>(108,511)</u>
Contributions from the employer	-	(58,490)	(58,490)
Contributions from plan assets	(4,470)	4,470	-
Contributions from provisions	<u>(34,466)</u>	<u>-</u>	<u>(34,466)</u>
Balance at December 31, 2022	<u>\$ 1,039,710</u>	<u>\$ (507,843)</u>	<u>\$ 531,867</u>
Balance at January 1, 2021	\$ 1,099,728	\$ (398,751)	\$ 700,977
Service cost			
Current service cost	7,100	-	7,100
Net interest expense (revenue)	7,495	(2,843)	4,652
Recognized in profit or loss	<u>14,595</u>	<u>(2,843)</u>	<u>11,752</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(4,212)	(4,212)
Actuarial loss - experience adjustments	36,448	-	36,448
Actuarial loss - changes in demographic assumptions	19,512	-	19,512
Actuarial loss - changes in financial assumptions	<u>9,996</u>	<u>-</u>	<u>9,996</u>
Recognized in other comprehensive income	<u>65,956</u>	<u>(4,212)</u>	<u>61,744</u>
Contributions from the employer	-	(17,939)	(17,939)
Contributions from plan assets	(5,012)	5,012	-
Contributions from provisions	<u>(32,973)</u>	<u>-</u>	<u>(32,973)</u>
Balance at December 31, 2021	<u>\$ 1,142,294</u>	<u>\$ (418,733)</u>	<u>\$ 723,561</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, 2022	December 31, 2021
Discount rates	1.80%	0.60%
Expected rates of salary increase	3.00%	3.00%

As concluded by the actuaries, the expected contribution to the plan for the next year is \$50,998 thousand, and the average duration of the defined benefit obligation is 8 years.

Had there been a possible 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, 2022	December 31, 2021
Discount rates		
0.50% increase	<u>\$ (39,673)</u>	<u>\$ (48,695)</u>
0.50% decrease	<u>\$ 42,163</u>	<u>\$ 52,016</u>
Expected rates of salary increase		
0.50% increase	<u>\$ 41,488</u>	<u>\$ 50,552</u>
0.50% decrease	<u>\$ (39,443)</u>	<u>\$ (47,856)</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 Bank is exposed to the following risks on its defined benefit plans managed by the Bureau:

- a. 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.
- b. Risk on interest fluctuations: The discount rate used in calculating the present value of defined benefit obligations mainly pertains to the yields of the corporate bonds with the credit ratings of twAAA assigned by Taiwan Ratings. A decrease in discount rate will increase the present value of defined benefit obligations.
- c. 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.

28. EQUITY

- a. Share capital

Ordinary shares

	December 31, 2022	December 31, 2021
Authorized shares (in thousands)	<u>5,500,000</u>	<u>5,500,000</u>
Authorized capital	<u>\$ 55,000,000</u>	<u>\$ 55,000,000</u>
Issued and paid shares (in thousands)	<u>4,069,484</u>	<u>3,513,963</u>
Issued capital	<u>\$ 40,694,838</u>	<u>\$ 35,139,632</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 July 20, 2021, the Bank resolved to increase its capital by using its undistributed earnings of \$658,588 thousand. As a result, the Bank issued 65,859 thousand ordinary shares at a par value of NT\$10 and the record date for stock dividends was September 27, 2021.

At the shareholders' meeting held on June 21, 2022, the Bank resolved to increase its capital by using its undistributed earnings of \$555,206 thousand. As a result, the Bank issued 55,521 thousand ordinary shares at a par value of NT\$10 and the record date for stock dividends was September 12, 2022.

At the Board of Directors' meeting held on May 5, 2022, the Bank resolved to increase its capital by issuing 500,000 thousand ordinary shares. The issuance was approved by the Securities and Futures Bureau, FSC in July 2022 and the issuance price was NT\$9.62 per share. The record date for the capital increase by cash was October 5, 2022, and the Bank completed the registration of capital change on October 31, 2022. After the capital increase by cash, the total capital amounted to \$40,694,838 thousand. In the above-mentioned increasing of capital by cash, some of the original shareholders subscribed different from its existing ownership percentage and some employees gave up their subscription, and related parties subscribed for 50,936 thousand shares as specific persons.

Global depository receipts

As of December 31, 2022, the outstanding GDRs were 221 thousand units, equivalent to 4,421 thousand ordinary shares.

b. Capital surplus

	December 31, 2022	December 31, 2021
Issuance of ordinary shares premium	<u>\$ 302,926</u>	<u>\$ 456,426</u>

According to the Company Law, the capital surplus arising from shares issued in excess of par 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).

c. Retained earnings and dividend policy

The shareholders of the Bank held their regular meeting on July 20, 2021 and in that meeting, resolved the amendments to the Bank's Articles of Incorporation (the "Articles"). In case of surplus earnings 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 percent (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.

The appropriations of earnings for the 2021 and 2020, which were approved in the shareholders' meetings on June 21, 2022 and July 20, 2021, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (Dollars)</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Cash dividends	\$ 1,511,004	\$ 1,124,082	\$0.430	\$0.326
Stock dividends	555,206	658,588	0.158	0.191

The appropriations of earnings for 2022 had been proposed by the Bank's Board of Directors on March 2, 2023. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Cash dividends	\$ 1,664,012	\$0.4089

The appropriations of earnings for 2022 are subject to the resolution of the shareholders' meeting to be held on June 16, 2023.

d. Other equity items

Change in unrealized gain or loss on financial assets measured at FVTOCI:

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 259,486	\$ 1,172,225
Recognized for the year		
Unrealized gain or loss		
Debt instruments	(1,478,325)	(799,535)
Equity instruments	(374,443)	43,728
Share of other comprehensive loss of associates for using the equity method	(95,381)	(36,297)
Investment in debt instruments transferred to current loss due to disposal	22,382	29,377
Other comprehensive income recognized for the year	(1,925,767)	(762,727)
Loss (gain) on equity instruments transferred to retained earnings due to disposal	107,324	(150,012)
Balance, ending of year	\$ (1,558,957)	\$ 259,486

29. NET INTERESTS

	For the Year Ended December 31	
	2022	2021
Interest revenues		
Discounts and loans	\$ 9,572,878	\$ 7,454,724
Securities	1,434,771	952,703
Credit cards	693,749	716,926
Others	<u>603,524</u>	<u>267,252</u>
	<u>12,304,922</u>	<u>9,391,605</u>
Interest expenses		
Deposits and remittances	4,520,121	2,404,773
Bank debentures	328,315	358,818
Structured products	288,643	133,776
Others	<u>124,290</u>	<u>53,342</u>
	<u>5,261,369</u>	<u>2,950,709</u>
	<u>\$ 7,043,553</u>	<u>\$ 6,440,896</u>

30. NET SERVICE FEE INCOME

	For the Year Ended December 31	
	2022	2021
Service fee income		
Fees from credit card	\$ 1,112,455	\$ 1,008,038
Fees from loan	697,301	654,377
Fees from trustee business	686,542	902,868
Fees from insurance commission	424,179	572,461
Fees from brokering	128,730	466,505
Others	<u>307,500</u>	<u>371,132</u>
	<u>3,356,707</u>	<u>3,975,381</u>
Service fee expense		
Refund from credit card fee	223,814	207,079
Visa and Master fee	177,308	162,070
National credit card center fee	157,578	149,938
Agency service fee	76,083	75,166
Interbank service fee	56,686	49,621
Credit investigation fee	29,129	34,424
Others	<u>114,149</u>	<u>139,730</u>
	<u>834,747</u>	<u>818,028</u>
	<u>\$ 2,521,960</u>	<u>\$ 3,157,353</u>

31. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FVTPL

	For the Year Ended December 31	
	2022	2021
Gain on disposal	\$ 1,210,997	\$ 774,362
Gain (loss) on valuation	(225,705)	17,713
Net interests	218,645	162,635
Dividends	<u>41,005</u>	<u>27,563</u>
	<u>\$ 1,244,942</u>	<u>\$ 982,273</u>

32. EMPLOYEE BENEFITS EXPENSE

	For the Year Ended December 31	
	2022	2021
Salaries (Notes 33 and 38)	\$ 3,458,622	\$ 3,359,421
Labor and health insurance	253,946	250,755
Post-employment benefits (Note 27)	149,429	147,251
Others (Note 33)	<u>377,622</u>	<u>322,190</u>
	<u>\$ 4,239,619</u>	<u>\$ 4,079,617</u>

33. EMPLOYEES' COMPENSATION AND REMUNERATION OF DIRECTORS

According to the Bank's Articles, from the Bank's income before income tax, remuneration of directors and employees' compensation, the Bank should retain 3.5%-4.5% for employees' compensation and no greater than 1.5% for remuneration of directors. On March 2, 2023, the Bank's Board of Directors resolved to pay employees' compensation of \$153,113 thousand and remuneration of directors of \$41,784 thousand for the year ended December 31, 2022, both in cash. If there is a change in the amounts after the financial statements for the year ended December 31, 2022 were authorized for issue, the differences will be recorded as a change in the accounting estimate and adjusted in the next year.

On March 3, 2022 the Bank's Board of Directors resolved to pay employees' compensation of \$127,261 thousand and remuneration of directors of \$42,420 thousand for the year ended December 31, 2021, both in cash. 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, 2021.

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

34. DEPRECIATION AND AMORTIZATION

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Depreciation		
Property and equipment (Note 17)	\$ 290,508	\$ 283,846
Leased right-of-use assets (Note 18)	<u>416,489</u>	<u>402,113</u>
	<u>\$ 706,997</u>	<u>\$ 685,959</u>
Amortization - intangible assets (Note 19)	<u>\$ 25,483</u>	<u>\$ 25,483</u>

35. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Tax and government fees	\$ 602,179	\$ 551,319
Software	272,631	231,117
Marketing and advertising	220,761	259,070
Telecommunications	171,802	160,556
Others	<u>764,241</u>	<u>683,728</u>
	<u>\$ 2,031,614</u>	<u>\$ 1,885,790</u>

36. INCOME TAX EXPENSE

- a. Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Current tax expense		
Current period	\$ 505,214	\$ 335,791
Prior years	<u>(2,897)</u>	<u>3,823</u>
	<u>502,317</u>	<u>339,614</u>
Deferred tax expense		
Current period	3,972	54,026
Prior years	<u>7,325</u>	<u>(29,940)</u>
Deferred tax expense	<u>11,297</u>	<u>24,086</u>
Income tax expense recognized in profit or loss	<u>\$ 513,614</u>	<u>\$ 363,700</u>

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

	For the Year Ended December 31	
	2022	2021
Income before income tax	<u>\$ 4,191,116</u>	<u>\$ 3,302,822</u>
Income tax expense calculated at the statutory rate	\$ 847,243	\$ 701,702
Income from offshore banking unit (OBU)	(381,038)	(294,889)
Tax-exempted investment income	(5,337)	(69,911)
Tax-exempted other items	(15,755)	5,605
Unrecognized deductible temporary differences	7,059	(55,697)
Additional income tax under the Alternative Minimum Tax Act	57,214	103,373
Adjustments for prior years' tax	4,428	(26,117)
Others	<u>(200)</u>	<u>(366)</u>
Income tax expense recognized in profit or loss	<u>\$ 513,614</u>	<u>\$ 363,700</u>

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2022	2021
Income tax expense (benefit) of remeasurement of defined benefit plans	\$ 21,702	\$ (12,349)
Income tax expense (benefit) of exchange differences on translating foreign operations	<u>2,899</u>	<u>(1,603)</u>
	<u>\$ 24,601</u>	<u>\$ (13,952)</u>

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

For the year ended December 31, 2022

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	\$ 85,238	\$ 18,507	\$ -	\$ 103,745
Defined benefit plans in excess of the limit	144,712	(16,637)	(21,702)	106,373
Unrealized gain or loss on financial instruments	(77,862)	(19,960)	-	(97,822)
Others	<u>57,535</u>	<u>907</u>	<u>(2,899)</u>	<u>55,543</u>
	<u>209,623</u>	<u>(17,183)</u>	<u>(24,601)</u>	<u>167,839</u>
Loss carryforwards	<u>-</u>	<u>11,862</u>	<u>-</u>	<u>11,862</u>
	<u>\$ 209,623</u>	<u>\$ (5,321)</u>	<u>\$ (24,601)</u>	<u>179,701</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				
Income from equity investments in foreign company under the equity method	<u>\$ (31,536)</u>	<u>\$ (5,976)</u>	<u>\$ -</u>	<u>\$ (37,512)</u>

For the year ended December 31, 2021

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	\$ 93,524	\$ (8,286)	\$ -	\$ 85,238
Defined benefit plans in excess of the limit	114,254	18,109	12,349	144,712
Unrealized gain or loss on financial instruments	(49,118)	(28,744)	-	(77,862)
Others	<u>54,265</u>	<u>1,667</u>	<u>1,603</u>	<u>57,535</u>
	<u>\$ 212,925</u>	<u>\$ (17,254)</u>	<u>\$ 13,952</u>	<u>\$ 209,623</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				
Income from equity investments in foreign company under the equity method	<u>\$ (24,704)</u>	<u>\$ (6,832)</u>	<u>\$ -</u>	<u>\$ (31,536)</u>

- d. Unrecognized as deferred tax assets in respect of deductible temporary differences

	December 31, 2022	December 31, 2021
The Bank		
Allowance for possible losses in excess of the limit	<u>\$ 1,180,550</u>	<u>\$ 1,145,259</u>

- e. Income tax assessments

The income tax returns of the Bank through 2019 had been assessed by the tax authorities. The income tax returns of FEIS and FEAMC through 2020 had been assessed by the tax authorities.

37. EARNINGS PER SHARE

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

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2022	2021
Basic EPS	<u>\$ 1.00</u>	<u>\$ 0.82</u>
Diluted EPS	<u>\$ 0.99</u>	<u>\$ 0.82</u>

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

	For the Year Ended December 31	
	2022	2021
Net income attributable to owners of the Bank used in the computation of basic and diluted EPS	<u>\$ 3,677,502</u>	<u>\$ 2,939,122</u>
<u>Number of Ordinary Shares (in thousand shares)</u>		
Weighted average number of ordinary shares in the computation of basic EPS	3,690,032	3,569,484
Effect of dilutive potential ordinary shares Employees' compensation	<u>15,818</u>	<u>14,316</u>
Weighted average number of ordinary shares used in the computation of diluted EPS	<u>3,705,850</u>	<u>3,583,800</u>

Employees' compensation for the current year should be considered in calculating the weighted-average number of shares 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.

The weighted average number of ordinary shares outstanding for 2021 EPS calculation was retroactively adjusted to the issuance of stock dividends. The basic and diluted after-tax EPS were adjusted retrospectively as follows:

	For the Year Ended December 31, 2021	
	Before Adjustment	After Adjustment
Basic EPS	<u>\$ 0.84</u>	<u>\$ 0.82</u>
Diluted EPS	<u>\$ 0.83</u>	<u>\$ 0.82</u>

38. SHARE-BASED PAYMENT ARRANGEMENTS

In August 2022, the Bank resolved to increase its capital by issuing 500,000 thousand ordinary shares. According to the Company Act, the Bank shall allocate 50,000 thousand of shares as provision for subscription by employees. Lock-up period is 2 years. The relevant remuneration costs of \$41,500 thousand was recognized based on fair value on the grant date according to the valuation report issued by the experts. The valuation report applied the Black-Scholes pricing model, and the inputs to the model are as follows:

Grant date	August 30, 2022
Grant date share price (after considering ex-rights and ex-dividends)	\$11.22
Exercise price	\$9.62
Expected volatility	14.65%
Duration	0.079 years
Restricted period	2.118 years
Risk-free interest rate	0.7014%

39. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Bank
Dah Chung Bills Finance Corp.	Association
Ding Ding Integrated Marketing Service Co.	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
U-Ming Marine Transport Corp.	Chairman is the vice-chairman of the Bank
Far Eastern New Century Corp.	Chairman is the vice-chairman of the Bank
New Century InfoComm Tech Co., Ltd	Chairman is the vice-chairman of the Bank
Far Eastone Telecommunications Corporation	Chairman is the vice-chairman of the Bank
Bai Ding Investment Corporation	Chairman is the vice-chairman of the Bank
Far Eastern Ai Mai Co., Ltd.	Chairman is the vice-chairman of the Bank
Oriental Union Chemical Corporation	Chairman is the vice-chairman of the Bank
Asia Cement Corp.	Chairman is the vice-chairman of the Bank
Far Eastern Electronic Toll Collection Co., Ltd.	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
Yuan Long Stainless Steel Co.	Chairman of parent company is the vice-chairman of the Bank
Far Eastern Medical Foundation Far East Memorial Hospital	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
Der Ching Investment Corporation	Chairman is a second-degree relative of the vice chairman of the Bank
Far Eastern International Leasing Corp.	Substantive related party
Pacific SOGO Department Stores Corp.	Substantive related party
Yu Yuan Investment Co., Ltd.	Substantive related party
Yuan Hsin Digital Payment Co., Ltd.	Substantive related party
Oriental Securities Corporation	Substantive related party
Others	The Bank's chairman, vice-chairman, managers, their second-degree relatives and 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. Due from other banks

	Highest Balance in Current Year	Ending Balance	Interest Revenues	Interest Rates
<u>Dah Chung Bills Finance Corp.</u>				
For the year ended December 31				
2022	<u>\$ 1,500,000</u>	<u>\$ 400,000</u>	<u>\$ 3,219</u>	0.60%-1.31%
2021	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ 185</u>	0.20%-0.27%

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 <u>December 31, 2022</u>							
Consumer loans	Seven individuals	\$ 5,029	\$ 2,845	\$ 2,845	\$ -	Unsecured loan	Note 2
Loans for residential mortgage	Forty individuals	421,705	346,326	346,326	-	Real estate	Note 2
Others	Yuan Long Stainless Steel Co	1,400,000	1,050,000	1,050,000	-	Real estate	Note 2
	U-Ming Marine Transport Corp.	700,000	700,000	700,000	-	Ships and stock listed on TWSE	Note 2
	Far Eastern Department Store Corp.	500,000	500,000	500,000	-	Stock listed on TWSE	Note 2
	Bai Ding Investment Corporation	480,000	480,000	480,000	-	Stock listed on TWSE	Note 2
	Far Eastern Ai Mai Co., Ltd.	400,000	400,000	400,000	-	Real estate	Note 2
	Others (Note 1)	1,376,911	<u>327,481</u>	<u>327,481</u>	-	Real estate, certificates of deposits, stock unlisted on TWSE and stock listed on TWSE	Note 2
			<u>\$ 3,806,652</u>	<u>\$ 3,806,652</u>	<u>\$ -</u>		
For the year ended <u>December 31, 2021</u>							
Consumer loans	Seven individuals	4,750	\$ 4,149	\$ 4,149	\$ -	Unsecured loan	Note 2
Loans for residential mortgage	Thirty five individuals	368,611	300,618	300,618	-	Real estate	Note 2
Others	Yuan Long Stainless Steel Co.	1,300,000	1,300,000	1,300,000	-	Real estate	Note 2
	Everest Textile Co., Ltd.	644,144	535,068	535,068	-	Real estate	Note 2
	Others (Note 1)	592,445	<u>27,545</u>	<u>27,545</u>	-	Real estate, certificates of deposits, stock unlisted on TWSE and stock listed on TWSE	Note 2
			<u>\$ 2,167,380</u>	<u>\$ 2,167,380</u>	<u>\$ -</u>		

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

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

The information related to the above loans is as follows:

	For the Year Ended December 31	
	2022	2021
Interest revenues	<u>\$ 36,103</u>	<u>\$ 17,296</u>
Interest rate	0.62%-5.50%	0.48%-1.87%
Provision for possible losses	<u>\$ 16,621</u>	<u>\$ 7,781</u>

Balances of related allowance for possible losses were \$39,798 thousand and \$23,177 thousand as of December 31, 2022 and 2021, 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, 2022</u>					
Far Eastern International Leasing Corp.	\$ 700,000	\$ 340,000	\$ 3,400	0.30%	Real estate
Others (Note)	1,045,480	<u>65,480</u>	<u>655</u>	0.40%-0.80%	Real estate, stock unlisted on TWSE and stock listed on TWSE
		<u>\$ 405,480</u>	<u>\$ 4,055</u>		
<u>For the year ended December 31, 2021</u>					
Far Eastern International Leasing Corp.	700,000	\$ 571,000	\$ 5,710	0.30%	Real estate
Der Ching Investment Corporation	180,000	180,000	1,800	0.50%-0.55%	Stock listed on TWSE
Yu Yuan Investment Co., Ltd.	130,000	130,000	1,300	0.50%-0.55%	Stock listed on TWSE
Oriental Union Chemical Corporation	130,000	130,000	1,300	0.50%	Stock listed on TWSE
Others (Note)	665,200	<u>75,000</u>	<u>750</u>	0.40%-0.80%	Real estate, stock unlisted on TWSE and stock listed on TWSE
		<u>\$ 1,086,000</u>	<u>\$ 10,860</u>		

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

d. Letters of credit issued

	December 31, 2022	December 31, 2021
Yuan Long Stainless Steel Co.	<u>\$ -</u>	<u>\$ 14,684</u>

e. Derivative instruments (Note 8)

Related Party	Derivative Instrument	Contract Period	Nominal Amount	Valuation Gain (Loss)	Balance Sheet	
					Account	Balance
<u>For the year ended December 31, 2022</u>						
U-Ming Marine Transport (Singapore) Private, Ltd.	Interest rate swap contracts	2020.07.17-2028.01.10	\$ 2,316,688	\$ (210,173)	Financial liabilities at FVTPL	\$ 77,841
Far Eastern New Century Corp.	Forward exchange contracts	2022.10.19-2023.03.06	1,031,318	15,776	Financial assets at FVTPL	25,173
Asia Cement Corp.	Cross-currency swap contracts	2022.12.21-2023.12.26	1,381,860	(696)	Financial liabilities at FVTPL	9,397
					Financial liabilities at FVTPL	696
<u>For the year ended December 31, 2021</u>						
U-Ming Marine Transport (Singapore) Private, Ltd.	Interest rate swap contracts	2012.09.27-2028.01.10	2,576,555	(125,571)	Financial assets at FVTPL	132,904
Far Eastern New Century Corp.	Forward exchange contracts	2021.11.26-2022.04.01	690,687	(1,996)	Financial assets at FVTPL	784
					Financial liabilities at FVTPL	2,780

f. Deposits

	December 31, 2022	December 31, 2021
Deposits of related parties (each account balance did not exceed 5% of total deposits)	<u>\$ 55,226,399</u>	<u>\$ 55,746,962</u>
Interest rate	0%-6.34%	0%-5.84%

	For the Year Ended December 31	
	2022	2021
Interest expenses	<u>\$ 315,943</u>	<u>\$ 183,914</u>
g. Prepayments		
	December 31, 2022	December 31, 2021
New Century InfoComm Tech Co., Ltd.	<u>\$ 21,283</u>	<u>\$ 13,748</u>

h. Acquisition of equipment

	For the Year Ended December 31	
	2022	2021
New Century InfoComm Tech Co., Ltd.	<u>\$ 28,786</u>	<u>\$ 33,433</u>

i. Lessee agreements

	For the Year Ended December 31	
	2022	2021
Acquisition of right-of-use assets		
Yuan Ding Co., Ltd.	<u>\$ 5,644</u>	<u>\$ 253,782</u>
Lease liabilities		
Yuan Ding Co., Ltd.	\$ 86,356	\$ 156,236
Pacific SOGO Department Stores Corp.	10,499	15,684
Far Eastern Department Store Corp.	<u>8,874</u>	<u>13,080</u>
	<u>\$ 105,729</u>	<u>\$ 185,000</u>

The Bank and its subsidiaries rented part of its office premises from Yuan Ding Co., Ltd., Pacific SOGO Department Stores Corp. and Far Eastern Department Store Corp. All the rent determinations and payment methods of lease conformed to normal business practice of the Bank.

j. Advance receipts

At the Board of Directors' meeting held in March 2022, the Bank resolved to undertake the business of refund of the cards and the stored value in the cards after Yuan Hsin Digital Payment Co., Ltd. terminated its business. Yuan Hsin Digital Payment Co., Ltd. paid the Bank \$16,000 thousand in full for future operating costs on December 30, 2022, which the Bank recognized in advance receipts. The Bank started this business in January 2023.

k. Service fee income

	For the Year Ended December 31	
	2022	2021
Far EasTone Telecommunications Co., Ltd.	<u>\$ 29,816</u>	<u>\$ 26,376</u>

l. Service fee expense

	For the Year Ended December 31	
	2022	2021
Ding Integrated Marketing Service Co.	\$ 142,319	\$ 137,006
Far Eastern Department Store Corp.	20,085	18,311
Far Eastern Electronic Toll Collection Co.	<u>10,053</u>	<u>12,317</u>
	<u>\$ 172,457</u>	<u>\$ 167,634</u>

m. Operating expenses

	For the Year Ended December 31	
	2022	2021
Far Eastern Department Store Corp.	\$ 89,737	\$ 82,551
Pacific SOGO Department Stores Corp.	55,450	67,007
New Century InfoComm Tech Co., Ltd	35,304	20,840
Yuan Ding Co., Ltd.	18,337	18,238
Oriental Securities Corporation	11,738	8,282
Far Eastern Medical Foundation Far East Memorial Hospital	<u>10,334</u>	<u>-</u>
	<u>\$ 220,900</u>	<u>\$ 196,918</u>

n. Compensation of key management personnel (Note 32)

	For the Year Ended December 31	
	2022	2021
Short-term employee benefits	\$ 156,477	\$ 180,441
Post-employment benefits	<u>3,591</u>	<u>4,062</u>
	<u>\$ 160,068</u>	<u>\$ 184,503</u>

40. PLEDGED ASSETS

	December 31, 2022	December 31, 2021
Financial assets at FVTOCI -		
Government bonds	\$ 3,526,769	\$ 3,577,633
Negotiable certificates of deposits	-	3,394,342
Investment in debt instruments at amortized cost -		
Negotiable certificates of deposits	2,200,000	-
Other financial assets - Restricted time deposits	2,204,700	869,200
Due from the Central Bank and other banks -		
New Taiwan dollar reserve deposits - Type B	<u>-</u>	<u>500,000</u>
	<u>\$ 7,931,469</u>	<u>\$ 8,341,175</u>

In addition to those disclosed in other notes, the government bonds had been provided as the reserve for compensation of trust department as well as security deposits for provisional seizures of the debtors' properties. The negotiable certificates of deposits had 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. Restricted time deposits had been provided as collaterals for overdraft of domestic CNY settlement. New Taiwan dollar reserve deposits - Type B had been used as collaterals to apply for financing of project loans to small and medium enterprises affected by the COVID-19.

41. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in Note 44, the Bank's and its subsidiaries' contingent liabilities and commitments resulting from operating activities as of December 31, 2022 and 2021 are summarized as follows:

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

Balance Sheets of Trust Accounts

	December 31, 2022	December 31, 2021
<u>Assets</u>		
Deposits in banks	\$ 8,837,267	\$ 9,120,514
Accounts receivable	3,656	1,667
Funds	53,715,259	45,836,658
Equity stocks	4,957,320	4,895,595
Real estate, net		
Land	8,431,449	10,010,826
Building	27,385	66,552
Construction in progress	5,834,805	3,514,020
Intangible assets		
Superficies	13,471	13,471
Marketable securities in custody	8,037,118	15,932,874
Others	<u>2,802,981</u>	<u>2,572,465</u>
	<u>\$ 92,660,711</u>	<u>\$ 91,964,642</u>
<u>Liabilities</u>		
Accounts payable	\$ 2,146	\$ 2,358
Income tax payable	201	81
Marketable securities in custody payable	8,037,118	15,932,874
Trust capital	83,178,357	74,801,134
Reserve and earnings		
Net income or loss for current period	491,723	4,206,176
Accumulated profit or loss	951,133	(2,978,011)
Exchange	<u>33</u>	<u>30</u>
	<u>\$ 92,660,711</u>	<u>\$ 91,964,642</u>

Income Statements of Trust Accounts

	For the Year Ended December 31	
	2022	2021
Trust revenue		
Interest	\$ 39,548	\$ 24,677
Cash dividends	2,232,989	3,499,145
Realized capital gain - Funds	462,742	3,038,167
Realized capital gain - Common stock	6,895	2,183
Unrealized capital gain - Funds	22,201	16,212
Unrealized capital gain - Common stock	<u>75,026</u>	<u>5,139</u>
	<u>2,839,401</u>	<u>6,585,523</u>
Trust expenses		
Management	34,139	71,909
Supervision	442	344
Service charges	311,032	369,558
Taxes	75,762	4,187
Realized capital loss - Funds	1,897,372	1,877,091
Unrealized capital loss - Common stock	5,650	38,446
Unrealized capital loss - Funds	<u>22,693</u>	<u>17,535</u>
	<u>2,347,090</u>	<u>2,379,070</u>
Net income before tax	492,311	4,206,453
Income tax	<u>588</u>	<u>277</u>
Net income	<u>\$ 491,723</u>	<u>\$ 4,206,176</u>

Trust Asset Lists

	December 31, 2022	December 31, 2021
Deposits in banks	\$ 8,837,267	\$ 9,120,514
Funds	53,715,259	45,836,658
Equity stocks	4,957,320	4,895,595
Accounts receivable	3,656	1,667
Real estate, net		
Land	8,431,449	10,010,826
Building	27,385	66,552
Construction in progress	5,834,805	3,514,020
Intangible assets		
Superficies	13,471	13,471
Marketable securities in custody	8,037,118	15,932,874
Others	<u>2,802,981</u>	<u>2,572,465</u>
	<u>\$ 92,660,711</u>	<u>\$ 91,964,642</u>

As of December 31, 2022 and 2021, funds amounting to \$1,395,120 thousand and \$1,143,589 thousand, respectively, had been recognized in the OBU's books as investment in overseas securities through Non-discretionary Pecuniary Trust of the OBU.

42. 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, 2022			December 31, 2021		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 3,666,540	30.708	\$ 112,592,110	\$ 3,924,529	27.690	\$ 108,670,208
CNY	2,494,916	4.409	11,001,083	1,494,969	4.346	6,497,135
AUD	331,913	20.832	6,914,511	120,078	20.095	2,412,919
HKD	1,608,957	3.938	6,336,555	2,330,997	3.551	8,276,438
JPY	9,963,939	0.232	2,315,619	6,238,283	0.241	1,500,307
ZAR	978,253	1.813	1,773,181	975,411	1.735	1,692,533
EUR	44,323	32.724	1,450,426	171,243	31.330	5,365,026
CHF	4,944	33.248	164,366	559	30.198	16,881
CAD	5,619	22.671	127,389	5,364	21.627	116,016
NZD	6,547	19.447	127,322	8,178	18.889	154,476
GBP	3,138	37.046	116,252	3,955	37.294	147,485
SGD	2,837	22.863	64,863	18,313	20.460	374,691
<u>Financial liabilities</u>						
Monetary items						
USD	3,578,742	30.708	109,896,009	3,820,045	27.690	105,777,046
CNY	2,471,507	4.409	10,897,863	1,448,503	4.346	6,295,194
AUD	332,747	20.832	6,931,885	120,606	20.095	2,423,529
HKD	1,583,533	3.938	6,236,428	2,364,618	3.551	8,395,813
JPY	9,656,874	0.232	2,244,258	6,482,686	0.241	1,559,086
ZAR	980,246	1.813	1,776,794	980,362	1.735	1,701,124
EUR	43,955	32.724	1,438,383	169,812	31.330	5,320,205
CHF	5,049	33.248	167,854	529	30.198	15,973
GBP	3,538	37.046	131,070	4,397	37.294	163,999
NZD	6,571	19.447	127,771	7,136	18.889	134,785
CAD	4,403	22.671	99,814	5,925	21.627	128,131
SGD	2,898	22.863	66,256	18,287	20.460	374,159

43. 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 on transaction date (Normally refer to transaction price). All financial instruments are subsequently measured at fair value on balance sheet date except for financial instruments which are valued at amortized cost.

2) Valuation principles of fair value measurement

When the Bank determines 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 quoted market prices of financial instruments that are similar to those of the Bank' instruments.

The parameters of valuation model used to measure fair value of financial instruments are 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:

- a) The consistency and adequacy of the market parameters used in the valuation;
- b) 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") (under zero default rate of the Bank), 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 reflect the credit risk of the counterparty and the credit quality of the Bank respectively and incorporate credit risk adjustments into measuring the fair value of financial instruments, the Bank use the appropriate ratio of LGD and PD that follows the advice of "The disclosure guidelines of CVA and DVA under IFRS 13" issued by the TWSE, and calculate the counterparty's EAD based on the fair value of over-the-counter derivatives transaction.

4) 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 information 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:

Financial Instruments	December 31, 2022			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial assets and liabilities</u>				
Financial assets at FVTPL				
Bonds investments	\$ 14,911,749	\$ 14,911,749	\$ -	\$ -
Equity investments	926,269	926,269	-	-
Financial assets at FVTOCI				
Equity instruments	2,480,308	2,220,940	-	259,368
Debt instruments				
Bonds investments	67,075,107	67,075,107	-	-
Bills investments	7,184,492	-	7,184,492	-
<u>Derivative financial assets and liabilities</u>				
Financial assets at FVTPL	9,490,043	1	9,439,010	51,032
Financial liabilities at FVTPL	8,689,238	120	8,640,090	49,028
<u>Hybrid contract</u>				
Financial assets at FVTPL	21,324,468	153,224	21,171,244	-
Financial Instruments	December 31, 2021			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial assets and liabilities</u>				
Financial assets at FVTPL				
Bonds investments	\$ 14,040,793	\$ 14,040,793	\$ -	\$ -
Equity investments	928,354	928,354	-	-
Beneficiary certificates	475,023	475,023	-	-
Financial assets at FVTOCI				
Equity instruments	1,358,540	1,090,772	-	267,768
Debt instruments				
Bonds investments	75,038,276	75,038,276	-	-
Bills investments	37,032,899	-	37,032,899	-
Financial liabilities at FVTPL				
Short-covering debentures	148,325	148,325	-	-
<u>Derivative financial assets and liabilities</u>				
Financial assets at FVTPL	3,418,922	730	3,342,443	75,749
Financial liabilities at FVTPL	2,853,964	-	2,851,045	2,919
<u>Hybrid contract</u>				
Financial assets at FVTPL	18,799,675	117,293	18,682,382	-

2) Fair value information levels transfers between Levels 1 and Level 2

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2022 and 2021.

3) Level 3 financial instruments

a) Movement of Level 3 financial assets

For the Year Ended December 31, 2022

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	Sale, Disposition or Settlement	Transfer-out from Level 3	
Financial assets at FVTPL	\$ 75,749	\$ (14,745)	\$ -	\$ 27,364	\$ -	\$ (37,336)	\$ -	\$ 51,032
Financial assets at FVTOCI	267,768	-	(8,400)	-	-	-	-	259,368
Total	\$ 343,517	\$ (14,745)	\$ (8,400)	\$ 27,364	\$ -	\$ (37,336)	\$ -	\$ 310,400

For the Year Ended December 31, 2021

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	Sale, Disposition or Settlement	Transfer-out from Level 3	
Financial assets at FVTPL	\$ 136,479	\$ (28,442)	\$ -	\$ 30,401	\$ -	\$ (62,689)	\$ -	\$ 75,749
Financial assets at FVTOCI	296,158	-	(35,436)	7,046	-	-	-	267,768
Total	\$ 432,637	\$ (28,442)	\$ (35,436)	\$ 37,447	\$ -	\$ (62,689)	\$ -	\$ 343,517

b) Movements of Level 3 financial liabilities

For the Year Ended December 31, 2022

Item	Beginning Balance	Valuation Included in Profit or Loss	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	\$ 2,919	\$ 1,953	\$ 44,156	\$ -	\$ -	\$ -	\$ 49,028

For the Year Ended December 31, 2021

Item	Beginning Balance	Valuation Included in Profit or Loss	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	\$ 239	\$ (239)	\$ 2,919	\$ -	\$ -	\$ -	\$ 2,919

c) Related information of significant unobservable parameters used in fair value measurement

Level 3 financial instruments mainly consist of credit default swap and part of 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	Valuation Techniques	Significant Unobservable Parameters	Interval (Weighted-average)	Relationship Between Parameters and Fair Value
<u>Derivative financial assets</u>					
December 31, 2022	\$ 51,032	Default probability model	Credit separation	0.45%-1.22%	The increase of credit separation decreases its fair value.
December 31, 2021	75,749	Default probability model	Credit separation	0.05%-2.00%	The increase of credit separation decreases its fair value.

(Continued)

Measured at Fair Value Based on Repetition	Fair Value	Valuation Techniques	Significant Unobservable Parameters	Interval (Weighted-average)	Relationship Between Parameters and Fair Value
<u>Investments in equity</u>					
December 31, 2022	\$ 237,926	Income approach - cash dividend discount method	Without open market marketable discount	19.37%	The increase of discount decreases its fair value
	21,442	Net asset value method	Net asset value	N/A	The increase of net asset value increases its fair value
December 31, 2021	238,460	Income approach - cash dividend discount method	Without open market marketable discount	19.54%	The increase of discount decreases its fair value
	17,758	Market approach - comparable listed or TPEX company	Without open market marketable discount	10.00%	The increase of discount decreases its fair value
	11,550	Net asset value method	Net asset value	N/A	The increase of net asset value increases its fair value
<u>Derivative financial liabilities</u>					
December 31, 2022	49,028	Default probability model	Credit separation	0.45%-1.22%	The increase of credit separation decreases its fair value.
December 31, 2021	2,919	Default probability model	Credit separation	0.05%-2.00%	The increase of credit separation decreases its fair value.

(Concluded)

d) Valuation procedures for fair value measurements categorized within Level 3

The evaluation of financial instruments at the level 3 is from specific departments independent of the business unit and external experts evaluating the fair values close to the market status, ensuring the data source is independent, reliable, and consistent with other resources, reviewing the evaluation parameters regularly, updating the required input values, confirming whether correcting the valuation technique is necessary, and adjusting fair value if necessary to ensure the rationality in the evaluation results.

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

The fair value of the Bank's financial instruments is evaluated as reasonable. Had the valuation parameters for financial instruments categorized within Level 3 been 0.01% higher/lower, the impact of fair value on the assets and liabilities would have been as follows:

Item	Impact on Gain and Loss			
	December 31, 2022		December 31, 2021	
	Favorable	Unfavorable	Favorable	Unfavorable
<u>Assets</u>				
Mandatorily at FVTPL	\$ 1,967	\$ (4,346)	\$ 2,638	\$ (4,424)
<u>Liabilities</u>				
Financial liabilities at FVTPL	2,539	(2,678)	265	(265)

Item	Impact on Other Comprehensive Income and Losses			
	December 31, 2022		December 31, 2021	
	Favorable	Unfavorable	Favorable	Unfavorable
<u>Assets</u>				
Financial assets at FVTOCI	\$ -	\$ (59)	\$ 59	\$ -

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

The Bank considers 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:

December 31, 2022

	Book Value	Fair Value	The Fair Value Hierarchy of Financial Instruments	
			Level 1	Level 2
<u>Financial asset</u>				
Investments in debt instrument at amortized cost	\$ 100,836,081	\$ 100,661,787	\$ 13,439,878	\$ 87,221,909
<u>Financial liabilities</u>				
Bank debentures	20,901,900	20,945,587	-	20,945,587

December 31, 2021

	Book Value	Fair Value	The Fair Value Hierarchy of Financial Instruments	
			Level 1	Level 2
<u>Financial asset</u>				
Investments in debt instrument at amortized cost	\$ 71,374,127	\$ 71,381,072	\$ 781,676	\$ 70,599,396
<u>Financial liabilities</u>				
Bank debentures	23,901,900	24,005,681	-	24,005,681

For the valuation methods and assumptions for Level 2 financial instruments in the table above, negotiable certificates of deposit of investments in debt instruments at amortized cost are calculated by discounting future cash flows using the TAIBIR which is provided by the TDCC, and the bank debentures are estimated based on the public price information on the OTC exchange.

44. FINANCIAL RISK MANAGEMENT

a. Overview

The Bank's risk management policy is to form a risk management-oriented culture, and to use both qualitative (such as each operating procedures) and quantitative (such as asset quality ratios) 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 maximize shareholder value and achieve sustainable development goals of the enterprise.

Each subsidiary has its own risk management mechanism to identify, measure, monitor, and control the credit risk, liquidity risk, and market risk.

b. Risk management framework

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

Assets and Liabilities 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 Group comprises Risk Control Department, Corporate Banking Department and Retail Banking Department which directly manage credit extension risks in their respective areas, and present risk management report to the Risk Management Committee and the Board of Directors, regularly. The Internal Audit Group undertakes regular reviews of risk management controls and procedures, including risk management framework, operating procedures of risk management, and provides timely suggestions for improvements.

c. Credit risk management

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:

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 its subsidiaries 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 still do the recovery of debt and institute legal proceedings continuously under related policies possibly.

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 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).

When the Bank measured the expected credit loss of assets combination, the forward-looking information was 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 weighted-average prediction value by at least 2 macroeconomic prediction authorities to calculate.

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

The measurement of expected credit loss was based on 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 it assessed the credit rating.

4) Credit risk hedging and mitigation policies

- a) When contracting, 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) 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.
- c) When a risk occurs, 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.
- d) 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, 2022	December 31, 2021
Unused portion of credit card lines	\$ 195,837,665	\$ 196,500,728
Guarantees and standby L/Cs	15,878,608	27,328,893
Irrevocable loan commitments	13,901,262	14,708,106

The Bank has documented procedures for the assessment and classification of nonperforming loans and for evaluating adequacy of collaterals.

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, 2022

	Maximum Credit Risk Exposure			Total
	With Collaterals	Other Credit Enhancements	Without Collaterals	
<u>Balance sheet items</u>				
Discounts and loans	\$ 282,509,945	\$ 70,838,042	\$ 90,734,337	\$ 444,082,324
Receivables - credit card	-	-	12,786,004	12,786,004
Receivables - acceptances	84,483	35,182	87,662	207,327
<u>Off-Balance sheet items</u>				
Unused portion of credit card lines	-	-	195,837,665	195,837,665
Guarantee	4,612,998	4,463,605	6,276,761	15,353,364
Letters of credit issued	24,947	318,309	181,988	525,244
Irrevocable loan commitments	<u>875,238</u>	<u>-</u>	<u>13,026,024</u>	<u>13,901,262</u>
	<u>\$ 288,107,611</u>	<u>\$ 75,655,138</u>	<u>\$ 318,930,441</u>	<u>\$ 682,693,190</u>

December 31, 2021

	Maximum Credit Risk Exposure			Total
	With Collaterals	Other Credit Enhancements	Without Collaterals	
<u>Balance sheet items</u>				
Discounts and loans	\$ 266,364,388	\$ 65,293,423	\$ 81,213,889	\$ 412,871,700
Receivables - credit card	-	-	12,771,358	12,771,358
Receivables - acceptances	278,668	22,657	118,164	419,489
<u>Off-Balance sheet items</u>				
Unused portion of credit card lines	-	-	196,500,728	196,500,728
Guarantee	10,495,751	6,390,460	9,016,095	25,902,306
Letters of credit issued	61,948	705,655	658,984	1,426,587
Irrevocable loan commitments	<u>1,994,045</u>	<u>-</u>	<u>12,714,061</u>	<u>14,708,106</u>
	<u>\$ 279,194,800</u>	<u>\$ 72,412,195</u>	<u>\$ 312,993,279</u>	<u>\$ 664,600,274</u>

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.

Stage 3 impaired financial assets

Refer to Notes 13 and 14 for the credit impairment of Stage 3 financial assets. The information of provision for allowance for possible losses amount, collateral fair value and other credit enhancements which reduce their potential loss are as below. The provision for allowance for possible losses takes into consideration the fair value of collateral, other credit enhancements amount and the recoverable amount in the future.

	Carrying Amount	Allowance for Possible Losses Under IFRS 9	Collateral Fair Value and Other Credit Enhancements
<u>December 31, 2022</u>			
Receivables			
Credit cards	\$ 951,504	\$ 323,673	\$ -
Others	73,293	43,593	792
Discounts and loans	<u>2,929,494</u>	<u>1,304,653</u>	<u>793,392</u>
	<u>\$ 3,954,291</u>	<u>\$ 1,671,919</u>	<u>\$ 794,184</u>
<u>December 31, 2021</u>			
Receivables			
Credit cards	\$ 1,048,593	\$ 351,370	\$ -
Others	28,832	12,356	2,107
Discounts and loans	<u>2,815,723</u>	<u>781,459</u>	<u>1,121,286</u>
	<u>\$ 3,893,148</u>	<u>\$ 1,145,185</u>	<u>\$ 1,123,393</u>

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

Industry Sector	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Finance and insurance	\$ 73,532,284	17	\$ 56,948,172	14
Manufacturing	45,622,667	10	44,806,320	11
Real estate	<u>35,219,236</u>	<u>8</u>	<u>27,605,939</u>	<u>6</u>
	<u>\$ 154,374,187</u>	<u>35</u>	<u>\$ 129,360,431</u>	<u>31</u>

b) By geography

Region	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Taiwan	\$ 389,650,414	88	\$ 362,168,882	88
Asia Pacific except Taiwan	31,691,958	7	28,303,409	7
Others	<u>22,739,952</u>	<u>5</u>	<u>22,399,409</u>	<u>5</u>
	<u>\$ 444,082,324</u>	<u>100</u>	<u>\$ 412,871,700</u>	<u>100</u>

c) By type of collaterals

Type of Collaterals	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Unsecured	\$ 161,572,379	37	\$ 146,507,312	36
Secured				
Real estate	240,922,149	54	228,252,258	55
Financial collateral	23,606,709	5	19,835,704	5
Movable property	17,272,119	4	17,150,003	4
Others	<u>708,968</u>	<u>-</u>	<u>1,126,423</u>	<u>-</u>
	<u>\$ 444,082,324</u>	<u>100</u>	<u>\$ 412,871,700</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.

d. Liquidity risk management

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 implemented 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, including cash and cash equivalents, due from the Central Bank and other banks and securities purchased under resale agreements etc., that can easily be liquidated as protection against any unforeseen interruption to cash flow; and
- c) Monitoring the liquidity ratios against internal and regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections of various future days. 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 Assets and Liabilities Management Committee and the Board of Directors.

3) 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 balance sheet.

December 31, 2022	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	\$ 829,670	\$ 645,778	\$ -	\$ -	\$ -	\$ 1,475,448
Securities sold under repurchase agreement	4,617,001	-	-	-	-	4,617,001
Payables	2,605,105	978,736	748,721	495,210	518,600	5,346,372
Deposits and remittances	98,051,343	131,693,307	93,691,950	147,987,215	136,000,066	607,423,881
Bank debentures	-	-	-	4,000,000	16,901,900	20,901,900
Principal received on structured products	41,853	102,407	57,065	24,566	31,586,449	31,812,340
Other financial liabilities	201,017	425,000	-	150,000	1,955,437	2,731,454
Lease liabilities	32,772	72,788	98,438	167,045	612,549	983,592
Total	\$ 106,378,761	\$ 133,918,016	\$ 94,596,174	\$ 152,824,036	\$ 187,575,001	\$ 675,291,988

December 31, 2021	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	\$ 389,971	\$ 1,401,849	\$ -	\$ -	\$ -	\$ 1,791,820
Funds borrowed from the Central Bank and other banks	-	-	-	77,240	-	77,240
Securities sold under repurchase agreement	4,960	-	-	-	-	4,960
Short-covering debentures	148,325	-	-	-	-	148,325
Payables	2,358,490	1,142,297	535,964	461,172	1,066,724	5,564,647
Deposits and remittances	99,631,413	139,762,280	94,614,204	141,674,599	136,424,189	612,106,685
Bank debentures	-	-	-	3,000,000	20,901,900	23,901,900
Principal received on structured products	67,404	20,130	199,700	127,069	22,636,303	23,050,606
Other financial liabilities	290,000	320,000	-	13,038	356,386	979,424
Lease liabilities	39,173	68,939	94,275	181,636	658,244	1,042,267
Total	\$ 102,929,736	\$ 142,715,495	\$ 95,444,143	\$ 145,534,754	\$ 182,043,746	\$ 668,667,874

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

The amount of demand deposits in "deposits and remittances" in the above maturity analysis are allocated based on historical experience. If all demand deposits were required to be paid off in recent period, the cash outflows on period of due in 30 days would have been \$275,489,489 thousand and \$296,133,946 thousand as of December 31, 2022 and 2021, respectively.

Maturity over one year analysis of lease liabilities was as follows:

	Due Between 1 Year and 2 Years	Due Between 2 Years and 3 Years	Due After 3 Years	Total
December 31, 2022	<u>\$ 217,986</u>	<u>\$ 164,798</u>	<u>\$ 229,765</u>	<u>\$ 612,549</u>
December 31, 2021	<u>\$ 295,222</u>	<u>\$ 175,917</u>	<u>\$ 187,105</u>	<u>\$ 658,244</u>

4) Maturity analysis of derivative financial liabilities

- a) Maturity analysis of derivative financial liabilities that will be settled on a net basis is as follows:

December 31, 2022	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	\$ 408	\$ 8,600	\$ 1,279	\$ 3,197	\$ -	\$ 13,484
Interest rate derivatives	12,050	27,189	34,026	127,212	3,085,017	3,285,494
Total	\$ 12,458	\$ 35,789	\$ 35,305	\$ 130,409	\$ 3,085,017	\$ 3,298,978

December 31, 2021	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	\$ 253	\$ 186	\$ 1,047	\$ 2,267	\$ -	\$ 3,753
Interest rate derivatives	3,129	7,987	57,992	34,933	867,410	971,451
Total	\$ 3,382	\$ 8,173	\$ 59,039	\$ 37,200	\$ 867,410	\$ 975,204

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

- b) Maturity analysis of derivative financial liabilities that will be settled on a gross basis is as follows:

December 31, 2022	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	\$ 46,639,433	\$ 126,052,829	\$ 30,480,942	\$ 9,280,565	\$ 638,101	\$ 213,091,870
Cash inflow	45,783,631	122,965,398	29,930,088	9,106,742	646,930	208,432,789
Interest rate derivatives						
Cash outflow	-	-	-	2,303,100	1,842,480	4,145,580
Cash inflow	-	-	-	2,218,010	1,662,100	3,880,110
Credit derivatives						
Cash outflow	-	-	-	-	-	-
Cash inflow	-	13,103	13,053	26,106	157,645	209,907
Subtotal of cash outflow	46,639,433	126,052,829	30,480,942	11,583,665	2,480,581	217,237,450
Subtotal of cash inflow	45,783,631	122,978,501	29,943,141	11,350,858	2,466,675	212,522,806
Net cash flow	\$ (855,802)	\$ (3,074,328)	\$ (537,801)	\$ (232,807)	\$ (13,906)	\$ (4,714,644)

December 31, 2021	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	\$ 87,044,207	\$ 76,746,020	\$ 43,754,706	\$ 40,563,399	\$ 3,086,828	\$ 251,195,160
Cash inflow	86,445,481	76,456,206	43,595,941	40,339,247	3,111,205	249,948,080
Interest rate derivatives						
Cash outflow	-	-	-	-	4,765,990	4,765,990
Cash inflow	-	-	-	-	4,707,300	4,707,300
Credit derivatives						
Cash outflow	-	-	-	-	-	-
Cash inflow	-	980	969	1,938	15,776	19,663
Subtotal of cash outflow	87,044,207	76,746,020	43,754,706	40,563,399	7,852,818	255,961,150
Subtotal of cash inflow	86,445,481	76,457,186	43,596,910	40,341,185	7,834,281	254,675,043
Net cash flow	\$ (598,726)	\$ (288,834)	\$ (157,796)	\$ (222,214)	\$ (18,537)	\$ (1,286,107)

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

5) Maturity analysis of off-balance sheet items

Maturity analysis of the off-balance sheet items that can be withdrawn or required to realize on the basis of their earliest possible contractual maturity is as follows:

December 31, 2022	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	\$ 13,901,262	\$ -	\$ -	\$ -	\$ -	\$ 13,901,262
Irrevocable credit card commitments	195,837,665	-	-	-	-	195,837,665
Issued but unused letters of credit	525,244	-	-	-	-	525,244
Other guarantees	12,023,883	2,500,000	-	575,800	253,681	15,353,364
Total	\$ 222,288,054	\$ 2,500,000	\$ -	\$ 575,800	\$ 253,681	\$ 225,617,535

December 31, 2021	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	\$ 14,708,106	\$ -	\$ -	\$ -	\$ -	\$ 14,708,106
Irrevocable credit card commitments	196,500,728	-	-	-	-	196,500,728
Issued but unused letters of credit	1,426,587	-	-	-	-	1,426,587
Other guarantees	18,648,206	6,554,100	-	100,000	600,000	25,902,306
Total	\$ 231,283,627	\$ 6,554,100	\$ -	\$ 100,000	\$ 600,000	\$ 238,537,727

e. Market risk management

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, foreign exchange rates and commodity.

2) Management policies of market risk

The Bank develops appropriate management process to identify and measure 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 information of market risk and implementation are managed, monitored and disclosed by the Risk Management Group. 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 risk measurement system identifies the market risk factors of the exposure positions (interest rates, stock price, foreign exchange rates and commodity price, etc.) and measures the risks assumed in on- and off-balance sheet trading positions with the change in market risk factors.

Risk measurement adds sensitivity analysis (DV01, Delta, Vega) etc. or situational analysis, to assess the changes in the value of the asset portfolio. And perform stress testing in accordance with the regulations of the administration, to measure abnormal losses under extreme conditions.

b) Monitoring and reporting

The Bank's Risk Management Group regularly reviews market risk management objective, positions and control of gain and loss, sensitivity analysis and pressure test and reports to the Risk Management Committee and the Board of Directors to well understand the situation of market risk control. The Bank 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.

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.

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 transactions with the intention of profiting from actual or forecast spread. Positions not belonging to trading book are carried in banking book.

a) Management process and valuation methods of interest rate risk in trading book

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.

The operation limit of securities and interest rate related derivative instruments are controlled by the notional amount or DV01. The risk of bonds and interest rate related options are additionally measured using Vega. The stop loss limits are controlled on a daily basis.

b) Management process and valuation methods of interest rate risk in banking book

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

When undertaking the operations relating to interest rate instruments, the Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In addition, the Bank also measures the potential impact of interest rate changes on earnings.

The measurement of interest rate risk in banking book is based on the analysis of position change of interest rate sensitivity among the durations of all products. The measurement is also derived from the interest rate shock scenarios regulated by the domestic and foreign supervisory agency to calculate the impact of changes in the economic value of equity (Δ EVE) and changes in net interest income (Δ NII).

The Bank periodically analyzes and monitors the interest risk limits and various targets of interest risk management. The results of analysis and monitoring are submitted regularly to the Assets and Liabilities Management Committee and the Board of Directors. If the risk management targets are found to be in excess of early warning thresholds during the monitoring process, the Bank will report to the Assets and Liabilities Management Committee and propose remedial action to be taken.

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 trading 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 additionally controlled using Vega. The stop loss limits are controlled on a daily basis.

c) Concentration of foreign exchange risk

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

6) Management of equity securities market risk

a) Definition and measurement bases 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. The Bank manages market risk on the basis of closing prices of equity securities to calculate their fair values.

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.

7) Management of commodity risk

a) Definition of commodity risk

Commodity risk is the risk of loss due to changes in fair value arising from open positions in commodity price fluctuations. Commodity transactions include energy, non-ferrous metals (including precious metals), agricultural products, and other commodity futures and options.

b) Commodity risk management policies, process and valuation methods

To manage commodity 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. Energy, non-ferrous metals (including precious metals), agricultural products, and other commodity futures and options are controlled collectively using Delta; commodity option is additionally controlled using Vega. The stop loss limits are controlled on a daily basis.

8) Stress testing

The Risk Management Group performs stress testing at least once a year and submits the results of stress testing to the Risk Management Committee and the board of directors. The Bank applies market risk factors sensitivity analysis under extreme scenarios to analyze the situational profit and loss and risk exposure of risk factors on asset portfolios in trading book that have become extremely volatile for the management to evaluate the market risk-bearing capacity and ensure the continuous solvency of the Bank.

9) Sensitivity analysis

a) 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 in trading book for 1 basis points (“bps”) parallel shift in all yield curves.

Assuming all other risk factors remain constant, where the interest rate increases/decreases by 1 bps, there would be an increase/decrease of \$2,785 thousand and \$2,447 thousand in income before income tax for the years ended December 31, 2022 and 2021, respectively. There would be a decrease/increase of \$26 thousand and \$146 thousand in other comprehensive income for the years ended December 31, 2022 and 2021, respectively.

b) 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 in trading book for a 1% change in foreign exchange rates.

Where the foreign exchange increases/decreases by 1%, assuming all other risk factors remain constant, there would be an increase/decrease of \$127,646 thousand and \$190,539 thousand in income before income tax for the years ended December 31, 2022 and 2021, respectively.

c) 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 in trading book for a 1% change in stock market prices.

Where the securities prices increases/decreases by 1%, assuming all other risk factors remain constant, there would be an increase/decrease of \$1,113 thousand and \$15,240 thousand in income before income tax for the years ended December 31, 2022 and 2021 respectively.

d) Commodity sensitivity

Commodity sensitivity measured at the balance sheet date is the impact on the values of commodity positions in trading book for a 1% change in market prices. The Bank has none net position of the commodity as of December 31, 2022 and 2021; changes in commodity prices have no impact on income before income tax for the years ended December 31, 2022 and 2021.

f. Interest rate benchmark reform

The financial instruments of the Bank affected by the interest rate benchmarks reform include derivatives and non-derivatives financial assets and liabilities. The linked indicator interest rate types is USD LIBOR.

According to IBA’s announcement on March 5, 2021, one-week and two-month USD LIBOR, GBP LIBOR, EUR LIBOR, CHF LIBOR and JPY LIBOR were available until the end of 2021, and the remaining USD LIBOR will sure to be available until the end of June 2023.

The Bank prepared interest rate benchmark transition plan which comprises the following work streams: Risk management, contract management, product management, taxation and accounting, and customer communication. The Bank has already implement the adjustments of internal processes and risk management policies, upgraded IT systems and valuation models of financial instruments, as well as managing any related tax and accounting implications.

For contracts of loans and financial instruments that are expected to expire after the discontinuation of LIBOR, the Bank had incorporated fallback provisions into the supplementary contracts of the financial instrument contracts to enable the contract-linked interest rate to be converted from the current interest rate to another alternative reference rate at the agreed time. Since January 1, 2022, the Bank has signed contracts linked to interest rate benchmark other than LIBOR.

On December 31, 2022, financial instruments held by the Bank that have been affected by the interest rate benchmark reform and have not transitioned to an alternative benchmark interest rate are summarized as follows:

Non-Derivative Items	Carrying Amount Linked to USD LIBOR
Assets	
Financial assets at FVTPL	\$ 9,271,570
Financial assets at FVTOCI	6,881,026
Investment in debt instrument at amortized cost	400,333
Receivables	45,666
Discounts and loans	<u>25,230,751</u>
	<u>\$ 41,829,346</u>
Liabilities	
Principal received on structured products	<u>\$ 198,036</u>

Derivative Items	Nominal Amount	Carrying Amount	
		Financial Assets	Financial Liabilities
Derivative financial instruments linked to USD LIBOR			
Interest rate swap contracts	\$ 18,718,448	\$ 584,948	\$ 471,107
Cross-currency swap contracts	<u>7,062,840</u>	<u>586,811</u>	<u>175,433</u>
	<u>\$ 25,781,288</u>	<u>\$ 1,171,759</u>	<u>\$ 646,540</u>

g. Transfer of financial assets

In the daily operations of the Bank, the transactions of the transferred financial assets not eligible for derecognition in full are mainly bonds under repurchase agreement. Since the cash flows of those financial assets have been transferred to outsiders, 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. The liabilities of repurchasing the transferred financial assets in an agreed amount have been recognized. The following tables show the transferred financial assets not eligible for derecognition in full and related amounts.

Items	December 31, 2022	
	Book Value of Transferred Financial Assets	Book Value of Related Financial Liabilities
FVTOCI - transactions under repurchase agreements	\$ 1,717,870	\$ 1,685,327
Amortized cost - transactions under repurchase agreements	3,052,512	2,913,422

Items	December 31, 2021	
	Book Value of Transferred Financial Assets	Book Value of Related Financial Liabilities
FVTOCI - transactions under repurchase agreements	\$ 5,572	\$ 4,959

h. Offset of financial assets and financial liabilities

The Bank has an exercisable master netting arrangement or similar agreement in place with counterparties. When both parties reach a consensus regarding net settlement, the aforesaid exercisable master netting arrangement or similar agreement can be net settled by offsetting financial assets and financial liabilities. If not, the transaction can be settled at the total amount. In the event of default involving one of the parties, the other party can have the transaction net settled.

Information of the offset of financial assets and financial liabilities is summarized as follows:

December 31, 2022

Financial Asset	Financial Assets That Are Offset, Have an Exercisable Master Netting Arrangement or Similar Agreement					
	Gross Amount of Recognized Financial Assets	Gross Amount of Financial Liabilities Offset in the Balance Sheets	Net Amount of Financial Assets Presented in the Balance Sheet	Amount Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
Derivatives	\$ 9,490,043	\$ -	\$ 9,490,043	\$ 2,348,300	\$ 786,501	\$ 6,355,242
Bills and notes purchased under resale agreements	1,146,811	-	1,146,811	1,146,811	-	-
	<u>\$ 10,636,854</u>	<u>\$ -</u>	<u>\$ 10,636,854</u>	<u>\$ 3,495,111</u>	<u>\$ 786,501</u>	<u>\$ 6,355,242</u>

Financial Liabilities That Are Offset, Have an Exercisable Master Netting Arrangement or Similar Agreement

Financial Liability	Gross Amount of Recognized Financial Liabilities	Gross Amount of Financial Liabilities in the Balance Sheets	Net Amount of Financial Assets Presented in the Balance Sheet	Amount Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Pledged	
				Derivatives	\$ 8,689,238	
Bills and notes sold under repurchase agreements	<u>4,598,749</u>	<u>-</u>	<u>4,598,749</u>	<u>4,598,749</u>	<u>-</u>	<u>-</u>
	<u>\$ 13,287,987</u>	<u>\$ -</u>	<u>\$ 13,287,987</u>	<u>\$ 6,947,049</u>	<u>\$ 1,518,626</u>	<u>\$ 4,822,312</u>

December 31, 2021

Financial Assets That Are Offset, Have an Exercisable Master Netting Arrangement or Similar Agreement

Financial Asset	Gross Amount of Recognized Financial Assets	Gross Amount of Financial Liabilities Offset in the Balance Sheets	Net Amount of Financial Assets Presented in the Balance Sheet	Amount Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
				Derivatives	\$ 3,418,922	
Bills and notes purchased under resale agreements	<u>5,888,978</u>	<u>-</u>	<u>5,888,978</u>	<u>5,888,978</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,307,900</u>	<u>\$ -</u>	<u>\$ 9,307,900</u>	<u>\$ 6,394,457</u>	<u>\$ -</u>	<u>\$ 2,913,443</u>

Financial Liabilities That Are Offset, Have an Exercisable Master Netting Arrangement or Similar Agreement

Financial Liability	Gross Amount of Recognized Financial Liabilities	Gross Amount of Financial Liabilities in the Balance Sheets	Net Amount of Financial Assets Presented in the Balance Sheet	Amount Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Pledged	
				Derivatives	\$ 2,853,964	
Bills and notes sold under repurchase agreements	<u>4,959</u>	<u>-</u>	<u>4,959</u>	<u>4,959</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,858,923</u>	<u>\$ -</u>	<u>\$ 2,858,923</u>	<u>\$ 510,438</u>	<u>\$ 380,613</u>	<u>\$ 1,967,872</u>

i. 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

Business \ Item		December 31, 2022				
		Nonperforming Loans (Note a)	Loans	Ratio of Nonperforming Loans (Note b)	Allowance for Possible Losses	Coverage Ratio (Note c)
Corporate Banking	Secured	\$ 433,595	\$ 71,568,150	0.61%	\$ 1,046,622	241.38%
	Unsecured	817,597	131,195,905	0.62%	1,787,157	218.59%
Consumer Banking	Residential mortgage (Note d)	23,242	136,694,783	0.02%	2,053,107	8,833.61%
	Cash card	-	-	-	-	-
	Small-scale credit loan (Note e)	264,420	23,650,324	1.12%	429,629	162.48%
	Others (Note f)	Secured	40,486	74,247,012	0.05%	793,419
Unsecured		-	6,726,150	-	75,297	-
Total		1,579,340	444,082,324	0.36%	6,185,231	391.63%
Business \ Item		Nonperforming Receivables	Accounts Receivable	Ratio of Nonperforming Receivables	Allowance for Possible Losses	Coverage Ratio
Credit card		34,011	12,786,004	0.27%	344,514	1,012.95%
Accounts receivable factored without recourse (Note g)		-	1,959,157	-	22,781	-

Business \ Item		December 31, 2021				
		Nonperforming Loans (Note a)	Loans	Ratio of Nonperforming Loans (Note b)	Allowance for Possible Losses	Coverage Ratio (Note c)
Corporate Banking	Secured	\$ 493,328	\$ 60,785,039	0.81%	\$ 778,304	157.77%
	Unsecured	70,842	115,288,079	0.06%	1,339,588	1,890.95%
Consumer Banking	Residential mortgage (Note d)	147,388	134,458,648	0.11%	2,021,794	1,371.75%
	Cash card	-	-	-	-	-
	Small-scale credit loan (Note e)	289,749	24,715,787	1.17%	446,802	154.20%
	Others (Note f)	Secured	89,279	71,120,701	0.13%	766,174
Unsecured		3,778	6,503,446	0.06%	77,273	2,045.34%
Total		1,094,364	412,871,700	0.27%	5,429,935	496.17%
Business \ Item		Nonperforming Receivables	Accounts Receivable	Ratio of Nonperforming Receivables	Allowance for Possible Losses	Coverage Ratio
Credit card		32,038	12,771,358	0.25%	368,769	1,151.04%
Accounts receivable factored without recourse (Note g)		-	6,451,669	-	68,663	-

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, 2022		December 31, 2021	
	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)	\$ 12,532	\$ 44,409	\$ 20,394	\$ 64,980
Loans upon performance of a debt discharge program and rehabilitation program (Note b)	1,100,747	782,313	1,109,145	860,906
Total	1,113,279	826,722	1,129,539	925,886

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, 2022		
	Group Entity Industry and Code (Note b)	Total Balances of Credit Extensions (Note c)	Ratio of Credit Extensions to Net Worth (%)
1	A Group - 6700 - real estate development activities	\$ 12,259,031	22
2	B Group - 6499 - other financial service activities not elsewhere classified	6,950,410	13
3	C Group - 4652 - wholesale of motorcycles	6,209,825	11
4	D Group - 2630 - manufacture of bare printed circuit boards	4,274,155	8
5	E Group - 2413 - rolling and extruding of iron and steel	3,862,961	7
6	F Group - 3010 - manufacture of motor vehicles	3,478,608	6
7	G Group - 4642 - electricity transmission and distribution enterprise	3,141,397	6
8	H Group - 6429 - other holding companies	2,983,918	5
9	I Group - 6499 - other financial service activities not elsewhere classified	2,945,000	5
10	H Group - 6429 - other holding companies	2,799,138	5

Ranking (Note a)	December 31, 2021		
	Group Entity Industry and Code (Note b)	Total Balances of Credit Extensions (Note c)	Ratio of Credit Extensions to Net Worth (%)
1	A Group - 6700 - real estate development activities	\$ 13,136,450	26
2	C Group - 4652 - wholesale of motorcycles	6,642,932	13
3	B Group - 6499 - other financial service activities not elsewhere classified	5,725,899	12
4	K Group - 3510 - electricity supply	3,939,709	8
5	F Group - 6496 - non-depository financing	3,756,960	8
6	L Group - 2613 - packaging and testing of semiconductors	3,580,609	7
7	G Group - 4642 - electricity transmission and distribution enterprise	3,391,350	7
8	M Group - 2699 - non-categorized and other electronic component manufacturing	3,192,847	6
9	E Group - 2411 - smelting and refining of iron and steel	3,143,587	6
10	I Group - 6499 - other financial service activities not elsewhere classified	3,000,000	6

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, 2022**

Items	1 Day to 90 Days	91 Days to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 359,752,537	\$ 167,100,034	\$ 6,570,678	\$ 49,867,941	\$ 583,291,190
Interest rate-sensitive liabilities	253,144,061	190,586,248	73,187,475	20,984,999	537,902,783
Interest rate sensitivity gap	106,608,476	(23,486,214)	(66,616,797)	28,882,942	45,388,407
Net worth					54,972,333
Ratio of interest rate-sensitive assets to liabilities					108.44%
Ratio of interest rate-sensitivity gap to net worth					82.57%

**Interest Rate Sensitivity Analysis
December 31, 2021**

Items	1 Day to 90 Days	91 Days to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 360,540,038	\$ 163,501,248	\$ 9,899,079	\$ 42,393,927	\$ 576,334,292
Interest rate-sensitive liabilities	222,916,709	206,892,834	80,361,063	24,318,965	534,489,571
Interest rate sensitivity gap	137,623,329	(43,391,586)	(70,461,984)	18,074,962	41,844,721
Net worth					49,701,951
Ratio of interest rate-sensitive assets to liabilities					107.83%
Ratio of interest rate-sensitivity gap to net worth					84.19%

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, 2022**

(In Thousands of U.S. Dollars)

Items	1 Day to 90 Days	91 Days to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 2,591,449	\$ 121,562	\$ 23,831	\$ 194,581	\$ 2,931,423
Interest rate-sensitive liabilities	1,864,714	1,503,663	164,214	-	3,532,591
Interest rate sensitivity gap	726,735	(1,382,101)	(140,383)	194,581	(601,168)
Net worth					1,790,163
Ratio of interest rate-sensitive assets to liabilities					82.98%
Ratio of interest rate-sensitivity gap to net worth					(33.58%)

Interest Rate Sensitivity Analysis
December 31, 2021

(In Thousands of U.S. Dollars)

Items	1 Day to 90 Days	91 Days to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 3,075,239	\$ 66,857	\$ 146,901	\$ 127,409	\$ 3,416,406
Interest rate-sensitive liabilities	1,181,945	2,362,928	177,818	-	3,722,691
Interest rate sensitivity gap	1,893,294	(2,296,071)	(30,917)	127,409	(306,285)
Net worth					1,794,942
Ratio of interest rate-sensitive assets to liabilities					91.77%
Ratio of interest rate-sensitivity gap to net worth					(17.06%)

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, 2022	For the Year Ended December 31, 2021
Return on total assets	Before tax	0.57%	0.47%
	After tax	0.50%	0.42%
Return on equity	Before tax	8.01%	6.71%
	After tax	7.03%	5.97%
Net income ratio		31.33%	27.23%

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, 2022

	Total	Amount for Remaining Period to Maturity					
		0 Day to 10 Days	11 Days 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	\$ 785,187,531	\$ 129,192,513	\$ 73,802,104	\$ 158,750,398	\$ 60,534,489	\$ 65,286,440	\$ 297,621,587
Main capital outflow on maturity	978,102,268	78,193,282	74,583,206	229,572,010	158,981,594	201,206,792	235,565,384
Gap	(192,914,737)	50,999,231	(781,102)	(70,821,612)	(98,447,105)	(135,920,352)	62,056,203

December 31, 2021

	Total	Amount for Remaining Period to Maturity					
		0 Day to 10 Days	11 Days 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	\$ 788,354,119	\$ 132,991,954	\$ 93,352,744	\$ 118,306,092	\$ 88,251,525	\$ 83,962,598	\$ 271,489,206
Main capital outflow on maturity	956,912,227	61,352,297	97,217,833	197,495,551	174,961,218	192,014,074	233,871,254
Gap	(168,558,108)	71,639,657	(3,865,089)	(79,189,459)	(86,709,693)	(108,051,476)	37,617,952

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

b) For U.S. dollar items

December 31, 2022

(In Thousands of U.S. Dollars)

	Total	Amount for Remaining Period to Maturity					Over One Year
		0 Day to 30 Days	31 Days to 90 Days	91 Days to 180 Days	181 Days to One Year		
Main capital inflow on maturity	\$ 10,486,972	\$ 3,054,723	\$ 3,641,703	\$ 956,589	\$ 851,685	\$ 1,982,272	
Main capital outflow on maturity	11,446,749	3,403,124	4,624,776	1,592,923	1,366,495	459,431	
Gap	(959,777)	(348,401)	(983,073)	(636,334)	(514,810)	1,522,841	

December 31, 2021

(In Thousands of U.S. Dollars)

	Total	Amount for Remaining Period to Maturity					Over One Year
		0 Day to 30 Days	31 Days to 90 Days	91 Days to 180 Days	181 Days to One Year		
Main capital inflow on maturity	\$ 11,522,239	\$ 4,189,779	\$ 2,480,909	\$ 1,566,914	\$ 1,354,511	\$ 1,930,126	
Main capital outflow on maturity	12,323,271	3,392,587	3,771,796	2,480,361	2,071,325	607,202	
Gap	(801,032)	797,192	(1,290,887)	(913,447)	(716,814)	1,322,924	

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

45. CAPITAL MANAGEMENT

a. Objective of capital management

- 1) The basic goal of the Bank's capital management is that unconsolidated regulatory capital and the consolidated regulatory capital should meet the requirements of the related regulations. The ratio of regulatory capital and risk assets (the "capital adequacy ratio") should meet the statutory threshold according to the "Regulations Governing the Capital Adequacy and Capital Category of Banks".
- 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 and dividend policy. 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 "The Methods for Calculating the Bank's regulatory Capital and Risk-weighted Assets" 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 reported to the Bank's Assets and Liabilities Management Committee on a quarterly basis. The Bank are performed stress testing periodically and evaluated capital adequacy to 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:

Unconsolidated

		December 31, 2022	December 31, 2021	
Regulatory capital	Common equity	\$ 53,344,447	\$ 46,653,029	
	Additional Tier I capital	2,900,000	1,848,490	
	Tier II capital	12,080,056	11,392,226	
	Total common capital	68,324,503	59,893,745	
Risk-weighted assets	Credit risk	Standardized approach	424,484,834	393,687,935
		Internal rating-based approach	-	-
		Asset securitization	393,738	458,214
	Operational risk	Basic indicator approach	20,321,238	20,512,863
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	13,375,863	14,680,875
		Internal models approach	-	-
Total risk-weighted assets		458,575,673	429,339,887	
Capital adequacy ratio		14.90%	13.95%	
Ratio of common equity to risk-weighted assets		11.63%	10.87%	
Ratio of Tier I capital to risk-weighted assets		12.27%	11.30%	
Leverage ratio		6.73%	5.87%	

Consolidated

		December 31, 2022	December 31, 2021	
Regulatory capital	Common equity	\$ 53,332,585	\$ 47,211,995	
	Additional Tier I capital	2,900,000	2,407,456	
	Tier II capital	12,087,994	12,541,523	
	Total common capital	68,320,579	62,160,974	
Risk-weighted assets	Credit risk	Standardized approach	421,744,787	396,197,242
		Internal rating-based approach	-	-
		Asset securitization	393,738	458,214
	Operational risk	Basic indicator approach	20,432,013	21,252,263
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	13,375,863	14,680,875
		Internal models approach	-	-
Total risk-weighted assets		455,946,401	432,588,594	
Capital adequacy ratio		14.98%	14.37%	
Ratio of common equity to risk-weighted assets		11.70%	10.91%	
Ratio of Tier I capital to risk-weighted assets		12.33%	11.47%	
Leverage ratio		6.73%	5.99%	

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”.

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.

46. CASH FLOW INFORMATION

Changes in Liabilities Arising from Financing Activities

For the year ended December 31, 2022

Liabilities Items	Beginning Balance	Cash Inflows (Outflows)	Non-cash Changes		Ending Balance
			Exchange Rate	Others	
Funds borrowed from the Central Bank and other banks	\$ 77,240	\$ (77,240)	\$ -	\$ -	\$ -
Securities sold under repurchase agreement	4,959	4,690,600	(96,810)	-	4,598,749
Bank debentures	23,901,900	(3,000,000)	-	-	20,901,900
Other financial liabilities	979,213	1,751,858	-	-	2,731,071
Lease liabilities	<u>1,026,881</u>	<u>(412,561)</u>	<u>5,646</u>	<u>345,851</u>	<u>965,817</u>
	<u>\$ 25,990,193</u>	<u>\$ 2,952,657</u>	<u>\$ (91,164)</u>	<u>\$ 345,851</u>	<u>\$ 29,197,537</u>

For the year ended December 31, 2021

Liabilities Items	Beginning Balance	Cash Inflows (Outflows)	Non-cash Changes		Ending Balance
			Exchange Rate	Others	
Funds borrowed from the Central Bank and other banks	\$ 22,340	\$ 54,900	\$ -	\$ -	\$ 77,240
Securities sold under repurchase agreement	3,530,487	(3,465,911)	(59,617)	-	4,959
Bank debentures	22,601,900	1,300,000	-	-	23,901,900
Other financial liabilities	868,202	111,011	-	-	979,213
Lease liabilities	<u>839,255</u>	<u>(407,958)</u>	<u>(1,418)</u>	<u>597,002</u>	<u>1,026,881</u>
	<u>\$ 27,862,184</u>	<u>\$ (2,407,958)</u>	<u>\$ (61,035)</u>	<u>\$ 597,002</u>	<u>\$ 25,990,193</u>

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.

Segment Income and Operating Results

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

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

	Individual Banking	Corporate Banking	Others	Total
<u>For the year ended December 31, 2022</u>				
Net interests	\$ 4,015,540	\$ 3,763,745	\$ (735,732)	\$ 7,043,553
Net revenues and gains other than interest				
Net service fee income	1,671,684	762,784	87,492	2,521,960
Other net income	<u>285,221</u>	<u>1,400,596</u>	<u>487,601</u>	<u>2,173,418</u>
Net revenues	5,972,445	5,927,125	(160,639)	11,738,931
Provision for bad debt expenses	(94,812)	(356,114)	(93,176)	(544,102)
Operating expenses	<u>(4,604,844)</u>	<u>(1,794,040)</u>	<u>(604,829)</u>	<u>(7,003,713)</u>
Segment income before income tax	<u>\$ 1,272,789</u>	<u>\$ 3,776,971</u>	<u>\$ (858,644)</u>	<u>\$ 4,191,116</u>
<u>For the year ended December 31, 2021</u>				
Net interests	\$ 4,197,077	\$ 3,522,470	\$ (1,278,651)	\$ 6,440,896
Net revenues and gains other than interest				
Net service fee income	1,782,452	772,906	601,995	3,157,353
Other net income	<u>216,984</u>	<u>1,035,310</u>	<u>(57,654)</u>	<u>1,194,640</u>
Net revenues	6,196,513	5,330,686	(734,310)	10,792,889
Reversal of (provision for) bad debt expenses	(257,001)	(848,298)	292,081	(813,218)
Operating expenses	<u>(4,577,669)</u>	<u>(1,582,507)</u>	<u>(516,673)</u>	<u>(6,676,849)</u>
Segment income before income tax	<u>\$ 1,361,843</u>	<u>\$ 2,899,881</u>	<u>\$ (958,902)</u>	<u>\$ 3,302,822</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: Table 1 (attached)
 - 3) Disposal of individual real estate at prices of at least NT\$300 million or 10% of the paid-in capital: Nil
 - 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' financing 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 (attached)
 - c. Related information of investees on which the Bank exercises significant influence: Table 4 (attached)
 - d. Information about branches and investments in mainland China: Table 5 (attached)
 - e. Information about major shareholders: Name, number of shares, and percentage of ownership of shareholders holding more than 5% of the shares: Nil

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 10% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)**

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Bank	Land	October 3, 2022	\$ 2,011,507	As of December 31, 2022, the Bank has paid \$1,643,907 thousand (\$1,276,307 thousand accounted for as land; \$367,600 thousand accounted for as properties prepayment). The Bank has paid off the transaction amount and completed the legal procedures for the land transfer in January 2023.	Natural Person (9 individuals)	-	-	-	\$ -	Reference to the market price and appraisal report.	To build office for the headquarters of the Bank.	Nil	

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2022**

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Flow of Transaction	Transaction Details			
				Financial Statement Account	Amount	Terms	Percentage of Consolidated Net Profit or Consolidated Total Assets (% , Note 2)
0	Far Eastern International Bank Ltd.	Far Eastern International Securities Co., Ltd. Far Eastern International Securities Co., Ltd. Far Eastern International Securities Co., Ltd. Far Eastern International Securities Co., Ltd.	From parent company to subsidiary	Deposits and remittances	\$ 292,712	Note 3	0.04
			From parent company to subsidiary	Interest expense	1,986	Note 3	0.02
			From parent company to subsidiary	Service charge	835	Note 3	0.01
			From parent company to subsidiary	Loss on disposal of financial assets at FVTPL	762	Note 3	0.01
1	Far Eastern International Securities Co., Ltd.	Far Eastern International Bank Ltd. Far Eastern International Bank Ltd. Far Eastern International Bank Ltd.	From subsidiary to parent company	Cash and cash equivalents	292,712	Note 3	0.04
			From subsidiary to parent company	Interest revenue	1,986	Note 3	0.02
			From subsidiary to parent company	Service fee	1,597	Note 3	0.01

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.

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

**SUBSIDIARIES' FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)**

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	Other receivables	No	\$ 16,221	\$ 15,874	\$ 15,874	6%-10%	1	\$ 17,664	-	\$ 317	Real estate	\$ 33,268	\$ 314,591	\$ 1,048,638

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 30% 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 30% 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.

The total accumulated lending amount of the above shall not exceed the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

RELATED INFORMATION OF INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2022
(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 1)				Note	
						Present Shares (In Thousands)	Pro Forma Shares (Note 2)	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	\$ 158,587	\$ 25,130	12,000	-	12,000	40.00	Obtained the approval of dissolution from the Ministry of Economic Affairs on January 31, 2023	
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	1,727,460	87,227	101,941	-	101,941	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	1,710,535	52,188	168,400	-	168,400	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	417,954	(46,937)	26,000	-	26,000	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	4,204	-	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	2,792	-	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	237,926	-	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	4.05	9,541	-	2,758	-	2,758	4.05		
Nonfinancial business											
An Feng Enterprise Co., Ltd.	3F., No. 139, Jhengjhou Road, Taipei, Taiwan	ATM maintenance, replacement and repair	10.00	4,905	-	300	-	300	10.00		
<u>Held by Far Eastern Asset Management Co., Ltd.</u>											
Financial business											
FEIB Financial Leasing Co., Ltd.	8F., Far Eastern Plaza, No. 28, Bailianjing Road, Pudong New District, Shanghai, China	Leasing operation	100.00	1,048,638	29,881	N/A	-	N/A	100.00		

Note 1: The Bank, board chairman, supervisors, managing directors, and the shares of investee companies invested in by related parties which comply with corporation law are considered.

Note 2: Routes of investment are listed below:

- Pro forma shares are shares that are assumed to be obtained through buying equity-based securities or entering into equity-linked derivative contracts for purposes defined in Article 74 of the Banking Law.
- Equity-based securities, such as convertible bonds and warrants, are covered by Article 11 of "Securities and Exchange Law Enforcement Rules".
- Derivative contracts, such as stock options, are those conforming to the definition of derivatives in International Financial Reporting Standard 9.

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

**INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2022**

(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, 2022	Investment Flow (Note 4)		Accumulated Outflow of Investment as of December 31, 2022 (Note 4)	Net Income (Loss) of Investee (Notes 2 and 5)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 2 and 5)	Carrying Value as of December 31, 2022 (Note 2)	Accumulated Inward Remittance of Earnings as of December 31, 2022	Note
					Outflow	Inflow							
FEIB Financial Leasing Co., Ltd.	Leasing operation	\$ 920,470 (US\$ 30,000 thousand)	a	\$ 920,470 (US\$ 30,000 thousand)	\$ -	\$ -	\$ 920,470 (US\$ 30,000 thousand)	\$ 29,881 (CNY 6,741 thousand)	100.00	\$ 29,881 (CNY 6,741 thousand)	\$ 1,048,638	\$ -	

Accumulated Investment in Mainland China as of December 31, 2022 (Note 4)	Investment Amount Authorized by Investment Commission, MOEA (Note 4)	Limit on Investment Authorized by Investment Commission MOEA (Note 3)
\$920,470 (US\$30,000 thousand)	\$920,470 (US\$30,000 thousand)	\$1,026,321

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 2022.