Far Eastern International Bank Ltd. and Subsidiaries

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

Deloitte.

勤業眾信

勤業眾信聯合會計師事務所
10596 台北市民生東路三段156號12樓

Deloitte & Touche
12th Floor, Hung Tai Financial Plaza
156 Min Sheng East Road, Sec. 3
Taipei 10596, Taiwan

Tel :+886 (2) 2545-9988
Fax:+886 (2) 4051-6888
www.deloitte.com.tw

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, 2017 and 2016, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China (FSC).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. 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, 2017 for the Bank and its subsidiaries, which are described as follows:

Allowance for Credit Losses on Loans and Receivables

As of December 31, 2017, the balances of loans and receivables in the aggregate amounted to $373,807,631 thousand, accounted for 65% of the total assets of the consolidated financial statements; an amount that is deemed to be significant to the consolidated financial statements. To assess the impairment loss of loans and accounts receivables in terms of the allowance for credit losses on loans and receivables, the Bank's management takes into account the amount and the schedule of collection, the change in economic forecast, and the value of collateral. The assessment involved judgements, estimates, and compliance with regulatory requirements for the allowance for credit losses on loans and receivable. As the assessment on the impairment of loans and accounts receivables involved the management's critical judgments in accounting estimation and the underlying assumption, the allowance for credit losses on loans and receivables was deemed to be a key audit matter.

Refer to Notes 4, 5, 10, 11 and 43 to the consolidated financial statements for disclosures related to impairment on loans and receivables.

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

1. Understand and conduct tests on the Bank's internal controls relevant to loans and receivables impairment assessment;

2. Sample from individually assessed loans and receivables to assess the management's estimates on the amount of future cash flows from borrowers and the reasonableness of the appraisal of the fair value of collateral;

3. Verify whether the underlying assumptions and critical parameters (probability of default and of recovery) adopted by the impairment model adequately reflect the actual position of collectively assessed loans and receivables and recalculate the amount of impairment; and

4. Sample and review credit files to evaluate whether the loans and receivables are reasonably categorized per regulatory stipulation and recalculate for the correctness of the allowance.

Evaluation of Impairment on Intangible Asset - Operation Rights

As of December 31, 2017, the balance of intangible asset - operating rights amounted to $1,538,210 thousand. The amount is the cost for the Bank to acquire business from other financial institutions, acquisition cost that results from the allocation of the fair value to corresponding assets and liabilities. According to IAS 36, management should evaluate the impairment on intangible asset - operating rights annually or whenever there is an indication that the asset may be impaired. For the assessment in determining the value in use of operating rights, the management requires an estimate of future cash flow of relevant cash-generating unit. As its assessment involves the management's critical judgments and estimates, the impairment of intangible asset - operating rights is deemed to be a key audit matter.

Refer to Notes 4, 5 and 18 to the consolidated financial statements for disclosures related to impairment on intangible asset.

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

1. Evaluate and verify the qualification of the valuation personnel employed by the management in terms of their professional experience, competency, and independence.

2. Evaluate the reasonableness of critical parameters (such as future cash-flow forecast, discount rate, and sustainable growth rate) and perform sensitivity analysis.

3. Verify the raw data adopted (including the average amounts, the growth rates, interest rates, etc., of deposits and loans) to evaluate its accuracy and completeness.

Other Matter

We have also audited the parent company only financial statements of the Bank as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and its subsidiaries' internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Bank and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Bank and its subsidiaries audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 21, 2018

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
Cash and cash equivalents (Note 6)	$ 8,693,621	2	$ 7,361,878	1
Due from the central bank and other banks (Notes 7, 37 and 38)	22,351,083	4	32,744,760	6
Financial assets at fair value through profit or loss (Notes 4, 5, 8, 37 and 42)	30,208,333	5	33,830,105	6
Securities purchased under resale agreements (Notes 4, 9 and 37)	11,071,393	2	6,396,656	1
Receivables, net (Notes 4, 5, 10, 11, 37 and 42)	22,750,869	4	22,847,242	4
Current tax assets (Note 4)	7,372	-	4,117	-
Discounts and loans, net (Notes 4, 5, 11, 37 and 42)	351,056,762	61	355,963,672	63
Available-for-sale financial assets (Notes 4, 5, 12, 28, 38 and 42)	109,631,578	19	79,594,706	14
Held-to-maturity financial assets (Notes 4, 5, 13 and 42)	2,135,246	-	2,630,635	1
Investment accounted for using equity method (Notes 4, 14 and 28)	1,774,066	-	1,702,220	-
Debt investments with no active market (Notes 4, 15 and 42)	6,677,076	1	8,170,732	2
Other financial assets, net (Notes 4, 11, 16, 38 and 42)	3,667,760	1	4,670,815	1
Property and equipment, net (Notes 4 and 17)	2,889,392	1	2,889,674	1
Intangible assets, net (Notes 4, 5 and 18)	1,725,085	-	1,750,568	-
Deferred tax assets (Notes 4, 5 and 35)	584,502	-	635,104	-
Other assets, net (Notes 4 and 19)	200,142	-	222,399	-
TOTAL	$ 575,424,280	100	$ 561,415,283	100
LIABILITIES AND EQUITY				
LIABILITIES				
Due to the central bank and other banks (Note 20)	$ 6,960,774	1	$ 7,432,194	1
Financial liabilities at fair value through profit or loss (Notes 4, 5, 8, 24, 37 and 42)	4,319,121	1	7,954,542	2
Securities sold under repurchase agreements (Notes 4, 12, 21, 37 and 42)	12,921,364	2	13,711,223	3
Payables (Notes 22 and 27)	6,488,285	1	5,799,874	1
Current tax liabilities (Note 4)	254,446	-	405,097	-
Deposits and remittances (Notes 23,37 and 42)	472,392,183	82	452,720,460	81
Bank debentures (Notes 4, 8, 24 and 42)	20,216,664	4	24,309,357	4
Other financial liabilities (Notes 25 and 42)	7,416,775	2	6,385,369	1
Provisions (Notes 4, 11, 26, 27 and 37)	1,127,116	-	1,240,278	-
Other liabilities (Note 35)	540,880	-	506,012	-
Total liabilities	532,637,608	93	520,464,406	93
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK (Notes 4, 5, 12, 14 and 28)				
Share capital				
Ordinary shares	31,829,286	5	31,113,672	5
Capital surplus	456,426	-	456,426	-
Retained earnings				
Legal reserve	6,544,643	1	5,571,477	1
Special reserve	250,703	-	121,028	-
Unappropriated earnings	3,691,412	1	3,916,835	1
Total retained earnings	10,486,758	2	9,609,340	2
Other equity				
Exchange differences on translating foreign operations	(8,653)	-	115,916	-
Unrealized gain (loss) on available-for-sale financial assets	22,855	-	(344,477)	-
Total other equity	14,202	-	(228,561)	-
Total equity	42,786,672	7	40,950,877	7
TOTAL	$ 575,424,280	100	$ 561,415,283	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, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2017		2016		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUES (Notes 4, 29 and 37)	$ 10,057,931	97	$ 9,629,219	90	4
INTEREST EXPENSES (Notes 4, 29 and 37)	4,653,057	45	3,844,797	36	21
NET INTERESTS	5,404,874	52	5,784,422	54	(7)
NET REVENUES OTHER THAN INTEREST					
Net service fee income (Notes 4, 30 and 37)	3,152,327	30	3,196,617	30	(1)
Net gains on financial assets and liabilities at fair value through profit or loss (Notes 4, 24, 31, 37 and 42)	1,732,217	17	1,247,844	11	39
Net realized gains on available-for-sale financial assets (Notes 4 and 28)	86,718	1	119,716	1	(28)
Net foreign exchange gains (loss) (Note 4)	(293,168)	(3)	46,982	-	(724)
Shares of profit from associates (Notes 4 and 14)	103,337	1	85,454	1	21
Impairment loss on assets (Notes 4 and 16)	(17,009)	-	(20,528)	-	17
Others (Notes 10 and 24)	250,960	2	286,948	3	(13)
Total net revenues other than interest	5,015,382	48	4,963,033	46	1
CONSOLIDATED NET REVENUES	10,420,256	100	10,747,455	100	(3)
PROVISION FOR POSSIBLE LOSSES (Notes 4, 11 and 37)	731,847	7	452,001	4	62
OPERATING EXPENSES					
Employee benefits expense (Notes 4, 27, 32 and 37)	3,790,879	36	3,793,101	36	-
Depreciation and amortization (Notes 4 and 33)	248,142	3	226,448	2	10
Other general and administrative expenses (Notes 34 and 37)	2,381,744	23	2,460,003	23	(3)
Total operating expenses	6,420,765	62	6,479,552	61	(1)

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FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

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

	2017		2016		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INCOME BEFORE INCOME TAX	$ 3,267,644	31	$ 3,815,902	35	(14)
INCOME TAX EXPENSE (Notes 4 and 35)	413,761	4	572,016	5	(28)
NET INCOME FOR THE YEAR	2,853,883	27	3,243,886	30	(12)
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Notes 4 and 27)	55,828	1	(137,752)	(1)	141
Share of other comprehensive loss of associates (Notes 4 and 14)	(414)	-	(671)	-	(38)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 35)	(9,491)	-	23,418	-	(141)
	45,923	1	(115,005)	(1)	140
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations (Note 4)	(128,795)	(1)	(25,207)	-	(411)
Unrealized gain (loss) on available-for-sale financial assets (Notes 4 and 28)	357,804	3	(76,297)	(1)	569
Share of other comprehensive gain (loss) of associates (Notes 4, 14 and 28)	9,528	-	(11,952)	-	180
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 35)	4,226	-	-	-	-
	242,763	2	(113,456)	(1)	314
Other comprehensive income (loss) for the year	288,686	3	(228,461)	(2)	226
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 3,142,569	30	$ 3,015,425	28	4

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FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

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

	2017		2016		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
NET INCOME ATTRIBUTABLE TO:					
Owners of the Bank	$ 2,853,883	27	$ 3,243,886	30	(12)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of the Bank	$ 3,142,569	30	$ 3,015,425	28	4
EARNINGS PER SHARE (Note 36)					
Basic	$0.90		$1.02		
Diluted	$0.86		$0.98		

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Bank							
						Other Equity		
			Retained Earnings (Note 28)					
	Ordinary Shares (Note 28)	Capital Surplus (Note 28)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations (Note 4)	Unrealized Gain (Loss) on Available-for-sale Financial Assets (Notes 4, 12, 14 and 28)	Total Equity
BALANCE AT JANUARY 1, 2016	$ 30,332,430	$ 459,918	$ 4,491,173	$ 208,219	$ 3,601,013	$ 141,123	$ (256,228)	$ 38,977,648
Appropriation of the 2015 earnings								
Legal reserve	-	-	1,080,304	-	(1,080,304)	-	-	-
Reversal of special reserves	-	-	-	(87,191)	87,191	-	-	-
Cash dividends - NT$0.400 dollars per share	-	-	-	-	(1,213,297)	-	-	(1,213,297)
Stock dividends - NT$0.200 dollars per share	606,649	-	-	-	(606,649)	-	-	-
	606,649	-	1,080,304	(87,191)	(2,813,059)	-	-	(1,213,297)
Net income for the year ended December 31, 2016	-	-	-	-	3,243,886	-	-	3,243,886
Other comprehensive loss for the year ended December 31, 2016	-	-	-	-	(115,005)	(25,207)	(88,249)	(228,461)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	3,128,881	(25,207)	(88,249)	3,015,425
Employees' bonus - stock	174,593	(3,492)	-	-	-	-	-	171,101
BALANCE AT DECEMBER 31, 2016	31,113,672	456,426	5,571,477	121,028	3,916,835	115,916	(344,477)	40,950,877
Appropriation of the 2016 earnings								
Legal reserve	-	-	973,166	-	(973,166)	-	-	-
Special reserve	-	-	-	129,675	(129,675)	-	-	-
Cash dividends - NT$0.420 dollars per share	-	-	-	-	(1,306,774)	-	-	(1,306,774)
Stock dividends - NT$0.230 dollars per share	715,614	-	-	-	(715,614)	-	-	-
	715,614	-	973,166	129,675	(3,125,229)	-	-	(1,306,774)
Net income for the year ended December 31, 2017	-	-	-	-	2,853,883	-	-	2,853,883
Other comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	45,923	(124,569)	367,332	288,686
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	2,899,806	(124,569)	367,332	3,142,569
BALANCE AT DECEMBER 31, 2017	$ 31,829,286	$ 456,426	$ 6,544,643	$ 250,703	$ 3,691,412	$ (8,653)	$ 22,855	$ 42,786,672

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,267,644	$ 3,815,902
Adjustments for:		
Depreciation	220,196	198,246
Amortization	27,946	28,202
Provision for possible losses	1,215,343	1,300,165
Net valuation gain on financial assets and liabilities at fair value through profit or loss	(160,180)	(566,152)
Interest expenses	4,653,057	3,844,797
Interest revenues	(10,057,931)	(9,629,219)
Dividends income	(63,321)	(63,195)
Shares of profit from associates	(103,337)	(85,454)
Unrealized net loss (gain) on foreign currency exchange	395,728	(59,875)
Gain on disposal investment properties	(1,490)	-
Other adjustments	(100,995)	768
Changes in operating assets and liabilities		
Decrease (increase) in due from the central bank and other banks	7,092,056	(3,531,591)
Decrease in financial assets at fair value through profit or loss	3,781,946	6,408,184
Increase in receivables	(1,776,592)	(2,273,540)
Decrease (increase) in discounts and loans	551,765	(22,683,826)
Increase in available-for-sale financial assets	(30,236,113)	(52,201,509)
Decrease in held-to-maturity financial assets	306,249	488,896
Decrease (increase) in debt investments with no active market	919,160	(966,219)
Increase (decrease) in due to the central bank and other banks	137,136	(5,762,695)
Decrease in financial liabilities at fair value through profit or loss	(3,635,415)	(1,633,706)
Increase in payables	456,277	2,040,052
Increase in deposits and remittances	25,778,208	1,425,551
Cash generated from (used in) operations	2,667,337	(79,906,218)
Interest received	9,933,372	9,633,034
Dividends received	63,321	63,195
Interest paid	(4,338,543)	(3,864,971)
Income tax paid	(486,615)	(566,153)
Net cash generated from (used in) operating activities	7,838,872	(74,641,113)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets carried at cost	(24,950)	-
Proceeds from disposal of financial assets carried at cost	51,496	-
Acquisition of investments accounted for using equity method	(28,980)	-
Acquisition of property and equipment	(224,462)	(247,089)
Proceeds from disposal of property and equipment	45	325
Decrease in other financial assets	49,971	1,652,873
Decrease in other assets	19,794	11,093
Dividends received from associates	69,585	28,648
Net cash generated from (used in) investing activities	(87,501)	1,445,850

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FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

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

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of bank debentures	$ -	$ 4,000,000
Redemption of bank debentures	(4,000,000)	(200)
Increase (decrease) in securities sold under repurchase agreements	(434,630)	9,968,068
Increase in other financial liabilities	1,204,602	3,354,406
Increase (decrease) in other liabilities	30,605	(393,772)
Cash dividends	(1,306,774)	(1,213,297)
Net cash generated from (used in) financing activities	(4,506,197)	15,715,205
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	53,011	(25,606)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,298,185	(57,505,664)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	28,339,153	85,844,817
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 31,637,338	$ 28,339,153

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	
	2017	2016
Cash and cash equivalents in consolidated balance sheets	$ 8,693,621	$ 7,361,878
Due from the Central Bank and other banks that meet the IAS 7 definition of “cash and cash equivalents”	11,872,324	14,580,619
Securities purchased under resale agreements that meet the IAS 7 definition of “cash and cash equivalents”	11,071,393	6,396,656
Cash and cash equivalents in consolidated statements of cash flows	$ 31,637,338	$ 28,339,153

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

1. GENERAL INFORMATION

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

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

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

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

To integrate resources and produce maximum benefit from the business, the Bank absorbed and merged Far Eastern Life Insurance Agency Co., Ltd. ("FELIA") and Far Eastern Property Insurance Agency Co., Ltd. ("FEPIA") on February 6, 2017; the entities were both subsidiaries of the Bank holding one hundred percent equity and the merger did not have effect on the equity of the shareholders.

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

2. APPROVAL OF FINANCIAL REPORTS

The consolidated financial statements were approved by the Bank's board of Directors on March 21, 2018.

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

a. The application of the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRS, IAS, IFRIC, and SIC (collectively, the "IFRSs") endorsed by the FSC did not have material impact on the accounting policies of the Bank and its subsidiaries.

b. The Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed by the FSC for application starting from 2018.

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

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

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

The application of the above New IFRSs, whenever applied, would have any material impact on the Bank and its subsidiaries' accounting policies are as follows:

1) IFRS 9 "Financial Instruments" and related amendments

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

All recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

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

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

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

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

The Bank and its subsidiaries analyzed the current facts and circumstances of its financial assets existing at December 31, 2017 and performed a preliminary assessment of the main impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Stocks listed on Taiwan Stock Exchange ("TWSE") and Taipei Exchange ("TPEx") classified as available-for-sale and unlisted on TWSE and TPEx shares are measured at cost will be classified as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.
b) Beneficiary certificates classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding, and they are not equity instruments;

c) Debt instruments classified as held-to-maturity financial assets and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

d) Debt instruments classified as investments with no active market and part of loan will be classified as at fair value through profit or loss under IFRS 9 because, on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding.

<u>Impairment loss on financial assets</u>

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low.

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

Effect of applying IFRS 9

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

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

	Carrying Amount as of December 31, 2017	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2018**
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss	$ 30,208,333	$ 9,905,673	$ 40,114,006
Securities purchased under resale agreements	11,071,393	(125)	11,071,268
Discounts and loans, net	351,056,762	(3,161,799)	347,894,963
Available-for-sale financial assets	109,631,578	(109,631,578)	-
Financial assets at fair value through other comprehensive income	-	109,891,833	109,891,833
Held-to-maturity financial assets	2,135,246	(2,135,246)	-
Financial assets measured at amortized cost	-	2,134,976	2,134,976
Investment accounted for using equity method	1,774,066	4,010	1,778,076
Debt investments with no active market	6,677,076	(6,677,076)	-
Other financial assets, net	3,667,760	(114,232)	3,553,528
Total effect on assets		$ 216,436	
Provisions	1,127,116	$ 55,568	1,182,684
Impact on liabilities		$ 55,568	
Retained earnings	10,486,758	$ (12,342)	10,474,416
Other equity	14,202	173,210	187,412
Total effect on equity		$ 160,868	

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits entities to elect application of the amendments in advance on January 1, 2018.

Note 3: In December 2017, the FSC announced that Taiwan's entities should apply IFRS 16 starting January 1, 2019.

Note 4: Entities shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

The application of the above new, amended or revised standards and interpretations, whenever applied, would have any material impact on the Bank and its subsidiaries' accounting policies are as follows:

1) IFRS 16 "Leases"

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

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

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

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

2) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amendments further explained that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

3) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Bank and its subsidiaries are continuously assessing the possible impact that the application of other standards and interpretations will have on the 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 consolidated financial reports have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed by the FSC.

Basis of Preparation

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

Current and Noncurrent Assets and Liabilities

Accounts included in the consolidated balance sheets are not classified as current or noncurrent since the major components of the consolidated 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. Please refer to Note 43 for the maturity analysis of liabilities.

Basis of Consolidation

a. Principles of preparing consolidated financial reports

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

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

b. Entities included in consolidated financial reports

Entities included in consolidated financial reports were as follows:

Investor Company	Investee Company	Nature of Businesses	% of Ownership December 31 2017	% of Ownership December 31 2016
The Bank	Far Eastern Asset Management Co., Ltd. (“FEAMC”)	Purchase, evaluation, auction and management of rights of financial institution creditors	100	100
The Bank	FELIA	Insurance agent	-	100
The Bank	FEPIA	Insurance agent	-	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

FELIA and FEPIA were merged by the Bank on February 6, 2017.

Acquisition of Another Financial Institution’s Business

Acquisitions of another financial institution are accounted for using the purchase method if acquisitions comply with business combination. The consideration transferred in acquisitions of another financial institution is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank in exchange for control of the acquiree.

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 are recognized as other comprehensive income-exchange differences on translating foreign operations.

Investment Accounted for Using Equity Method

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

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

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

Property and Equipment

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

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

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets

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

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

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

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

Securities Purchased/Sold Under Resale/Repurchase Agreements

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

Financial Instruments

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

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

Financial assets

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

a. Measurement category

Financial assets are classified into the following specified categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables.

Cash equivalent includes investments with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and time deposits be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

1) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.
A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

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

- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank and subsidiaries' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement, and any dividend or interest earned on the financial asset recognized in profit or loss.

2) Held-to-maturity investments

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

3) Available-for-sale financial assets

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

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

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

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

4) Loans and receivables

Loans and receivables (including receivables, discounts and loans, nonaccrual loans other than discounts and loans, and debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment.

b. Impairment of financial assets

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

For all financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It is becoming probable that the borrower will undergo bankruptcy or financial reorganization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

1) Financial assets measured at amortized cost

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

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2) Available-for-sale financial assets

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

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

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

3) Financial assets measured at cost

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

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

c. Derecognition of financial assets

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

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

Equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognized at the proceeds received, net of transaction 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 fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is held for trading. Any gains or losses arising on remeasurement, including interest paid on the financial liability, are recognized in profit or loss.

2) Financial guarantee contracts

Financial guarantee contracts issued by the Bank are initially recognized at their amortized cost if it is not designated as at fair value through profit or less. The contract would be measured at higher of the best estimate of the obligation or the amount initially recognized less cumulative amortization recognized only when the Bank might have to pay obligation contract price.

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.

Euro convertible bonds

Euro Convertible Bonds that contain both liability and conversion option derivative components are classified separately into respective items on initial recognition. The conversion option that will be settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the Bank's own equity instruments is classified as a conversion option derivative.

In subsequent periods, the liability component of the Euro Convertible Bonds is measured at amortized cost using the effective interest method. The conversion option derivative is measured at fair value and the changes in fair value are recognized in profit or loss.

Transaction costs related to the issuance of Euro Convertible Bonds are included in the carrying amount of the liability component and are amortized over the lives of Euro Convertible Bonds using the effective interest method.

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 non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

Levies

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

Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue Recognition

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

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

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

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

Retirement Benefit

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement plans are determined using the projected unit credit method. Service cost (including current service cost and net interest) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

Income Tax

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

a. Current tax expense

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

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

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

c. Current and deferred tax for the period

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimating impairment of discounts and loans and receivables

When there is objective evidence of impairment loss, the Bank and its subsidiaries take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, an additional impairment loss may arise.

b. Estimating impairment of operation rights

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

c. Fair value of financial instruments

The Bank's management uses its judgment in selecting an appropriate valuation technique for financial instruments that do not have quoted market price in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, models were based on quoted market rates adjusted for specific features of the instruments. Other financial instruments were valued using a discounted cash flow analysis based on models supported, where possible, by observable market prices or rates. Note 43 provides detailed information about the key models used in the determination of the fair value of financial instruments. The Bank's management believes that the chosen valuation techniques and models used are appropriate in determining the fair value of financial instruments.

d. Income tax

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	$ 2,889,476	$ 3,843,981
Notes and checks for clearing	2,018,305	983,840
Deposits due from other banks	3,623,344	2,449,574
Balance with other banks	162,496	84,483
	$ 8,693,621	$ 7,361,878

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2017	2016
Due from the central bank - certificates of deposit	$ 125,000	$ 8,325,000
Due from other banks	5,281,521	5,672,478
New Taiwan dollar reserve deposits - Type A	6,272,154	5,864,768
New Taiwan dollar reserve deposits - Type B	10,353,759	9,839,141
Foreign-currency reserve deposits	118,969	128,207
Due from foreign central bank	199,680	2,915,166
	$ 22,351,083	$ 32,744,760

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

As of December 31, 2017 and 2016, 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 $11,872,324 thousand and $14,580,619 thousand, respectively, and were included in cash and cash equivalents in the consolidated statements of cash flows.

The assets pledged as collateral are disclosed in Note 38.

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

	December 31	
	2017	2016
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Non-derivative financial assets		
Commercial paper	$ 13,979,621	$ 6,913,572
Domestic government bond	5,238,586	2,303,992
Negotiable certificates of deposit	1,850,666	2,430,175
Stock listed on TWSE and TPEx	347,783	151,537
Domestic beneficiary certificates	50,473	25,673
	21,467,129	11,824,949
Derivative financial assets		
Foreign-currency swap contracts	950,685	2,614,378
Domestic convertible (exchangeable) bond asset swap contracts	766,433	1,509,128
Interest rate swap contracts	721,496	1,063,986
Currency option contracts	296,384	894,369
Forward exchange contracts	149,661	214,019
Others	176,507	229,288
	3,061,166	6,525,168
Financial assets designated as at fair value through profit or loss		
Convertible (exchangeable) bonds	5,680,038	15,479,988
Total financial assets at fair value through profit or loss	$ 30,208,333	$ 33,830,105
Financial liabilities at fair value through profit or loss		
Non-derivative financial liabilities		
Settlement coverage bonds payable of short sale	$ 50,241	$ -
Derivative financial liabilities		
Convertible (exchangeable) bond option contracts	2,125,712	3,587,781
Foreign-currency swap contracts	1,161,278	2,125,383
Interest rate swap contracts	545,246	823,203
Currency option contracts	283,706	927,605
Forward exchange contracts	80,710	192,576
Others	72,228	297,994
	4,268,880	7,954,542
Total financial liabilities at fair value through profit or loss	$ 4,319,121	$ 7,954,542

The Bank engages in derivative transactions mainly to trade, to accommodate customers' needs and to manage exposures due to exchange rate and interest rate fluctuations. The Bank's financial risk management strategy is to hedge most of its exposure to market risk.

Outstanding derivative contract (nominal) amounts were as follows:

	December 31	
	2017	2016
Foreign-currency swap contracts	$ 312,727,831	$ 320,907,855
Interest rate swap contracts	121,214,106	132,957,199
Currency option contracts	57,406,578	95,282,700
Credit default swap contracts	18,028,192	23,884,949
Forward exchange contracts	16,842,966	13,947,329
Cross-currency swap contracts	8,413,280	8,008,710
Convertible (exchangeable) bond option contracts	8,122,800	30,424,500
Foreign convertible bond asset swap contracts	5,337,816	8,170,732
Interest rate option contracts	4,492,400	5,613,950
Domestic convertible (exchangeable) bond asset swap contracts	4,015,800	15,666,104
Bond futures	1,116,080	-
Non-deliverable forward contracts	356,566	1,647,967
Commodity forward contracts	-	189,823

9. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	December 31	
	2017	2016
Government bonds	$ 7,852,936	$ 5,658,812
Negotiable certificates of deposit	2,719,046	300,067
Commercial paper	499,411	437,777
	$ 11,071,393	$ 6,396,656
Resale date	2018.01.02-2018.01.30	2017.01.03-2017.01.20
Resale price	$ 11,074,058	$ 6,397,911

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

10. RECEIVABLES, NET

	December 31	
	2017	2016
Credit card	$ 15,045,932	$ 14,662,176
Factoring	4,843,249	4,099,904
Interest	917,409	763,127
Spot exchange transactions	598,100	573,306
Convertible bond redemption	569,629	727,793
Acquired receivables	474,151	445,695
Acceptances	421,416	318,477
Lease receivables	350,625	92,581
Entrustment loans	175,574	207,249
Proceeds from disposal of securities	154,944	318,732

(Continued)

	December 31	
	2017	2016
Disbursement of derivative instrument settlement	$ 20,229	$ 578,302
Land development	-	724,920
Others	335,675	453,640
	23,906,933	23,965,902
Less: Allowance for possible losses (Note 11)	1,156,064	1,118,660
	$ 22,750,869	$ 22,847,242

(Concluded)

Land development receivables refer to contracts between the Far Eastern Asset Management Co., Ltd. (FEAMC), a Bank subsidiary, and others. Under these contracts, FEAMC had funded and obtained related land mortgages.

11. DISCOUNTS AND LOANS, NET

	December 31	
	2017	2016
Negotiations, discounts and overdraft	$ 100,576	$ 90,968
Short-term loans	69,042,425	79,964,607
Medium-term loans	124,489,833	124,444,055
Long-term loans	161,806,758	156,199,322
Nonaccrual loans	501,027	296,544
	355,940,619	360,995,496
Less: Allowance for possible losses	4,883,857	5,031,824
	$ 351,056,762	$ 355,963,672

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

	Discounts and Loans	Others	Total
For the year ended December 31, 2017			
Balance, January 1, 2017	$ 5,031,824	$ 1,118,674	$ 6,150,498
Provision for possible losses	373,153	830,783	1,203,936
Amounts written-off	(466,510)	(743,155)	(1,209,665)
Effects of exchange rate changes	(54,610)	(50,050)	(104,660)
Balance, December 31, 2017	$ 4,883,857	$ 1,156,252	$ 6,040,109
For the year ended December 31, 2016			
Balance, January 1, 2016	$ 4,532,791	$ 802,021	$ 5,334,812
Provision for possible losses	797,071	511,490	1,308,561
Amounts written-off	(284,943)	(190,894)	(475,837)
Effects of exchange rate changes	(13,095)	(3,943)	(17,038)
Balance, December 31, 2016	$ 5,031,824	$ 1,118,674	$ 6,150,498

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

	For the Year Ended December 31	
	2017	2016
Provision for possible losses - discounts and loans	$ 373,153	$ 797,071
Provision for possible losses - others	830,783	511,490
Provision (reversal of provision) for possible losses - reserve for guarantee obligations	11,407	(8,396)
Less: Amounts recovered - discounts and loans	257,773	601,852
Less: Amounts recovered - others	225,723	246,312
	$ 731,847	$ 452,001

For the years ended December 31, 2017 and 2016, the Bank and its subsidiaries had no written-off credits for which legal proceedings had not been initiated.

The Bank and its subsidiaries' financial assets were assessed for impairment loss on the basis of credit risk characteristics of financial assets. The results were as follows:

Discounts and loans

Item		December 31, 2017		December 31, 2016	
		Discounts and Loans	Allowance for Possible Losses	Discounts and Loans	Allowance for Possible Losses
With objective evidence of individual impairment	Assessed individually	$ 1,603,535	$ 563,826	$ 1,602,953	$ 632,201
	Assessed by portfolio	1,937,024	441,292	2,000,020	424,435
Without objective evidence of individual impairment	Assessed individually	3,193,736	31,937	5,553,075	55,531
	Assessed by portfolio	349,206,324	3,846,802	351,839,448	3,919,657
Total		$ 355,940,619	$ 4,883,857	$ 360,995,496	$ 5,031,824

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

Item		December 31, 2017		December 31, 2016	
		Others	Allowance for Possible Losses	Others	Allowance for Possible Losses
With objective evidence of individual impairment	Assessed individually	$ 657,574	$ 580,751	$ 1,152,835	$ 505,212
	Assessed by portfolio	1,465,738	493,309	1,626,539	529,476
Without objective evidence of individual impairment	Assessed individually	9,533,501	7,210	12,570,280	4,805
	Assessed by portfolio	18,842,391	74,982	17,688,134	79,181
Total		$ 30,499,204	$ 1,156,252	$ 33,037,788	$ 1,118,674

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Negotiable certificates of deposit issued by the central bank	$ 62,523,204	$ 45,764,676
Domestic government bonds	23,884,945	11,920,299
Foreign bank debentures	21,006,259	20,523,215
Foreign government bonds	1,458,459	936,545
Stocks listed on TWSE and TPEx	709,311	449,971
Beneficiary certificates	49,400	-
	$ 109,631,578	$ 79,594,706

Some of the available-for-sale foreign bank debentures and foreign government bonds were traded with repurchase agreements, and the carrying amounts were as follows (please refer to Note 21 for the related information on repurchase agreements):

	December 31	
	2017	2016
Foreign bank debentures	$ 12,366,170	$ 13,437,411
Foreign government bonds	$ 1,162,801	$ 936,545

The assets pledged as collaterals are disclosed in Note 38.

13. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2017	2016
Foreign bank debentures	$ 1,479,602	$ 1,924,971
Foreign corporate bonds	655,644	705,664
	$ 2,135,246	$ 2,630,635

14. INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2017		2016	
	Amount	% of Ownership	Amount	% of Ownership
Dah Chung Bills Finance Corp.	$ 1,646,555	22.06	$ 1,604,159	22.06
Deutsche Far Eastern Asset Management Co., Ltd.	127,511	40.00	98,061	40.00
	$ 1,774,066		$ 1,702,220	

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

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

	For the Year Ended December 31	
	2017	2016
Net income from continuing operation	$ 103,337	$ 85,454
Other comprehensive income	9,114	(12,623)
Total comprehensive income	$ 112,451	$ 72,831

15. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2017	2016
Foreign convertible bond asset swap contracts - master agreement	$ 5,337,816	$ 8,170,732
Convertible bonds	742,300	-
Credit-linked notes - master agreement	596,960	-
	$ 6,677,076	$ 8,170,732

16. OTHER FINANCIAL ASSETS, NET

	December 31	
	2017	2016
Nonaccrual loans other than discounts and loans	$ 261	$ 80
Less: Allowance for possible losses (Note 11)	188	14
	73	66
Refundable deposits	2,312,331	3,359,981
Deposits with original maturity more than 3 months	640,779	554,760
Interbank clearing account	600,941	600,307
Financial assets carried at cost	113,636	155,701
	$ 3,667,760	$ 4,670,815

The assets pledged as collaterals are disclosed in Note 38.

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

	December 31	
	2017	2016
Yuan Hsin Digital Payment Co., Ltd.	$ 62,263	$ 54,322
Financial Information Service Co., Ltd.	45,500	45,500
An Feng Enterprise Co., Ltd.	3,000	3,000
Sunshine Asset Management Co., Ltd.	2,073	2,073
Taipei Forex Inc.	800	800
ERA Communications Co., Ltd.	-	50,006
	$ 113,636	$ 155,701

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

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

The Bank recognized an impairment loss of $17,009 thousand and $20,528 thousand in Yuan Hsin Digital Payment Co., Ltd. in September 2017 and August 2016, respectively, and increased investment it by $24,950 thousand in September 2017.

17. PROPERTY AND EQUIPMENT, NET

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

	For the Year Ended December 31, 2016						
	Land	Buildings and Improvements	Computer Equipment	Transportation Equipment	Miscellaneous Equipment	Equipment Prepayment	Total
Cost							
Beginning balance	$ 1,581,625	$ 1,246,142	$ 1,457,085	$ 4,136	$ 1,481,303	$ 25,776	$ 5,796,067
Additions	-	1,391	112,409	-	65,718	67,571	247,089
Disposals	-	-	(42,913)	(772)	(17,983)	-	(61,668)
Others	-	-	58,400	-	1,431	(61,852)	(2,021)
Ending balance	1,581,625	1,247,533	1,584,981	3,364	1,530,469	31,495	5,979,467
Accumulated depreciation							
Beginning balance	-	577,275	1,086,408	3,874	1,287,818	-	2,955,375
Depreciation	-	24,367	109,119	100	64,660	-	198,246
Disposals	-	-	(42,850)	(772)	(17,870)	-	(61,492)
Others	-	-	(1,233)	-	(1,103)	-	(2,336)
Ending balance	-	601,642	1,151,444	3,202	1,333,505	-	3,089,793
Net ending balance	$ 1,581,625	$ 645,891	$ 433,537	$ 162	$ 196,964	$ 31,495	$ 2,889,674

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

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

18. INTANGIBLE ASSETS, NET

	December 31	
	2017	2016
Operation rights	$ 1,538,210	$ 1,538,210
Fair value of core deposits	428,887	428,887
	1,967,097	1,967,097
Less: Accumulated amortization	242,012	216,529
	$ 1,725,085	$ 1,750,568

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

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

The Bank's operation rights are tested for impairment at the end of the annual reporting period and the recoverable amount is determined based on the value in use. To reflect risks specific to the operation right, the value in use was then calculated using the discounted cash flows based on the Bank's financial forecast, and no impairment after tasted. For the years ended December 31, 2017 and 2016, the Bank did not recognize any impairment loss on its operation rights.

19. OTHER ASSETS

	December 31	
	2017	**2016**
Prepaid expenses	$ 167,698	$ 183,783
Others	32,444	38,616
	$ 200,142	$ 222,399

20. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2017	**2016**
Call loans to banks	$ 6,601,520	$ 7,120,246
Due to banks	231,834	273,147
Overdraft	127,420	38,801
	$ 6,960,774	$ 7,432,194

21. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	December 31	
	2017	**2016**
Foreign bank debentures (Note 12)	$ 11,785,554	$ 12,778,986
Foreign government bonds (Note 12)	1,135,810	932,237
	$ 12,921,364	$ 13,711,223
Repurchase date	2018.01.08-2018.01.29	2017.01.06-2017.02.13
Repurchase price	$ 12,943,304	$ 13,740,566

22. PAYABLES

	December 31	
	2017	2016
Notes and checks for clearing	$ 2,018,305	$ 983,840
Accrued expenses	1,265,570	1,288,096
Accrued interest	964,691	689,244
Accounts payable factoring	898,253	1,584,075
Liabilities on bank acceptances	421,416	318,477
Securities settlement payables	267,124	161,044
Others	652,926	775,098
	$ 6,488,285	$ 5,799,874

23. DEPOSITS AND REMITTANCES

	December 31	
	2017	2016
Checking deposits	$ 2,913,365	$ 2,565,514
Demand deposits	71,810,392	60,996,741
Demand savings	63,329,655	62,602,212
Time savings	80,875,765	84,813,962
Negotiable certificates of deposit	6,387,500	16,898,500
Time deposits	246,743,099	224,821,525
Remittances	332,407	22,006
	$ 472,392,183	$ 452,720,460

24. BANK DEBENTURES

	December 31	
	2017	2016
Domestic bank debentures	$ 18,601,900	$ 22,601,900
Euro Convertible Bonds	1,614,764	1,707,457
	$ 20,216,664	$ 24,309,357

Domestic Bank Debentures

Item	Issuance Period	Note	December 31 2017	December 31 2016
Subordinated bank debentures - seven-year maturity; first issue in 2010	2010.05.18-2017.05.18	Interest payable on May 18 each year; fixed interest rate at 2.98%	$ -	$ 2,000,000
Subordinated bank debentures - seven-year maturity; second issue in 2010	2010.09.29-2017.09.29	Interest payable on September 29 each year; fixed interest rate at 2.10%	-	2,000,000
Subordinated bank debentures - seven-year maturity; first issue in 2011	2011.11.10-2018.11.10	Interest payable on November 10 each year; fixed interest rate at 1.95%	3,500,000	3,500,000
Subordinated bank debentures - seven-year maturity; first issue in 2012	2012.06.27-2019.06.27	Interest payable on June 27 each year; fixed interest rate at 1.75%	3,000,000	3,000,000

(Continued)

Item	Issuance Period	Note	December 31 2017	December 31 2016
Subordinated bank debentures - seven-year maturity; first issue in 2013	2013.11.06-2020.11.06	Interest payable on November 6 each year fixed interest rate at 2.10%	$ 4,000,000	$ 4,000,000
Subordinated bank debentures - seven-year maturity; first issue in 2014	2014.12.23-2021.12.23	Interest payable on December 23 each year fixed interest rate at 2.05%	1,100,000	1,100,000
Subordinated bank debentures - seven-year maturity; first issue in 2015	2015.09.30-2022.09.30	Interest payable on September 30 each year fixed interest rate at 1.95%	3,000,000	3,000,000
Subordinated bank debentures - seven-year maturity; first issue in 2016	2016.09.27-2023.09.27	Interest payable on September 27 each year fixed interest rate at 1.55%	4,000,000	4,000,000
Subordinated bank debentures - 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			$ 18,601,900	$ 22,601,900

(Concluded)

Euro Convertible Bonds

On February 7, 2013 (the "Issuance Date"), the Bank issued five-year unsecured zero coupon convertible bonds (the "Bonds") with a principal aggregating to US$150,000 thousand; these bonds were listed on the Singapore Exchange Securities Trading Limited. The minimum lot size for the Bonds trading is US$200 thousand. On the Issuance Date, the liability component of the Bonds amounted to $4,009,661 thousand net of a discount of $471,589 thousand but including transaction costs of $38,252 thousand. The initial effective interest rate of the liability component was 2.63%. The derivative components of the Bonds (i.e. conversion right and redemption option) amounted to $433,337 thousand. Other terms and conditions of the Bonds are described below:

a. Redemption at maturity

Unless the Bonds have been previously redeemed, converted or repurchased and canceled, the Bank shall redeem the Bonds at 101.89% of their principal amount in U.S. dollars on February 7, 2018 (the "Maturity Date").

b. Redemption at the option of the Bank

1) After 30 months following issuance of the Bond, the Bank may redeem the Bonds in whole or piecemeal at the early redemption amount representing the principal of the Bonds with a gross yield if the closing prices of the Bank's ordinary shares in Taiwan Stock Exchange (the "TWSE"), translated into U.S. dollars at the prevailing rates, within 20 out of 30 consecutive trading days, exceed 130% of the quotient of the early redemption amount divided by the number of ordinary shares to be issued upon conversion of the Bonds on the applicable trading day based on the conversion price then in effect, translated into U.S. dollars at the fixed exchange rate. The early redemption amount for the Bonds is so calculated to provide the bondholders a gross yield of 0.375% semi-annually.

2) The Bank may redeem all, but not a portion of, the Bonds at the early redemption amount if more than 90% of the Bonds has already been redeemed, converted or repurchased and canceled.

3) The Bank is obliged to pay additional amounts as a result of any change relating to taxation in the relevant jurisdiction or any change in the general application or official interpretation of tax laws or regulations, and this obligation cannot be avoided by the Bank even by taking reasonable measures.

c. Details of conversion

1) Converted shares: New ordinary shares of the Bank (the "Shares").

2) Conversion period: Unless the Bonds have been previously redeemed, converted or repurchased and canceled, the Bonds are convertible to the Bank's ordinary shares, at the option of the bondholder during the period from the 41st calendar day after the Bond issuance the 10th calendar day prior to the Maturity Date. However, the conversion right shall not be exercised during the following periods:

   a) 60-day period prior to the date of the annual general shareholders' meeting, 30-day period prior to the date of the special shareholders' meeting, or 5-day period prior to the distribution record date of earnings or other bonus;

   b) The period from 15 business days prior to the book closure dates for distributing stock dividend, cash dividend, or subscribing new shares to the ex-dividend or ex-right dates, or the period from the record date for capital reduction to one day prior to the resumption of trading of the reissued shares following the capital reduction; and

   c) Any other period as determined by ROC laws.

3) Adjustments to conversion price: On any stock dilution or events stated in the Offering Memorandum that occur after the Issue Date, the conversion price shall be adjusted in accordance with the formula stated in the Offering Memorandum.

4) Conversion price: The original conversion price was NT$15.24 per share (at the fixed exchange rate of NT$29.569 to US$1.00). The conversion price was further adjusted to NT$10.57 per share as of December 31, 2017 because of the issuance of dividends and new shares for an overseas offering of Global Depository Receipts.

5) Redemption at the option of the bondholders:

   a) Unless the Bonds have been early redeemed, converted or repurchased, each bondholder has a put right to require the Bank to redeem the Bonds in whole or in part at early redemption price after 30 months from issue date.

   b) In the event that Bank's shares cease to be listed or admitted to trading on the TWSE, each bondholder shall have the right to require the Bank to redeem the Bonds in whole or in part.

   c) If the Bank has a change of control, each bondholder shall have the right to require the Bank to redeem the Bonds in whole or in part.

25. OTHER FINANCIAL LIABILITIES

	December 31	
	2017	**2016**
Principal of structured notes	$ 6,482,513	$ 4,938,656
Bank loan - December 31, 2017: 1.20% - 6.50%;		
December 31, 2016: 1.20% - 4.57%	561,067	989,976
Deposit received	373,195	326,773
Commercial paper	-	129,964
	$ 7,416,775	$ 6,385,369

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

	December 31, 2016
International Bills Finance Corp.	$ 50,000
Shin Kong Commercial Bank	40,000
Mega Bills Finance Corp.	40,000
Less: Unamortized discount on commercial paper	36
	$ 129,964
Interest rates	1.188% - 1.208%

26. PROVISIONS

	December 31	
	2017	2016
Reserve for employee benefits liability - defined benefit plans (Note 27)	$ 940,747	$ 1,064,831
Reserve for obligations guarantee	186,369	175,447
	$ 1,127,116	$ 1,240,278

27. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

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

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

	December 31	
	2017	**2016**
Present value of defined benefit obligation	$ 1,259,285	$ 1,381,862
Fair value of plan assets	(318,538)	(317,031)
Reserve for employee benefits liability	$ 940,747	$ 1,064,831

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, 2017	$ 1,381,862	$ (317,031)	$ 1,064,831
Service cost			
Current service cost	12,016	-	12,016
Net interest expense (revenue)	16,651	(4,002)	12,649
Recognized in profit or loss	28,667	(4,002)	24,665
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	936	936
Actuarial loss - experience adjustments	17,769	-	17,769
Actuarial loss - changes in demographic assumptions	(74,533)	-	(74,533)
Recognized in other comprehensive income	(56,764)	936	(55,828)
Contributions from the employer	-	(18,013)	(18,013)
Contributions from merged FELIA and FEPIA	-	(3,120)	(3,120)
Contributions from plan assets	(22,692)	22,692	-
Contributions from provisions	(71,788)	-	(71,788)
Balance at December 31, 2017	$ 1,259,285	$ (318,538)	$ 940,747
Balance at January 1, 2016	$ 1,258,805	$ (315,522)	$ 943,283
Service cost			
Current service cost	11,423	-	11,423
Net interest expense (revenue)	21,513	(4,854)	16,659
Recognized in profit or loss	32,936	(4,854)	28,082
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,667	2,667
Actuarial loss - experience adjustments	55,085	-	55,085
Actuarial loss - changes in demographic assumptions	80,000	-	80,000
Recognized in other comprehensive income	135,085	2,667	137,752
Contributions from the employer	-	(18,533)	(18,533)
Contributions from plan assets	(19,211)	19,211	-
Contributions from provisions	(25,753)	-	(25,753)
Balance at December 31, 2016	$ 1,381,862	$ (317,031)	$ 1,064,831

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	
	2017	**2016**
Discount rates	1.75%	1.25%
Expected rates of salary increase	3.00%	3.00%

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

	December 31,	
	2017	**2016**
Discount rates		
0.50% increase	$ (68,810)	$ (80,000)
0.50% decrease	$ 74,533	$ 86,973
Expected rates of salary increase		
0.50% increase	$ 73,251	$ 85,034
0.50% decrease	$ (68,348)	$ (79,088)

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

The expected contribution to the plan for the next year is $18,746 thousand, and the average duration of the defined benefit obligation is 11.5 years.

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

1) Risk on investment: The investment income of benefit plan assets affects the plan fair value and contribution status. That is, a higher investment income increases the fair value of plan assets and decreases net defined benefits liabilities (or increases net assets) and thus improves contribution status. In contrast, a lower investment income or investment loss is unfavorable to the contribution status of benefit the plan.

2) Risk on interest fluctuations: The discount rate used in calculating the present value of defined benefit obligations is determined by the mainly pertains to the yields of the ROC government. A decrease in discount rate will increase the present value of defined benefit obligations.

3) Risk on salary fluctuations: As the defined benefit obligation was determined by the salaries of plan members before their retirement, the expected increase in salary should then be considered in the calculation. Thus, an increase in the expected rate for salary increase will result in a rise in the present values of defined benefit obligations.

28. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2017	2016
Authorized shares (in thousands)	4,500,000	4,500,000
Authorized capital	$ 45,000,000	$ 45,000,000
Issued and paid shares (in thousands)	3,182,929	3,111,367
Issued capital	$ 31,829,286	$ 31,113,672

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

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

It was resolved to increase the Bank's capital by granting a stock compensation of $171,101 thousand to employees and declaring a stock dividend of $606,649 thousand in the meetings of board of directors and of shareholders dated on March 24, 2016 and June 15, 2016, respectively. As a result, the Bank issued additional 78,124 thousand ordinary shares at a par value of NT$10 per share. After the issuance, the share capital of the Bank totaled to $31,113,672 thousand.

b. Capital surplus

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

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act approved in the shareholders' meetings on June 15, 2016, a legal reserve should be made first at an amount equal to 30% of the annual earnings after tax and dues, and a special reserve should then be made or reversed pursuant to regulatory requirement. The remaining annual earnings together with the prior-year accumulated undistributed earnings should be distributed to preference shareholders before it can be further distributed to ordinary shareholders. Finally, the board of directors may retain a portion of the undistributed earnings left at its discretion and proposes the earnings distribution to ordinary shareholders for current year to the shareholders' meetings for resolution.

According to the Bank's dividend policy, earning distribution proposal should be adjusted for factors such as the present environment and future operation plans, and cash dividends should not be less than 10% of total dividends declared.

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

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

An amount equal to the net debit balance of other items of shareholders' equity (including exchange differences on translating foreign operations, unrealized gain (loss) on available-for-sale financial assets, and gain or loss on hedging instrument relating to effective portion of cash flow hedge) shall be transferred from unappropriated earnings to a special reserve before any appropriation of earnings. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

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

The appropriations of earnings for the 2016 and 2015, which were approved in the shareholders' meetings on June 15, 2017 and June 15, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (Dollars)	
	2016	2015	2016	2015
Legal reserve	$ 973,166	$ 1,080,304		
Appropriate (reversal) of special reserve	129,675	(87,191)		
Cash dividends	1,306,774	1,213,297	$ 0.420	$ 0.400
Stock dividends	715,614	606,649	0.230	0.200
	$ 3,125,229	$ 2,813,059		

If dividends distributed to foreign shareholders are from the earnings subject to an additional 10% income tax, the tax can be used by the foreign shareholders to reduce the final withholding tax on their dividends income.

The appropriations of earnings for 2017 had been proposed by the Bank's Board of Directors on March 21, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 856,165	
Reversal of special reserve	(214,292)	
Cash dividends	1,397,306	$0.439
Stock dividends	892,573	0.271
	$ 2,931,752	

The appropriations of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held on June 20, 2018.

d. Other equity items

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

	For the Year Ended December 31	
	2017	2016
Balance, beginning of year	$ (344,477)	$ (256,228)
Unrealized gain on available-for-sale financial assets	408,303	8,290
Cumulative gain (loss) reclassified to profit or loss on sale of available-for-sale financial assets	(50,499)	(84,587)
Share of unrealized gain (loss) on available-for-sale financial assets of associates	9,528	(11,952)
Balance, ending of year	$ 22,855	$ (344,477)

29. NET INTERESTS

	For the Year Ended December 31	
	2017	2016
Interest revenues		
Discounts and loans	$ 7,764,549	$ 7,415,504
Securities	1,110,544	908,434
Credit cards	819,965	840,409
Interest of inter-bank lending	101,624	57,580
Due from the central bank	66,480	276,585
Others	194,769	130,707
	10,057,931	9,629,219
Interest expenses		
Deposits and remittances	3,591,784	2,948,804
Bank debentures	445,663	448,622
Bonds under repurchase agreements	256,037	218,069
Structured products	219,021	112,388
Others	140,552	116,914
	4,653,057	3,844,797
	$ 5,404,874	$ 5,784,422

30. NET SERVICE FEE INCOME

	For the Year Ended December 31	
	2017	2016
Service fee income		
Wealth management	$ 1,405,341	$ 1,463,182
Credit business	1,022,157	1,064,349
Credit cards	951,500	976,659
Service fee, brokering	261,619	238,264
Others	207,110	201,146
	3,847,727	3,943,600

(Continued)

	For the Year Ended December 31	
	2017	2016
Service fee expense		
Benefit and chargeback fee	$ 173,542	185,269
Visa and Master	152,078	165,400
Agency service fee	73,154	82,613
National credit card center fee	65,927	69,655
Credit investigation	45,994	43,154
Interbank service fee	42,091	39,666
Others	142,614	161,226
	695,400	746,983
	$ 3,152,327	$ 3,196,617

(Concluded)

31. NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2017	2016
Realized gains	$ 1,433,686	$ 618,798
Valuation gains	160,180	566,152
Net interests	127,548	52,320
Dividends	10,803	10,574
	$ 1,732,217	$ 1,247,844

The aforementioned items include the fair value fluctuations on the Bank's financial assets designated at fair value through profit or loss and the derivative instruments that were collectively managed.

32. EMPLOYEE BENEFITS EXPENSE

	For the Year Ended December 31	
	2017	2016
Salaries and bonus	$ 2,895,618	$ 2,902,591
Employee insurance	236,749	228,686
Employees' compensation and remuneration of directors	169,400	186,201
Post-employment benefits (Note 27)	143,343	147,557
Human resource service fee	123,032	109,782
Others	222,737	218,284
	$ 3,790,879	$ 3,793,101

As of December 31, 2017 and 2016, the Bank and its subsidiaries had 2,754 and 2,776 employees, respectively. The number of employees is calculated on the same basis as employee benefits expense.

Pursuant to the Company Act amended in May 2015 and the amended Articles of Incorporation of the Bank approved by the shareholders' meeting in June 2016, the Bank accrues employees' compensation at the rates of 3.5 % - 4.5% and remuneration of directors at no higher than 1.5%, of net profit before income tax and such compensation, and remuneration. On March 21, 2018 the Bank's Board of Directors resolved to pay employees' compensation of $126,300 thousand and remuneration of directors of $42,100 thousand for the year ended December 31, 2017, both in cash. On March 21, 2017 the Bank's Board of Directors resolved to pay employees' compensation of $134,000 thousand and remuneration of directors of $44,600 thousand for the year ended December 31, 2016, both in cash.

If there is a change in the amounts after the financial statements for the year ended December 31, 2017 were authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2016.

Information on the employees' compensation and remuneration of directors resolved by the Bank's Board of Directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

33. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2017	2016
Depreciation (Note 17)	$ 220,196	$ 198,246
Amortization	$ 27,946	$ 28,202

34. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the Year Ended December 31	
	2017	2016
Tax and government fees	$ 578,778	592,241
Rental	440,427	442,110
Marketing and advertising	426,812	$ 431,807
Software	184,352	193,093
Telecommunications	164,686	180,089
Others	586,689	620,663
	$ 2,381,744	$ 2,460,003

35. INCOME TAX EXPENSE

a. Income tax expense recognized in profit or loss

The major components of tax expenses were as follows:

	For the Year Ended December 31	
	2017	**2016**
Current tax expense		
Current period	$ 367,768	$ 549,654
Prior years	(3,607)	1,354
	364,161	551,008
Deferred tax expense		
Current period	50,823	21,809
Prior years	(1,223)	(801)
Deferred tax expense	49,600	21,008
Income tax expense recognized in profit or loss	$ 413,761	$ 572,016

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

	For the Year Ended December 31	
	2017	**2016**
Income before income tax	$ 3,267,644	$ 3,815,902
Income tax expense calculated at the statutory rate	$ 580,792	$ 660,860
Income from offshore banking unit (OBU)	(153,740)	(231,903)
Tax-exempted investment income	(373,349)	(269,888)
Tax-exempted other items	77,010	28,010
Loss carryforwards not recognized	(69,413)	(63,506)
Additional income tax under the Alternative Minimum Tax Act	324,786	326,548
Income tax on unappropriated earnings	365	78,867
Overseas branch income tax	29,482	34,143
Adjustments for prior years' tax	(4,830)	553
Others	2,658	8,332
Income tax expense recognized in profit or loss	$ 413,761	$ 572,016

The applicable tax rate used above is the corporate tax rate of 17% by the Bank.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

b. Deferred tax revenue recognized in other comprehensive income

	December 31	
	2017	**2016**
Incurred in this year		
Remeasurement of defined benefit plans	$ (9,491)	$ 23,418
Exchange differences on translation of foreign currency	4,226	-
	$ (5,265)	$ 23,418

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

For the year ended December 31, 2017

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

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

For the year ended December 31, 2016

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	$ 380,704	$ 21,861	$ -	$ 402,565
Defined benefit plans	137,830	(2,640)	23,418	158,608
Unrealized gain or loss on financial instruments	60,935	(104,486)	-	(43,551)
Others	22,415	7,088	-	29,503
	601,884	(78,177)	23,418	547,125
Unused loss carryforwards	29,657	58,322	-	87,979
	$ 631,541	$ (19,855)	$ 23,418	$ 635,104

Deferred Tax Liabilities (Recognized as Other Liabilities)	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Ending Balance
Temporary differences				
Difference in revenue recognition	$ (12,993)	$ (1,065)	$ -	$ (14,058)
Income from equity investments under the equity method	-	(88)	-	(88)
	$ (12,993)	$ (1,153)	$ -	$ (14,146)

d. Items not recognized as deferred tax assets

	December 31	
	2017	2016
Loss carryforwards		
The Bank		
Expire in 2017	$ -	$ 1,358,998
Expire in 2018	2,178,838	1,863,678
	$ 2,178,838	$ 3,222,676
FEIS		
Expire in 2018	$ -	$ 30,374
Expire in 2019	-	108,343
Expire in 2020	-	53,563
Expire in 2021	4,937	38,085
Expire in 2022	22,380	22,380
Expire in 2023	10,626	10,626
Expire in 2024	1,920	1,920
	$ 39,863	$ 265,291

e. Information about unused loss carryforwards

As of December 31, 2017, loss carryforwards comprised:

Expiry Year	Unused Amount
The Bank	
2018	$ 2,243,822 (assessed)
2021	133,968 (assessed)
	$ 2,377,790

(Continued)

Expiry Year	Unused Amount
FEIS	
2019	$ 91,701 (assessed)
2020	53,563 (assessed)
2021	38,085 (assessed)
2022	22,380 (assessed)
2023	10,626 (assessed)
2024	1,920 (assessed)
	$ 218,275

(Concluded)

f. Integrated income tax

	December 31	
	2017	2016
Imputation credits account	Note	$ 171,881

	For the Year Ended December 30	
	2017	2016 (Actual)
Creditable ratio for distribution of earnings	Note	17.94%

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

g. Income tax assessments

The income tax returns of the Bank through 2014 had been assessed by the tax authorities. FELIA, FEPIA and FEIS through 2015 had been assessed by the tax authorities. FEAMC through 2016 had been assessed by the tax authorities.

36. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share (the "EPS") was based on the net income attributable to the Bank's shareholders:

Unit: NT$ Per Share

	For the Year Ended December 31	
	2017	2016
Basic EPS	$ 0.90	$ 1.02
Diluted EPS	$ 0.86	$ 0.98

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

Net Income for the Year

	For the Year Ended December 31	
	2017	**2016**
Net income attributable to owners of the Bank	$ 2,853,883	$ 3,243,886
Effect of dilutive potential ordinary shares		
Euro Convertible Bonds	44,029	27,775
Net income used in the computation of diluted EPS	$ 2,897,912	$ 3,271,661

Number of Ordinary Shares (In Thousand Shares)

	For the Year Ended December 31	
	2017	**2016**
Weighted average number of ordinary shares in the computation of basic EPS	3,182,929	3,178,878
Effect of dilutive potential ordinary shares		
Euro Convertible Bonds	151,621	141,952
Employees' compensation	16,289	18,630
Weighted average number of ordinary shares used in the computation of diluted EPS	3,350,839	3,339,460

The weighted average number of ordinary shares outstanding for 2016 EPS calculation was retroactively adjusted to the issuance of stock dividends. The basic and diluted after-tax EPS were adjusted retrospectively as follows:

	Before Adjustment	**After Adjustment**
Basic EPS	$ 1.04	$ 1.02
Diluted EPS	$ 1.00	$ 0.98

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

37. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Bank and Its Subsidiaries
Dah Chung Bills Finance Corp.	Association
Ding Ding Integrated Marketing Service Co.	Chairman is the vice-chairman of the Bank
Asia Cement Corp.	Chairman is the vice-chairman of the Bank
Far Eastern Department Store Corp.	Chairman is the vice-chairman of the Bank
Yuan Ding Co., Ltd.	Chairman is the vice-chairman of the Bank
Far Eastern Geant Co., Ltd.	Chairman is the vice-chairman of the Bank
Bai Ding Investment Co.	Chairman is the vice-chairman of the Bank
Ding Ding Hotel Co., Ltd.	Chairman is the vice-chairman of the Bank
New Century InfoComm Tech Co., Ltd.	Chairman is the vice-chairman of the Bank
U-Ming Marine Transport Corp.	Chairman is the vice-chairman of the Bank
Far Eastern Electronic Toll Collection Co.	Chairman is the vice-chairman of the Bank
Oriental Union Chemical Corporation	Chairman is the vice-chairman of the Bank
Yuan Ding Investment Co.	Chairman is the vice-chairman of the Bank
Far Eastern New Century Corp.	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
Bai Yang Investment Co.	Chairman is a second-degree relative of the vice chairman of the Bank
Everest Textile Co., Ltd.	Chairman is a second-degree relative of the vice chairman of the Bank
Far Eastern City Super Co., Ltd.	Chairman is a second-degree relative of the vice chairman of the Bank
Yuan Long Stainless Steel Co.	Substantive related party since September 2017
Der Ching Investment Co.	Substantive related party since September 2017
Yu Yuan Investment Co.	Substantive related party since September 2017
Ya Tung Ready Mixed Concrete Co., Ltd.	Substantive related party since September 2017
China Investment and Development Co.	Substantive related party since September 2017
Others	Substantive related party's legal person and the Bank's managers, chairman, vice-chairman, or their second-degree relatives

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

a. Loans to other banks

Related Party	Highest Balance in Current Year	Ending Balance	Interest Revenues	Interest Rates
Dah Chung Bills Finance Corp.				
For the year ended December 31				
2017	$ 2,300,000	$ 500,000	$ 2,095	0.20%-0.42%
2016	$ 1,000,000	$ -	$ 323	0.18%-0.50%

b. Loans

Category	Number of Accounts and Related Party	Highest Balance in Current Year	Ending Balance	Normal Loans	Nonperforming Loans	Collateral	Transactions Terms Different from Those for Unrelated Parties
For the year ended December 31, 2017							
Consumer loans	Three individuals	$ 1,885	$ 1,645	$ 1,645	$ -	Unsecured loan	Note
Loans for residential mortgage	Twenty one individuals	207,796	193,154	193,154	-	Real estate	Note
Others	Yuan Long Stainless Steel Co.	1,740,000	1,520,000	1,520,000	-	Real estate	Note
	Asia Cement Corp.	600,000	600,000	600,000	-	Stock listed on TWSE	Note
	China Investment and Development Co., Ltd.	75,000	75,000	75,000	-	Stock listed on TWSE	Note
	U-Ming Marine Transport Corp.	525,000	-	-	-	Ship and certificates of deposit	Note
	Far Eastern Department Stores Co., Ltd	500,000	-	-	-	Stock listed on TWSE	Note
	Bai Ding Investment Co.	450,000	-	-	-	Unquoted stock	Note
	Far Eastern New Century Corp.	400,000	-	-	-	Machinery	Note
	Far Eastern Geant Co., Ltd.	400,000	-	-	-	Real estate	Note
	Yuan Ding Investment Co.	200,000	-	-	-	Unquoted stock	Note
	Everest Textile Co., Ltd.	200,000	-	-	-	Real estate	Note
	Der Ching Investment Co.	150,000	-	-	-	Stock listed on TWSE	Note
	Yu Yuan Investment Co.	100,000	-	-	-	Stock listed on TWSE	Note
	Ya Tung Ready Mixed Concrete Co., Ltd	50,000	-	-	-	Real estate	Note
			$ 2,389,799	$ 2,389,799	$ -		
For the year ended December 31, 2016							
Consumer loans	Four individuals	1,249	$ 1,111	$ 1,111	$ -	Unsecured loan	Note
Loans for residential mortgage	Twenty individuals	186,384	181,607	181,607	-	Real estate	Note
Others	Asia Cement Corp.	650,000	500,000	500,000	-	Stock listed on TWSE	Note
	Far Eastern New Century Corp.	400,000	400,000	400,000	-	Machinery	Note
	Far Eastern Geant Co., Ltd.	400,000	200,000	200,000	-	Real estate	Note
	Yuan Ding Investment Co.	200,000	200,000	200,000	-	Unquoted stock	Note
	Bai Ding Investment Co.	353,000	132,000	132,000	-	Unquoted stock	Note
	U-Ming Marine Transport Corp.	700,000	-	-	-	Ship and certificates of deposit	Note
	Yuan Ding Co., Ltd.	450,000	-	-	-	Unquoted stock	Note
	Bai Yang Investment Co.	350,000	-	-	-	Unquoted stock	Note
	Everest Textile Co., Ltd.	152,009	-	-	-	Real estate	Note
	Ding Ding Hotel Co., Ltd.	70,000	-	-	-	Unquoted stock	Note
	Others	14,477	-	-	-	Stock listed on TWSE	Note
			$ 1,614,718	$ 1,614,718	$ -		

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

	Interest Rate	Interest Revenues	Provision for Possible Losses
For the year ended December 31			
2017	0.90% - 2.24%	$ 18,138	$ 7,809
2016	1.00% - 2.30%	$ 10,040	$ 1,024

Balances of related allowance for possible losses were $24,864 thousand and $17,055 thousand as of December 31, 2017 and 2016, respectively.

c. Guarantees

Related Party	Highest Balance in Current Year	Ending Balance	Reserve for Guarantee Obligations	Interest Rate	Collateral
For the year ended December 31, 2017					
Oriental Union Chemical Corporation	$ 130,000	$ 130,000	$ 1,300	0.50%	Unquoted stock
Yuan Long Stainless Steel Co.	30,000	30,000	300	0.60%	Machinery
Ding Ding Hotel Co., Ltd.	70,000	20,000	200	0.50%-0.80%	Unquoted stock
Everest Textile Co., Ltd.	16,835	16,835	168	0.70%-0.80%	Real estate
Yuan Ding Investment Co.	14,100	13,000	130	0.50%-0.80%	Unquoted stock
Far Eastern City Super Co., Ltd.	3,000	3,000	30	0.60%	Certificates of deposit
		$ 212,835	$ 2,128		
For the year ended December 31, 2016					
Oriental Union Chemical Corporation	$ 130,000	$ 130,000	$ 1,300	0.40%	Unquoted stock
Ding Ding Hotel Co., Ltd.	70,000	70,000	700	0.50%	Unquoted stock
Everest Textile Co., Ltd.	16,898	15,804	158	0.75%	Real estate
Yuan Ding Co., Ltd.	14,100	14,100	141	0.50%	Unquoted stock
Far Eastern City Super Co., Ltd.	3,000	3,000	30	0.60%	Certificates of deposit
U-Ming Marine Transport Corp.	2,740,000	-	-	0.50%	Ship and certificates of deposit
		$ 232,904	$ 2,329		

d. Letters of credit issued

	December 31	
	2017	2016
Everest Textile Co., Ltd.	$ 10,537	$ 138,694
Far Eastern Department Store Corp.	17,908	-
Asia Cement Corp.	-	17,900
	$ 28,445	$ 156,594

e. Security transactions - buy and sell

	Held for Trading		Short Sales		Resale Agreement - Bonds	Repurchase Agreement - Bonds
	Buy	Sell	Buy	Sell		
Dah Chung Bills Finance Corp.						
For the year ended December 31						
2017	$ 150,000	$ 150,000	$ 150,000	$ 50,000	$ 39,362,203	$ -
2016	$ 50,000	$ 200,000	$ 250,000	$ 100,000	$ 35,468,690	$ -

f. Derivative instruments

Related Party	Derivative Instrument	Contract Period	Nominal Amount	Valuation Gain (Loss)	Balance Sheet Account	Balance Sheet Balance
For the year ended December 31, 2017						
U-Ming Marine Transport Corp.	Cross-currency swap contracts	2017.06.16 - 2018.06.28	$ 5,671,120	$ (8,066)	Financial assets at fair value through profit or loss	$ 48,734
U-Ming Marine Transport (Singapore) Private, Ltd.	Interest rate swap contracts	2012.09.27 - 2022.10.25	966,329	(112)	Financial liabilities at fair value through profit or loss	11,959
Far Eastern New Century Corp.	Forward exchange contracts	2017.11.06 - 2018.02.26	1,007,212	5,651	Financial assets at fair value through profit or loss	7,391
					Financial liabilities at fair value through profit or loss	1,740
New Century InfoComm Tech Co., Ltd.	Foreign-currency swap contracts	2017.12.27 - 2018.02.26	298,480	(458)	Financial liabilities at fair value through profit or loss	458
Dah Chung Bills Finance Corp.	Domestic convertible (exchangeable) bond asset swap contracts	2015.05.18 - 2019.06.16	225,000	(30,224)	Financial assets at fair value through profit or loss	15,416
					Financial liabilities at fair value through profit or loss	630
For the year ended December 31, 2016						
U-Ming Marine Transport Corp.	Cross-currency swap contracts	2016.11.09 - 2017.12.18	8,102,029	(19,439)	Financial liabilities at fair value through profit or loss	112,758
U-Ming Marine Transport (Singapore) Private, Ltd.	Interest rate swap contracts	2012.09.27 - 2022.10.25	627,020	(1,029)	Financial liabilities at fair value through profit or loss	11,847
Far Eastern New Century Corp.	Forward exchange contracts	2016.10.19 - 2017.03.29	2,303,185	(5,066)	Financial assets at fair value through profit or loss	30,781
					Financial liabilities at fair value through profit or loss	35,847
New Century InfoComm Tech Co., Ltd.	Foreign-currency swap contracts	2016.10.27 - 2017.02.15	645,580	8,723	Financial assets at fair value through profit or loss	8,723
Dah Chung Bills Finance Corp.	Domestic convertible (exchangeable) bond asset swap contracts	2014.04.25 - 2019.09.30	615,000	42,589	Financial assets at fair value through profit or loss	48,435
					Financial liabilities at fair value through profit or loss	3,425

g. Deposits

	December 31	
	2017	2016
Deposits of related parties (each account balance did not exceed 5% of total deposits)	$44,426,319	$24,317,006
Interest Rate	0% - 6.08%	0% - 6.08%

	For the Year Ended December 31	
	2017	2016
Interest expenses	$ 228,739	$ 199,576

h. Service fee expense

	For the Year Ended December 31	
	2017	2016
Ding Ding Integrated Marketing Service Co.	$ 144,650	$ 192,218
Far Eastern Department Store Corp.	18,534	17,623
	$ 163,184	$ 209,841

i. Operating expenses

	For the Year Ended December 31	
	2017	2016
Marketing and advertising - Far Eastern Department Store Corp.	$ 116,629	$ 75,984
Rental - Yuan Ding Co., Ltd.	79,068	77,938
Telecommunications - New Century InfoComm Tech Co., Ltd.	46,031	43,349
Marketing and advertising - Far Eastern Electronic Toll Collection Co.	19,550	45,849
Marketing and advertising - Ding Ding Hotel Co., Ltd.	16,801	16,169
	$ 278,079	$ 259,289

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

j. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	$ 166,913	$ 171,595
Post-employment benefits	2,618	1,041
	$ 169,531	$ 172,636

38. PLEDGED ASSETS

	December 31	
	2017	2016
Available-for-sale financial assets - domestic government bonds	$ 3,602,186	$ 4,114,890
Available-for-sale financial assets - negotiable certificates of deposits issued by the central bank	3,003,045	3,094,036
Due from the central bank and other banks - certificates of deposit	-	1,400,000
Other financial assets - deposits with original maturity more than 3 months	549,240	554,760
	$ 7,154,471	$ 9,163,686

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

39. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those mentioned in Note 42, the Bank and its subsidiaries' contingent liabilities and commitments resulting from operating activities as of December 31, 2017 and 2016 are summarized as follows:

a. Operating leases commitment

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

	December 31	
	2017	**2016**
Within one year	$ 366,779	$ 382,650
After one year but within five years	687,092	649,411
After five years	69,942	56,484
	$ 1,123,813	$ 1,088,545

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

Balance Sheets of Trust Accounts

	December 31	
	2017	**2016**
Assets		
Deposits in banks	$ 5,495,110	$ 6,285,619
Accounts receivable	14,672	20,068
Funds	38,592,345	38,383,352
Equity stocks	5,175,789	7,565,124
Bond investments	5,434	5,784
Real estate, net	1,240,973	1,338,769
Marketable securities in custody	7,942,426	3,421,581
Others	1,513,200	1,153,742
	$ 59,979,949	$ 58,174,039
Liabilities		
Accounts payable	$ 3,158	$ 1,517
Income tax payable	189	92
Marketable securities in custody payable	7,942,426	3,421,581
Trust capital	50,359,002	52,134,700
Reserve and earnings	1,675,174	2,616,149
	$ 59,979,949	$ 58,174,039

Income Statements of Trust Accounts

	For the Year Ended December 31	
	2017	2016
Trust revenue		
Interest	$ 35,618	$ 31,190
Cash dividends	1,640,769	1,557,416
Unrealized investment gain	4,851	1,664,286
Revenue from stock lending	75	425
Others	19,075	4,084
	1,700,388	3,257,401
Trust expenses		
Management	48,014	35,714
Supervision	477	446
Service charges	16,259	10,524
Taxes	2,177	1,346
Service fee for stock affairs	1	7
Service fee for stock lending	2	7
Realized investment loss	366,599	1,165,028
	433,529	1,213,072
Income before tax	1,266,859	2,044,329
Income tax	391	318
Net income	$ 1,266,468	$ 2,044,011

Trust Asset Lists

	December 31	
	2017	2016
Deposits in banks	$ 5,495,110	$ 6,285,619
Accounts receivable	14,672	20,068
Funds	38,592,345	38,383,352
Equity stocks	5,175,789	7,565,124
Bonds investments	5,434	5,784
Real estate, net		
Land	591,940	607,385
Building	25,211	30,386
Construction in progress	623,822	700,998
Marketable securities in custody	7,942,426	3,421,581
Others	1,513,200	1,153,742
	$ 59,979,949	$ 58,174,039

As of December 31, 2017 and 2016, funds amounting to $1,183,824 thousand and $980,677 thousand, respectively, had been recognized in the OBU's books as investment in overseas securities through Non-discretionary Pecuniary Trust of the OBU.

40. UNSETTLED LITIGATION EVENTS

About the claims of the Bank against Allied Material Technology Co., in October 2017, the Taiwan High Court ruled that the Bank must pay $244,563 thousand plus interest to other banks which have claims in the reorganization of Allied Material Technology Co. The Bank has appealed the decision according to law and is waiting for the supreme court verdict.

41. 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					
	2017			2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets						
Monetary items						
USD	$ 3,389,628	29.848	$ 101,173,616	$ 3,256,564	32.279	$ 105,118,599
AUD	506,770	23.260	11,787,470	637,299	23.300	14,849,058
HKD	3,013,795	3.819	11,509,685	3,261,708	4.162	13,575,230
CNY	1,179,420	4.577	5,398,204	1,186,751	4.623	5,486,351
ZAR	1,034,693	2.421	2,504,990	785,144	2.368	1,859,222
JPY	8,520,437	0.265	2,257,916	12,164,469	0.2758	3,354,961
EUR	53,858	35.700	1,922,731	27,205	33.930	923,079
CAD	16,429	23.780	390,683	11,470	23.920	274,361
GBP	7,809	40.210	314,007	6,994	39.620	277,103
NZD	9,076	21.200	192,406	8,836	22.420	198,093
Financial liabilities						
Monetary items						
USD	3,115,364	29.848	92,987,387	3,002,797	32.279	96,927,276
AUD	503,348	23.260	11,707,879	639,567	23.300	14,901,908
HKD	2,934,977	3.819	11,208,676	3,209,248	4.162	13,356,890
CNY	1,181,070	4.577	5,405,758	1,191,479	4.623	5,508,206
ZAR	1,082,688	2.421	2,621,187	787,715	2.368	1,865,308
JPY	8,156,656	0.265	2,161,514	12,098,732	0.2758	3,336,830
EUR	53,671	35.700	1,916,045	26,893	33.930	912,484
CAD	15,874	23.780	377,478	11,388	23.920	272,392
GBP	7,929	40.210	318,839	6,986	39.620	276,802
NZD	9,527	21.200	201,970	8,863	22.420	198,718

42. FINANCIAL INSTRUMENTS

a. Information of fair value

1) Overview

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

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

2) The definition of three levels of financial instruments at fair value

a) 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. Domestic government bonds, foreign government bonds, Stock listed in TWSE and TPEx, domestic beneficiary certificates, domestic convertible (exchangeable) bonds, foreign bank debentures and derivative instruments with quoted prices in active markets are categorized into Level 1.

b) Level 2 inputs are observable inputs other than quoted prices for identical assets or liabilities in active markets, including direct inputs (such as market prices) or indirect inputs (such as prices derived from market prices). The fair values of commercial paper, negotiable certificates of deposit and most derivative instruments are categorized into Level 2.

c) Level 3 inputs are unobservable items such as inputs derived through extrapolation or interpolation and thus cannot be corroborated by observable market data. Some fair value of credit derivative instruments are categorized into Level 3.

b. Financial instruments measured at fair value

1) The fair value hierarchy of financial instruments was as follows

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

Repetitive Financial Instruments	December 31, 2016 Total	Level 1	Level 2	Level 3
Nonderivative financial assets and liabilities				
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
Bonds investments	$ 2,303,992	$ 2,303,992	$ -	$ -
Equity investments	151,537	151,537	-	-
Bills investments	9,343,747	-	9,343,747	-
Beneficiary certificates	25,673	25,673	-	-
Financial assets designated as at fair value through profit or loss				
Convertible (exchangeable) bonds	15,479,988	15,479,988	-	-
Available-for-sale				
Bonds investments	33,380,059	33,380,059	-	-
Equity investments	449,971	449,971	-	-
Bill investments	45,764,676	-	45,764,676	-
Derivative financial assets and liabilities				
Assets				
Financial assets at fair value through profit or loss				
Held for trading	6,525,168	-	6,432,394	92,774
Liabilities				
Financial liabilities at fair value through profit or loss	(7,954,542)	-	(7,947,724)	(6,818)
	$ 105,470,269	$ 51,791,220	$ 53,593,093	$ 85,956

2) Evaluation methods for financial instruments measured at fair value

When the Bank and its subsidiaries determine the fair value of financial instruments, they consider the market. If the market is active, then the fair value of the instruments will be consistent with quoted market prices. If the market is not active, then the fair value will be estimated by using a valuation model that is widely adopted by market participants or by referring to counterparties' parameters or to parameters based on conditions and characteristics of financial instruments that are similar to those of the Bank and its subsidiaries' instruments. The parameters of valuation model used to measure fair value of financial instruments are usually observable data from market, such as OTC, Reuters and Bloomberg's offering price. The valuation department determines the scope of valuation model and assesses any uncertainty and its impact. In its assessment, the valuation department ensures the following:

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 uncertainly that the Bank may not be able to reimburse for the entire market value.

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

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

4) Transfers between Levels 1 and level 2

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

5) Level 3 financial instruments

a) Movement of Level 3 financial assets

December 31, 2017

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

December 31, 2016

Item	Beginning Balance	Valuation	Increase in the Current Year		Decrease in the Current Year		Ending Balance
			Purchase or Issue	Transfer-in	Sale, Disposition or Settlement	Transfer-out from Level 3	
Financial assets at fair value through profit or loss Held for trading - derivative financial assets	$ 49,599	$ 6,365	$ 63,310	$ -	$ (26,500)	$ -	$ 92,774

b) Movement of Level 3 financial liabilities

December 31, 2017

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

December 31, 2016

Item	Beginning Balance	Valuation	Increase in the Current Year		Decrease in the Current Year		Ending Balance
			Purchase or Issue	Transfer-in	Sale, Disposition or Settlement	Transfer-out from Level 3	
Financial liabilities at fair value through profit or loss							
Derivative financial liabilities	$ 33,331	$ (25,888)	$ 4,625	$ -	$ (5,250)	$ -	$ 6,818

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

Level 3 financial instruments mainly consist of credit derivative instrument (for example: credit default swap) has single major unobservable parameters; quantitative information is as follows:

Measured at Fair Value Based on Repetition	Fair Value as of December 31, 2017	Valuation Techniques	Significant Unobservable Parameters	Interval (Weighted-average)	Relationship Between Parameters and Fair Value
Derivative financial assets					
Credit derivative instrument					
December 31, 2017	$110,601	Default probability model	Credit separation	0.80% - 3.65%	The increase of credit separation decreases its fair value.
December 31, 2016	92,774	Default probability model	Credit separation	0.80% - 3.95%	The increase of credit separation decreases its fair value.
Derivative financial liabilities					
Credit derivative instrument					
December 31, 2017	3,827	Default probability model	Credit separation	0.80% - 3.65%	The increase of credit separation decreases its fair value.
December 31, 2016	6,818	Default probability model	Credit separation	0.80% - 3.95%	The increase of credit separation decreases its fair value.

d) Valuation procedures for Level 3 financial instruments

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

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

The Bank's fair value measurement of the financial instruments is reasonable; nevertheless, changes in the fair value measurement parameters may result in different measurement results. Had the valuation parameters for financial instruments categorized within Level 3 been 0.01% higher/lower, the impact on the profit or loss for the year would have been as follows:

Item	Impact on Gains and Losses			
	December 31, 2017		December 31, 2016	
	Favorable	Unfavorable	Favorable	Unfavorable
Assets				
Financial assets at fair value through profit or loss				
Held for trading - derivative financial assets	$ 2,706	$ (2,706)	$ 4,162	$ (4,162)
Liabilities				
Financial liabilities at fair value through profit or loss- derivative financial liabilities	958	(958)	891	(1,241)

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

c. Financial instruments not measured at fair value

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

	2017		The fair value hierarchy of financial instruments	
	Book Value	Fair Value	Level 1	Level 2
Financial asset				
Held-to-maturity financial assets	$ 2,135,246	$ 2,135,189	$ 2,135,189	$ -
Debt investments with no active market	6,677,076	6,669,817	-	6,669,817

	2016		The fair value hierarchy of financial instruments	
	Book Value	Fair Value	Level 1	Level 2
Financial asset				
Held-to-maturity financial assets	$ 2,630,635	$ 2,636,085	$ 2,636,085	$ -
Debt investments with no active market	8,170,732	9,173,459	-	9,173,459

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

43. FINANCIAL RISK MANAGEMENT

a. Overview

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

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

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

b. Risk management framework

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

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

Risk Management Department comprising of corporate banking and consumer banking groups which directly manage credit extension risks with regard to their respective areas, and present risk management report to Risk Management Committee and the Board of Directors, regularly.

The Internal Audit Department undertakes regular reviews of risk management controls and procedures, including risk management framework, operating procedures of risk management, and provides timely suggestion and improvement.

c. Credit risk

1) Definition and scope of credit risk

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

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

2) Management policies on credit risk

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

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

a) Classification of credit assets

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

b) Credit quality

Discounts and loans and receivables

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

Interbank facilities, derivative financial instruments and investments in debt instruments

Total trading limits are determined each year by reference to financial institutions' operating results, credit rating, rating on THE BANKER, net worth and background of shareholders, with summaries submitted to the Credit Committee, and to the Managing Directors for approval. In the month following the end of each quarter, reports on transaction limits for each financial institution and the quarterly balance are submitted to Credit Committee, and then to the general manager for approval.

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

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

3) Credit risk hedging and mitigation policies

a) The terms of credit facilities are determined in the light of assessments of probability and amounts of default and collateral and guarantees are obtained, including bank deposit receipts, securities (such as treasury securities, government bonds, bank debentures, stocks and bonds guaranteed by financial institutions) and real estate such as land and buildings. Stocks listed on TWSE and TPEx are marked to market day to day, and changes in the value of their collaterals are monitored all the time; values of land and buildings are examined every time the contract is renewed.

b) Reduce loans to non-target customers to mitigate credit risk.

c) Understand, control and monitor risks on a timely basis via credit limits prior to the credit being committed to customers, restrictive clauses in contracts, loans management, review mechanism to view changes of each case. Understand credit portfolios and overall credit risks by the use of periodic reports and feedbacks.

d) According to the Bank's "Principles for Acceptance and Disposal of Collaterals," collateral of nonperforming loans secured through compulsory enforcement or participating distribution, if the minimum auction price or liquidation price of the collateral is too low and damage the Bank's credit right, the Bank will participate in the auction or declare to undertake, for example, the minimum auction price is too low to compensate the principal and interest of loans but the collateral must not be difficult to dispose in the future. For collaterals tendered or undertaken, the Bank should actively seek buyers, and if the collateral is real estate, the Bank should dispose of it within the period prescribed under the Banking Law.

e) Other credit enhancements

If there are guarantee, strategic alliance or collaterals provided in the terms of the loan contracts which the Bank recognized as unsecured loan, the Bank will clearly state that 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.

4) 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	
	2017	**2016**
Unused portion of credit card lines	$ 171,589,511	$ 162,293,437
Financial guarantees and standby L/Cs	17,455,518	15,740,080
Irrevocable loan commitments	12,171,019	12,467,686

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, 2017

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

December 31, 2016

	Maximum Credit Risk Exposure			
	With Collaterals	Other Credit Enhancements	Without Collaterals	Total
Balance sheet items				
Discounts and loans	$ 230,469,044	$ 48,949,270	$ 81,577,182	$ 360,995,496
Receivables - credit card	-	-	14,551,297	14,551,297
Receivables - acceptances	-	16,640	301,837	318,477
Off-Balance sheet items				
Unused portion of credit card lines	-	-	162,293,437	162,293,437
Receivables - guarantee	5,221,120	6,578,303	3,479,325	15,278,748
Letters of credit issued	159,241	212,400	89,691	461,332
Irrevocable loan commitments	617,408	-	11,850,278	12,467,686
	$ 236,466,813	$ 55,756,613	$ 274,143,047	$ 566,366,473

5) 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

The Bank's loans had no significant concentration to a single customer or counterparty, but there were some risks in relation to specific industries, as follows:

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

Credit Risk Profile by Industry Sector	2016 Amount	2016 %
Finance and insurance	$ 47,528,521	13
Manufacturing	45,376,221	12
Transportation and warehousing	16,574,108	5
	$ 109,478,850	30

b) By geography

	December 31			
	2017		2016	
Region	Amount	% to Total	Amount	% to Total
Taiwan	$ 299,813,491	84	$ 307,583,245	85
Asia Pacific except Taiwan	30,750,120	9	26,990,916	8
Others	25,377,008	7	26,421,335	7
	$ 355,940,619	100	$ 360,995,496	100

c) By type of collaterals

	December 31			
	2017		2016	
Type of Collaterals	Amount	%	Amount	%
Unsecured	$ 121,596,263	34	$ 130,526,452	36
Secured				
Real estate	191,379,527	54	187,951,685	52
Financial collateral	20,035,658	6	18,964,855	5
Movable property	19,630,122	5	20,550,499	6
Others	3,299,049	1	3,002,005	1
	$ 355,940,619	100	$ 360,995,496	100

6) 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 fair value through profit or loss, securities purchased under resale agreements, refundable deposits and operating deposits, are assessed with low credit risk due to the good credit rating of the counterparties.

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

a) Credit quality analysis of discounts and loans and receivables

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

December 31, 2016	Neither Past due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Allowance for Possible Losses (D)		Net Amount (A)+(B)+(C)-(D)
	Excellent	Good	Moderate	Special Mention	Subtotal (A)				With Objective Evidence of Individual Impairment	Without Objective Evidence of Individual Impairment	
Discounts and loans	$ 207,852,127	$ 87,441,819	$ 58,099,496	$ 635,880	$ 354,029,322	$ 3,363,202	$ 3,602,972	$ 360,995,496	$ 1,056,636	$ 3,975,188	$ 355,963,672
Receivables											
Credit card	5,529,000	2,676,250	4,339,389	20,046	12,564,685	416,555	1,570,057	14,551,297	483,675	20,040	14,047,582
Others	1,682,673	538,293	3,547,644	80,821	5,849,431	35,661	1,193,315	7,078,407	532,285	54,282	6,491,840

b) An analysis of credit quality of discounts and loans neither past due nor impaired by business types

December 31, 2017	Neither Past Due Nor Impaired				
	Excellent	Good	Moderate	Special Mention	Total
Corporate banking					
Secured	$ 24,577,665	$ 19,672,117	$ 4,307,119	$ 30,498	$ 48,587,399
Unsecured	9,855,194	39,597,169	45,050,962	1,107,894	95,611,219
Consumer banking					
Housing mortgage	156,815,282	9,900,793	617,144	-	167,333,219
Credit loans	6,506,427	7,654,052	2,574,079	326,384	17,060,942
Others	4,372,461	14,722,032	1,107,807	-	20,202,300
Total	$ 202,127,029	$ 91,546,163	$ 53,657,111	$ 1,464,776	$ 348,795,079

December 31, 2016	Neither Past Due Nor Impaired				
	Excellent	Good	Moderate	Special Mention	Total
Corporate banking					
Secured	$ 27,102,963	$ 19,470,393	$ 4,548,635	$ 57,978	$ 51,179,969
Unsecured	21,246,316	36,824,422	49,324,849	346,769	107,742,356
Consumer banking					
Housing mortgage	150,338,522	10,060,548	772,051	-	161,171,121
Credit loans	5,368,660	6,946,249	2,159,774	231,133	14,705,816
Others	3,795,666	14,140,207	1,294,187	-	19,230,060
Total	$ 207,852,127	$ 87,441,819	$ 58,099,496	$ 635,880	$ 354,029,322

c) Loans and receivables past due but not impaired

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

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

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

Past Due Items	December 31, 2016		
	Up to 1 Month	Over 1 Month to 3 Months	Total
Discounts and loans			
Corporate banking	$ 136,998	$ 30,282	$ 167,280
Consumer banking			
Housing mortgage	1,916,267	323,669	2,239,936
Credit loans	421,283	111,056	532,339
Others	393,739	29,908	423,647
Total	2,868,287	494,915	3,363,202
Receivables			
Credit card	347,910	68,645	416,555
Others	-	35,661	35,661

d) An analysis of credit quality of security investments

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

December 31, 2016	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Allowance for Possible Losses (D)	Net Amount (A)+(B)+(C)-(D)
	Excellent	Good	Moderate	Special Mention	Subtotal (A)					
Available-for-sale financial assets										
Bond investments	$ 33,380,059	$ -	$ -	$ -	$ 33,380,059	$ -	$ -	$ 33,380,059	$ -	$ 33,380,059
Bill investments	45,764,676	-	-	-	45,764,676	-	-	45,764,676	-	45,764,676
Held-to-maturity financial assets										
Bond investments	2,630,635	-	-	-	2,630,635	-	-	2,630,635	-	2,630,635
Debt investments with no active market	4,293,107	3,877,625	-	-	8,170,732	-	-	8,170,732	-	8,170,732
Total	$ 86,068,477	$ 3,877,625	$ -	$ -	$ 89,946,102	$ -	$ -	$ 89,946,102	$ -	$ 89,946,102

The analysis above excludes equity investments.

d. Liquidity risk

1) Sources and definition of liquidity risk

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

2) Risk management policies on liquidity risk

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

a) Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met;

b) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

c) Monitoring the liquidity ratios against internal and regulatory requirements; and

d) Managing the concentration and profile of debt maturities.

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

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

3) Financial assets held for liquidity risk management purposes

To support payment obligation and contingent funding in a stressed market environment, the Bank holds high-quality highly-liquid interest-earning assets comprising cash and cash equivalent, due from the central bank and other banks, securities purchased under resale agreements and financial assets at fair value through profit or loss for which there is an active and liquid market.

4) Maturity analysis of non-derivative financial liabilities

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

December 31, 2017	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Due to the central bank and other banks	$ 3,005,470	$ 3,731,384	$ 200,000	$ 23,920	$ -	$ 6,960,774
Securities sold under repurchase agreement	12,943,304	-	-	-	-	12,943,304
Payables	3,487,254	1,270,370	604,546	450,368	675,747	6,488,285
Deposits and remittances	193,355,538	85,621,816	64,791,402	105,119,158	23,504,269	472,392,183
Bank debentures	1,900	1,617,762	-	3,500,000	15,100,000	20,219,662
Settlement coverage bonds payable of short sale	50,241	-	-	-	-	50,241
Other financial liabilities	387,530	98,810	318,781	176,168	6,435,486	7,416,775
Total	$ 213,231,237	$ 92,340,142	$ 65,914,729	$ 109,269,614	$ 45,715,502	$ 526,471,224

December 31, 2016	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	$ 2,746,686	$ 4,425,708	$ 200,000	$ 59,800	$ -	$ 7,432,194
Securities sold under repurchase agreement	11,123,910	2,616,656	-	-	-	13,740,566
Payables	2,643,058	1,416,118	659,455	254,321	826,922	5,799,874
Deposits and remittances	182,542,411	102,165,567	57,077,584	94,796,919	16,137,979	452,720,460
Bank debentures	1,900	-	2,000,000	2,000,000	20,349,522	24,351,422
Other financial liabilities	588,098	874,726	193,160	334,651	4,394,770	6,385,405
Total	$ 199,646,063	$ 111,498,775	$ 60,130,199	$ 97,445,691	$ 41,709,193	$ 510,429,921

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

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

5) Maturity analysis of derivative financial liabilities

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

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

December 31, 2016	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 fair value through profit or loss						
Foreign exchange derivatives	$ 12,478	$ 27,818	$ 174,810	$ 251,553	$ -	$ 466,659
Interest rate derivatives	3,333	5,018	8,308	30,465	1,033,124	1,080,248
Total	$ 15,811	$ 32,836	$ 183,118	$ 282,018	$ 1,033,124	$ 1,546,907

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

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

December 31, 2017	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Derivative financial liabilities at fair value through profit or loss						
Foreign exchange derivatives						
Cash outflow	$ 64,250,569	$ 74,585,209	$ 37,070,197	$ 20,639,148	$ 304,920	$ 196,850,043
Cash inflow	63,978,148	74,429,371	37,137,723	20,870,950	298,480	196,714,672
Interest rate derivatives						
Cash outflow	-	-	-	1,498,750	-	1,498,750
Cash inflow	-	-	-	1,492,400	-	1,492,400
Subtotal of cash outflow	64,250,569	74,585,209	37,070,197	22,137,898	304,920	198,348,793
Subtotal of cash inflow	63,978,148	74,429,371	37,137,723	22,363,350	298,480	198,207,072
Net cash flow	$ (272,421)	$ (155,838)	$ 67,526	$ 225,452	$ (6,440)	$ (141,721)

December 31, 2016	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 fair value through profit or loss						
Foreign exchange derivatives						
Cash outflow	$ 56,032,969	$ 63,547,444	$ 49,863,855	$ 14,881,606	$ -	$ 184,325,874
Cash inflow	55,418,258	62,769,823	49,113,462	14,890,720	-	182,192,263
Interest rate derivatives						
Cash outflow	-	4,357,665	-	3,744,364	-	8,102,029
Cash inflow	-	4,313,150	-	3,695,560	-	8,008,710
Subtotal of cash outflow	56,032,969	67,905,109	49,863,855	18,625,970	-	192,427,903
Subtotal of cash inflow	55,418,258	67,082,973	49,113,462	18,586,280	-	190,200,973
Net cash flow	$ (614,711)	$ (822,136)	$ (750,393)	$ (39,690)	$ -	$ (2,226,930)

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

6) Maturity analysis of off-balance sheet items

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

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

December 31, 2016	Due in 30 Days	Due Between 31 Days and 90 Days	Due Between 91 Days and 180 Days	Due Between 181 Days and One Year	Due After One Year	Total
Developed and irrevocable loan commitments	$ 12,467,686	$ -	$ -	$ -	$ -	$ 12,467,686
Irrevocable credit card commitments	162,293,437	-	-	-	-	162,293,437
Issued but unused letters of credit	461,332	-	-	-	-	461,332
Other guarantees	9,531,948	2,117,700	1,090,900	300,000	2,238,200	15,278,748
Total	$ 184,754,403	$ 2,117,700	$ 1,090,900	$ 300,000	$ 2,238,200	$ 190,501,203

e. Market risk

1) Definition and scope of market risk

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

2) Management policies of market risk

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

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

3) Management process of market risk

a) Identification and measurement of market risk

The Bank's risk measurement system, firstly, identifies market risk factors of exposure positions, and then, measures risks on- and off-balance sheet trading positions by examining the movement of the identified risk factors, such as interest rates, stock prices, foreign exchange rates and commodity prices.

The Bank's risk measurement system also applies sensitivity analysis (DV01, Delta and Vega) or different scenarios analysis to assess value changes of asset portfolios, and performs stress tests, as required by the authority, to measure exceptional losses incurred during extreme, but plausible, conditions.

b) Monitoring and reporting

To fully understand the management of market risk, information for developing market risk management objectives, management of positions and profits and losses, sensitivity analysis and stress tests is submitted regularly to Risk Management Committee and the Board of Directors by the Risk Management Department. The Bank has explicit management process. It imposes trading limits and stop loss order on each transaction.

A stop loss order would be executed once a given stop price has been reached; otherwise, the trading unit should report, including reasons for not executing stop loss order and corresponding remedial action taken, to top management for approval.

4) Management process of interest risk

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

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

<u>Management of interest rate risk in trading book</u>

a) Management process

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

b) Valuation methods

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

<u>Management of interest rate risk in banking book</u>

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

a) Strategies

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

b) Management process

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

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

c) Valuation methods

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

5) Management of foreign exchange risk

a) Definition of foreign exchange risk

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

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

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

6) Management of equity securities market risk

a) Definition of equity market risk

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

b) Management processes of equity market risk

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

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

c) Measurement

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

7) Valuation techniques of market risk

a) Stress tests

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

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

i. Interest rate: Evaluate impacts on the values of interest-rate-based securities if yield curves move in parallel manner.

ii. Foreign exchange: Evaluate impacts on changes in foreign exchange rates.

iii. Equity securities: Evaluate impacts on volatility of changes in stock prices and its related derivatives.

iv. Commodity: Evaluate impacts on volatility of changes in commodity prices and its related derivatives.

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

b) Sensitivity analysis

i. Interest rate risk

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

Assuming all other variables remain constant, where the interest rate increases/decreases by 1 bps, there would be an increase/decrease of $1,853 thousand in income before income tax for the year ended December 31, 2017. There would be an increase of $733 thousand and a decrease of $1,083 thousand for the year ended December 31, 2016. There would be a decrease/increase of $12,268 thousand and $6,318 thousand in other comprehensive income for the years ended December 31, 2017 and 2016, respectively.

ii. Foreign exchange risk

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

Where the foreign exchange increases/decreases by 1%, assuming all other variables remain constant, there would be an increase/decrease of $374,288 thousand in income before income tax for the year ended December 31, 2017. There would be an increase of 510,749 thousand and a decrease of $510,924 thousand for the year ended December 31, 2016, respectively.

iii. Equity securities market risk

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

Where the securities prices increases/decreases by 1%, assuming all other variables remain constant, there would be an increase/decrease of $60,783 thousand in income before income tax for the year ended December 31, 2017. There would be an increase of $156,397 thousand and a decrease of $156,572 thousand in income before income tax for the year ended December 31, 2016, respectively. There would be an increase/decrease of $7,587 thousand and $4,500 thousand in other comprehensive income for the years ended December 31, 2017 and 2016.

8) Concentration of foreign exchange risk

Information on concentration of foreign currency exposures at the balance sheet date is shown in Note 41.

f. Transfer of financial assets

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

Types of Financial Assets	Book Value of Transferred Financial Assets	Book Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Position of Fair Value
Available-for-sale financial assets - transactions under repurchase agreements					
December 31, 2017	$ 13,528,971	$ 12,921,364	$ 13,528,971	$ 12,921,364	$ 607,607
December 31, 2016	$ 14,373,956	$ 13,711,223	$ 14,373,956	$ 13,711,223	$ 662,733

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

1) Asset quality of loans

Nonperforming loans and nonperforming receivables of the Bank

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

Business \ Item			December 31, 2016				
			Nonperforming Loans (Note a)	Loans	Ratio of Nonperforming Loans (Note b)	Allowance for Possible Losses	Coverage Ratio (Note c)
Corporate Banking	Secured		232,624	52,092,197	0.45%	707,670	304.21%
	Unsecured		7,586	108,892,478	0.01%	1,494,077	19,695.18%
Consumer Banking	Residential mortgage (Note d)		124,823	115,886,536	0.11%	1,778,829	1,425.08%
	Cash card		-	-	-	-	-
	Small-scale credit loan (Note e)		216,964	17,910,918	1.20%	349,910	161.28%
	Others (Note f)	Secured	108,461	62,490,311	0.17%	663,803	612.02%
		Unsecured	2,227	3,723,056	0.06%	37,535	1,685.45%
Total			692,685	360,995,496	0.19%	5,031,824	726.42%
Business \ Item			Nonperforming Receivables	Accounts Receivable	Ratio of Nonperforming Receivables	Allowance for Possible Losses	Coverage Ratio
Credit card			52,803	14,551,297	0.36%	503,715	953.95%
Accounts receivable factored without recourse (Note g)			-	3,919,067	-	46,292	-

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 / Business	December 31, 2017		December 31, 2016	
	Nonperforming Loans Excluded	**Nonperforming Receivables Excluded**	**Nonperforming Loans Excluded**	**Nonperforming Receivables Excluded**
Loans not classified as NPL upon debt restructuring and performed as agreed (Note a)	88,969	250,530	118,518	333,685
Loans upon performance of a debt discharge program and rehabilitation program (Note b)	721,064	1,076,306	666,969	1,123,821
Total	810,033	1,326,836	785,487	1,457,506

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

Ranking (Note a)	December 31, 2016		
	Group Entity (Note b) Industry and Code (Note a)	Total Balances of Credit Extensions (Note c)	Ratio of Credit Extensions to Net Worth (%)
1	A Group - 6499 - non-categorized and other financial services	$ 3,780,495	9%
2	B Group - 2411 - smelting and refining of iron and steel	3,583,904	9%
3	C Group - 2612 - manufacture of discrete devices	3,486,337	9%
4	D Group - 6499 - non-categorized and other financial services	3,141,637	8%
5	E Group - 6499 - non-categorized and other financial services	2,965,126	7%
6	F Group - 6499 - non-categorized and other financial services	2,676,150	7%
7	G Group - 3010 - manufacture of motor vehicles	2,335,580	6%
8	H Group - 5232 - ocean freight transportation forwarding services	2,042,985	5%
9	I Group - 6499 - non-categorized and other financial services	1,994,444	5%
10	J Group - 0850 - manufacture of dairy products	1,898,585	5%

Note a: The rankings above represent the top 10 corporate entities except for government or state-owned enterprises, based on the total balance of credit extension granted by the Bank. The amount of credit extensions should be disclosed in aggregate for each group entity, the code and industry of which are also required. The industry of the group entities is designated as the industry of the individual group entity with the greatest risk exposure. The lines of industry should conform to the industry sub-categorization of the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note b: "Group Entity" is defined in Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note c: Credit extension balance includes various loans (import and export negotiations, discounts, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans; and nonaccrual loans), bills purchased, factored accounts receivable without recourse, acceptances and guarantees.

3) Interest rate sensitivity

Table 1: For New Taiwan dollar items

Interest Rate Sensitivity Analysis
December 31, 2017

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

Interest Rate Sensitivity Analysis
December 31, 2016

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 258,717,458	$ 133,530,132	$ 6,469,493	$ 24,469,261	$ 423,186,344
Interest rate-sensitive liabilities	140,578,404	135,403,448	74,587,943	28,377,971	378,947,766
Interest rate sensitivity gap	118,139,054	(1,873,316)	(68,118,450)	(3,908,710)	44,238,578
Net worth					40,950,877
Ratio of interest rate-sensitive assets to liabilities					111.67%
Ratio of interest rate-sensitivity gap to net worth					108.03%

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, 2017

(In Thousands of U.S. Dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 2,188,090	$ 289,348	$ 6,968	$ 480	$ 2,484,886
Interest rate-sensitive liabilities	1,996,952	1,022,244	132,994	-	3,152,190
Interest rate sensitivity gap	191,138	(732,896)	(126,026)	480	(667,304)
Net worth					1,433,485
Ratio of interest rate-sensitive assets to liabilities					78.83%
Ratio of interest rate-sensitivity gap to net worth					(46.55%)

Interest Rate Sensitivity Analysis
December 31, 2016

(In Thousands of U.S. Dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 2,017,759	$ 182,359	$ 52,153	$ 12,792	$ 2,265,063
Interest rate-sensitive liabilities	1,696,474	1,101,851	114,462	54,200	2,966,987
Interest rate sensitivity gap	321,285	(919,492)	(62,309)	(41,408)	(701,924)
Net worth					1,268,654
Ratio of interest rate-sensitive assets to liabilities					76.34%
Ratio of interest rate-sensitivity gap to net worth					(55.33%)

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, 2017	For the Year Ended December 31, 2016
Return on total assets	Before tax	0.57%	0.69%
	After tax	0.50%	0.59%
Return on equity	Before tax	7.80%	9.55%
	After tax	6.82%	8.12%
Net income ratio		27.39%	30.18%

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, 2017

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

December 31, 2016

	Total	Amount for Remaining Period to Maturity					
		0 to 10 Days	11 to 30 Days	From 31 Days to 90 Days	From 91 Days to 180 Days	From 181 Days to One Year	Over One Year
Main capital inflow on maturity	$ 588,635,377	$ 86,959,627	$ 58,815,281	$ 92,041,838	$ 85,631,625	$ 65,981,179	$ 199,205,827
Main capital outflow on maturity	725,210,449	41,740,836	66,226,984	147,464,871	152,285,578	163,335,404	154,156,776
Gap	(136,575,072)	45,218,791	(7,411,703)	(55,423,033)	(66,653,953)	(97,354,225)	45,049,051

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

b) For U.S. dollar items

December 31, 2017

(In Thousands of U.S. Dollars)

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

December 31, 2016

(In Thousands of U.S. Dollars)

	Total	Amount for Remaining Period to Maturity				
		1 to 30 Days	From 31 Days to 90 Days	From 91 Days to 180 Days	From 181 Days to One Year	Over One Year
Main capital inflow on maturity	$ 8,436,229	$ 2,690,376	$ 1,926,812	$ 1,861,315	$ 834,295	$ 1,123,431
Main capital outflow on maturity	8,740,176	2,822,472	2,692,408	1,628,674	870,594	726,028
Gap	(303,947)	(132,096)	(765,596)	232,641	(36,299)	397,403

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

44. CAPITAL MANAGEMENT

a. Objective of capital management

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

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

b. Procedure of capital management

1) The calculation of the Bank's capital adequacy ratio is based on the "Regulations Governing the Capital Adequacy and Capital Category of Banks" enacted by the Financial Supervisory Commission and the related information is reported to the competent authority on a regular basis.

2) In order to monitor capital adequacy ratio, the execution and changes in the parameters of the capital planning are reviewed quarterly by the Bank's Assets and Liabilities Management Committee. The committee assesses whether the Bank's capital is able to respond to various risks and whether the objective of capital management is met.

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

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

			December 31, 2016	
			The Bank	Consolidation
Eligible capital	Ordinary equity		$ 37,403,214	$ 38,122,066
	Other Tier I capital		-	-
	Tier II capital		14,218,654	14,947,886
	Total eligible capital		51,621,868	53,069,952
Risk-weighted assets	Credit risk	Standardized approach	356,944,620	358,837,133
		Internal rating-based approach	-	-
		Asset securitization	-	-
	Operational risk	Basic indicator approach	19,249,288	19,910,475
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	16,796,650	16,796,650
		Internal models approach	-	-
	Total risk-weighted assets		392,990,558	395,544,258
Capital adequacy ratio			13.14%	13.42%
Ratio of ordinary equity to risk-weighted assets			9.52%	9.64%
Ratio of Tier I capital to risk-weighted assets			9.52%	9.64%
Leverage ratio			5.87%	5.97%

Note a: Eligible capital, risk-weighted assets and risk-exposure assets are calculated under the "Regulations Governing the Capital Adequacy Ratio of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks" amended by the FSC on November 26, 2012.

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) Eligible capital = Ordinary equity + Other 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 = Eligible capital/Total risk-weighted assets.

4) Ratio of Ordinary equity to risk-weighted assets = Ordinary equity/Total risk-weighted assets.

5) Ratio of Tier I capital to risk-weighted assets = (Ordinary equity + Other Tier I capital)/Total risk-weighted assets.

6) Leverage ratio = Tier I capital/Risk-exposure Assets.

45. SEGMENT INFORMATION

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

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

b. Corporate banking: Mainly includes corporate-related business, foreign-currency business and financial market business;

c. Others: Any business not included in individual and corporate banking.

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

Segment Income and Operating Results

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

	Individual Banking	Corporate Banking (Including Overseas Branches)	Others	Total
For the year ended December 31, 2017				
Net interests	$ 4,361,617	$ 2,579,276	$ (1,536,019)	$ 5,404,874
Net revenues other than interest				
Net service fee income	2,225,487	691,003	235,837	3,152,327
Other net income	291,567	1,441,747	129,741	1,863,055
Consolidated net revenues	6,878,671	4,712,026	(1,170,441)	10,420,256
Provision for possible losses	(112,037)	(616,342)	(3,468)	(731,847)
Operating expenses	(4,763,104)	(1,315,019)	(342,642)	(6,420,765)
Segment income before income tax	$ 2,003,530	$ 2,780,665	$ (1,516,551)	$ 3,267,644
For the year ended December 31, 2016				
Net interests	$ 4,383,170	$ 2,660,002	$ (1,258,750)	$ 5,784,422
Net revenues other than interest				
Net service fee income	2,261,564	722,038	213,015	3,196,617
Other net income	206,270	1,362,004	198,142	1,766,416
Consolidated net revenues	6,851,004	4,744,044	(847,593)	10,747,455
Provision for possible losses	(84,787)	(362,171)	(5,043)	(452,001)
Operating expenses	(4,843,972)	(1,285,776)	(349,804)	(6,479,552)
Segment income before income tax	$ 1,922,245	$ 3,096,097	$ (1,202,440)	$ 3,815,902

46. ADDITIONAL DISCLOSURES

a. Information about significant transactions:

1) Marketable securities acquired and disposed of at cost or prices at least NT$300 million or 10% of the paid-in capital: Nil

2) Acquisition of individual real estate at cost of at least NT$300 million or 10% of the paid-in capital: Nil

3) Disposal of individual real estate at prices of at least NT$300 million or 10% of the paid-in capital: 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 1 (attached)

9) Other significant transactions which may have effects on decision making of financial statement users: Nil

b. Information of subsidiaries' financings provided, endorsement/guarantee provided, marketable securities held, marketable securities acquired and disposed of at cost or prices at least NT$300 million or 10% of the paid-in capital and derivative transactions: Table 2 (attached)

c. Related information of investees on which the Bank and its subsidiaries exercises significant influence: Table 3 (attached)

d. Information about branches and investments in mainland China: Table 4 (attached)

TABLE 1

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

No. (Note a)	Company Name	Counterparty	Flow of Transaction	Transaction Details			
				Financial Statement Account	Amount	Terms	Percentage of Consolidated Net Profit or Consolidated Total Assets (Note b)
0	Far Eastern International Bank Ltd.	Far Eastern Asset Management Co., Ltd.	From parent company to subsidiary	Deposits and remittances	$ 14,553	Note c	-
		Far Eastern International Securities Co., Ltd.	From parent company to subsidiary	Deposits and remittances	214,378	Note c	0.03
1	Far Eastern Asset Management Co., Ltd.	Far Eastern International Bank Ltd.	From subsidiary to parent company	Cash and cash equivalents	14,553	Note c	-
2	Far Eastern International Securities Co., Ltd.	Far Eastern International Bank Ltd.	From subsidiary to parent company	Cash and cash equivalents	214,378	Note c	0.03

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

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

TABLE 2

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

SUBSIDIARIES' FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, In Thousand Shares)

No. (Note 1)	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing (Note 2)	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 3)	Aggregate Financing Limit (Note 3)
													Item	Value		
1	FEIB Financial Leasing Co., Ltd.	A company	Other receivables	No	$ 137,310	$ 137,310	$ 120,650	6%-10%	a	$ 4,119	-	$ 1,207	Real estate	$ 309,840	$ 300,227	$ 300,227
		B company	Other receivables	No	27,462	27,462	27,462	6%-10%	a	824	-	275	Real estate	52,448	300,227	300,227
		C company	Other receivables	No	27,462	27,462	27,462	6%-10%	a	824	-	275	Stock	388,349	300,227	300,227

Note 1: No. column is coded as follows:

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

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

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

Note 3: The limits on financing are as follows:

a. Financing limit for each borrower

1) In the case of lending funds to companies or firms who have a business relationship with the lender, the total lending amount to an individual borrower shall not exceed two times of the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.

2) In the case of lending funds to the companies or firms in need of short-term financing, the total lending amount to an individual borrower shall not exceed 40% of the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.

b. Aggregate financing limit

1) In the case of lending funds to companies or firms who have a business relationship with the lender, the total accumulation lending amount to an individual borrower shall not exceed two times of the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.

2) In the case of lending funds to the companies or firms in need of short-term financing, the total accumulation lending amount to an individual borrower shall not exceed 40% of the net value of the lender as shown in the latest financial report audited or reviewed by a CPA.

TABLE 3

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

RELATED INFORMATION OF INVESTEES
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business and Product	Percentage of Ownership (%)	Carrying Amount	Investment Income (Loss) Recognized	The Proportionate Share of the Bank, Its Subsidiaries and Their Affiliates in Investees				Note
						Present Shares (In Thousands)	Pro Forma Shares	Total		
								Shares (In Thousands)	Percentage of Ownership (%)	
Held by the Bank										
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	$ 127,511	$ 749	12,000	-	12,000	40.00	
Dah Chung Bills Finance Corp.	4F, 4F-1, 4F-2, 4F-3, Np. 88 Dun Hwa North Road, Taipei, Taiwan	Underwriting, dealing and brokering of short-term bills	22.06	1,646,555	102,588	99,440	-	99,440	22.07	
Far Eastern Asset Management Co., Ltd.	Room B, 17F, No. 207, Dun Hwa South Road, Sec. 2, Taipei, Taiwan	Purchase, evaluation, auction and management of creditor's rights to financial institutions	100.00	663,679	36,110	120,000	-	120,000	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	321,161	80,988	20,000	-	20,000	100.00	
Taipei Foreign Exchange Agency Co., Ltd.	8F., No. 400, Bade Road, Sec. 2, Taipei, Taiwan	Foreign exchange, cross-currency swaps, etc.	0.40	800	-	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	2,073	-	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	45,500	-	5,938	-	5,938	1.14	
Yuan Hsin Digital Payment Co., Ltd.	Room A, 5F., No. 1, Yuandong Road, Banqiao Dist., New Taipei City, Taiwan	Issuing electronic tickets and signing contracted institutions	4.99	62,263	-	6,226	-	6,226	4.99	
Nonfinancial business										
An Feng Enterprise Co., Ltd.	3F., No. 139, Jhengjhou Road, Taipei, Taiwan	ATM maintenance, replacement and repair	10.00	3,000	-	300	-	300	10.00	
Held by Far Eastern Asset Management Co., Ltd.										
Financial business										
FEIB Financial Leasing Co., Ltd.	Room 2806, Tower 1,Grand Gateway 66,No.1 Hong Qiao Road, Xuhui District, Shanghai, China	Leasing operation	100.00	300,227	19,461	N/A	-	N/A	100.00	

TABLE 4

FAR EASTERN INTERNATIONAL BANK LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(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, 2016	Investment Flow (Note 4)		Accumulated Outflow of Investment as of December 31, 2017 (Note 4)	Net Income (Loss) of Investee (Note 5)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 2 and 5)	Carrying Value as of December 31, 2017 (Note 2)	Accumulated Inward Remittance of Earnings as of December 31, 2017	Note
					Outflow	Inflow							
FEIB Financial Leasing Co., Ltd.	Leasing operation	$ 305,110 (US$ 10,000 thousand)	a	$ 305,110 (US$ 10,000 thousand)	$ -	$ -	$ 305,110 (US$ 10,000 thousand)	$ 19,461 (CNY 4,305 thousand)	100%	$ 19,461 (CNY 4,305 thousand)	$ 300,227	$ -	

Accumulated Investment in Mainland China as of December 31, 2017 (Note 4)	Investment Amount Authorized by Investment Commission, MOEA (Note 4)	Limit on Investment Authorized by Investment Commission MOEA (Note 3)
$305,110 (US$10,000 thousand)	$305,110 (US$10,000 thousand)	$398,208

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

a. Direct investment.
b. Investment via third place company (please 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 2017.