

Taichung Commercial Bank Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2020 and 2019 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taichung Commercial Bank Co., Ltd.

Opinion

We have audited the accompanying financial statements of Taichung Commercial Bank Co., Ltd. (the "Bank"), which comprise the balance sheets as of December 31, 2020 and 2019, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following were the descriptions of the key audit matter in the audit of the financial statements of the Bank for the year ended December 31, 2020:

Expected Credit Losses of Notes Discounted and Loans, Net

As described in Notes 13 and 30 to the financial statements, notes discounted and loans amounted to \$455,442,354 thousand, which accounted for 63% of total assets at December 31, 2020 and the expected credit losses of notes discounted and loans amounted to \$298,742 thousand, which accounted for 3% of total net revenue for the year ended December 31, 2020. Due to the large amount, such accounts have a significant effect on the financial statements of the Bank. In addition, the measurement of expected credit losses of notes discounted and loans involved various financial factors, such as probability of default and loss given default, which required compliance with relevant laws and regulations. Therefore, the expected credit loss of notes discounted and loans was identified as a key audit matter.

The relevant accounting policies, estimate, assumptions and other information are referred to in Notes 4, 5, 13 and 30 to the financial statements.

The main audit procedures performed for the expected credit losses of notes discounted and loans were as follows:

- We understood and tested the internal controls for the expected credit losses of notes discounted and loans of the Bank.
- We selected samples from schedule of expected credit losses of notes discounted and loans assessed by the Bank, and evaluated the value of collateral and feasibility of the expected credit losses.
- We understood and tested the key parameters (such as probability of default and loss given default) for the expected credit losses of notes discounted and loans assessed by the Bank to evaluate the reasonableness of expected credit losses in accordance with the current experience and economic situation in the Republic of China.
- We checked the Bank's compliance with relevant regulations issued by authorities on assessment of the expected credit losses.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 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's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

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 financial statements for the year ended December 31, 2020 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 audits resulting in this independent auditors' report are Wen-Yea Shyu and Kwan-Chung Lai.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 25, 2021

Notice to Readers

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

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

TAICHUNG COMMERCIAL BANK CO., LTD.

BALANCE SHEETS DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	\$ 11,216,775	2	\$ 10,256,669	1
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Notes 4, 7 and 35)	40,371,218	6	33,876,974	5
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	30,141,869	4	24,017,638	4
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4 and 9)	40,088,916	5	30,947,973	5
INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST (Notes 4, 10 and 35)	112,624,454	15	108,124,373	16
SECURITIES PURCHASED UNDER RESALE AGREEMENT (Notes 4 and 11)	12,773,121	2	10,256,716	1
RECEIVABLES, NET (Notes 4, 12 and 34)	3,545,783	-	4,063,748	1
NOTES DISCOUNTED AND LOANS, NET (Notes 4, 13 and 34)	455,442,354	63	434,469,364	64
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 14)	5,440,017	1	5,490,801	1
OTHER FINANCIAL ASSETS, NET (Notes 4 and 15)	2,246	-	2,246	-
PROPERTIES AND EQUIPMENT, NET (Notes 4 and 16)	12,276,706	2	10,619,585	2
RIGHT-OF-USE ASSETS, NET (Notes 4 and 17)	831,231	-	680,152	-
INVESTMENT PROPERTIES, NET (Notes 4 and 18)	18,014	-	18,103	-
INTANGIBLE ASSETS, NET (Notes 4 and 19)	162,028	-	117,987	-
DEFERRED TAX ASSETS (Notes 4 and 31)	712,389	-	739,372	-
OTHER ASSETS (Notes 20 and 35)	<u>2,029,183</u>	<u>-</u>	<u>1,341,294</u>	<u>-</u>
TOTAL	<u>\$ 727,676,304</u>	<u>100</u>	<u>\$ 675,022,995</u>	<u>100</u>
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 21)	\$ 7,037,338	1	\$ 6,527,060	1
FUNDS BORROWED FROM CENTRAL BANK AND OTHER BANKS (Notes 22 and 35)	2,167,280	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	739,143	-	225,402	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4 and 23)	2,300,077	-	10,369,025	1
PAYABLES (Notes 24 and 34)	5,228,706	1	4,902,015	1
CURRENT TAX LIABILITIES (Notes 4 and 31)	121,429	-	276,191	-
DEPOSITS AND REMITTANCES (Notes 25 and 34)	638,273,838	88	584,866,484	87
BANK DEBENTURES (Notes 26 and 34)	11,500,000	2	14,000,000	2
OTHER FINANCIAL LIABILITIES	107,246	-	-	-
PROVISIONS (Notes 4 and 27)	1,424,492	-	1,383,470	-
LEASE LIABILITIES (Notes 4 and 17)	853,806	-	692,171	-
DEFERRED TAX LIABILITIES (Notes 4 and 31)	111,021	-	111,021	-
OTHER LIABILITIES (Notes 28 and 34)	<u>490,175</u>	<u>-</u>	<u>360,950</u>	<u>-</u>
Total liabilities	<u>670,354,551</u>	<u>92</u>	<u>623,713,789</u>	<u>92</u>
EQUITY (Note 29)				
Ordinary shares	41,516,943	6	37,088,349	6
Capital surplus	803,606	-	726,981	-
Retained earnings				
Legal reserve	9,469,859	1	8,188,237	1
Special reserve	150,243	-	150,243	-
Unappropriated earnings	4,077,345	1	4,302,204	1
Other equity	<u>1,303,757</u>	<u>-</u>	<u>853,192</u>	<u>-</u>
Total equity	<u>57,321,753</u>	<u>8</u>	<u>51,309,206</u>	<u>8</u>
TOTAL	<u>\$ 727,676,304</u>	<u>100</u>	<u>\$ 675,022,995</u>	<u>100</u>

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

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUE (Notes 4, 30 and 34)	\$ 11,545,960	108	\$ 12,827,343	115	(10)
INTEREST EXPENSE (Notes 30 and 34)	<u>(3,697,723)</u>	<u>(35)</u>	<u>(4,925,783)</u>	<u>(44)</u>	(25)
NET INTEREST	7,848,237	73	7,901,560	71	(1)
NET INCOME AND LOSS OTHER THAN INTEREST					
Service fee income, net (Notes 4, 30 and 34)	2,116,592	20	1,925,674	18	10
(Losses) gains on financial assets and liabilities at fair value through profit or loss (Note 30)	(92,252)	(1)	412,975	4	(122)
Realized gains on financial assets at fair value through other comprehensive income (Notes 4 and 30)	155,318	1	36,341	-	327
Foreign exchange gains, net (Note 4)	283,659	3	248,903	2	14
Reversal of (impairment losses) on assets (Notes 4, 9, 10 and 30)	(8,068)	-	6,451	-	(225)
Share of profit of subsidiaries and associates for using the equity method (Notes 4 and 14)	409,567	4	563,897	5	(27)
Other non-interest gains, net (Notes 4, 27 and 30)	<u>15,667</u>	<u>-</u>	<u>15,523</u>	<u>-</u>	1
TOTAL NET REVENUE	<u>10,728,720</u>	<u>100</u>	<u>11,111,324</u>	<u>100</u>	(3)
BAD-DEBT EXPENSES AND PROVISION FOR LOSSES ON COMMITMENTS AND GUARANTEES (Notes 4, 12, 13, 27 and 30)	<u>(366,410)</u>	<u>(3)</u>	<u>(477,441)</u>	<u>(4)</u>	(23)

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TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
OPERATING EXPENSES					
Employee benefits expenses (Notes 4, 27 and 30)	\$ (3,501,089)	(32)	\$ (3,406,053)	(31)	3
Depreciation and amortization expenses (Notes 4 and 30)	(407,337)	(4)	(363,440)	(3)	12
Other selling and administrative expenses (Notes 30 and 34)	<u>(1,789,391)</u>	<u>(17)</u>	<u>(1,797,086)</u>	<u>(16)</u>	-
Total operating expenses	<u>(5,697,817)</u>	<u>(53)</u>	<u>(5,566,579)</u>	<u>(50)</u>	2
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS					
	4,664,493	44	5,067,304	46	(8)
INCOME TAX EXPENSE (Notes 4 and 31)					
	<u>(638,960)</u>	<u>(6)</u>	<u>(747,421)</u>	<u>(7)</u>	(15)
NET PROFIT FOR THE YEAR					
	<u>4,025,533</u>	<u>38</u>	<u>4,319,883</u>	<u>39</u>	(7)
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Notes 4 and 27)	(34,806)	-	(147,657)	(1)	(76)
Unrealized gains on investments in equity instruments at fair value through other comprehensive income (Note 4)	212,001	2	243,824	2	(13)
Share of the other comprehensive income of subsidiaries and associates accounted for using the equity method	28,286	-	55,863	-	(49)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 31)	<u>819</u>	<u>-</u>	<u>11,805</u>	<u>-</u>	(93)
Items that will not be reclassified subsequently to profit or loss, net of income tax	<u>206,300</u>	<u>2</u>	<u>163,835</u>	<u>1</u>	26

(Continued)

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on the translation of financial statements of foreign operations (Note 4)	\$ (23,328)	-	\$ (28,707)	-	(19)
Share of the other comprehensive loss of subsidiaries and associates accounted for using the equity method	(1,466)	-	(29,282)	-	(95)
Unrealized gains on investments in debt instruments designated as at fair value through other comprehensive income	264,206	2	50,117	-	427
Income tax relating to items that may be reclassified subsequently to profit (loss) (Notes 4 and 31)	<u>3,151</u>	<u>-</u>	<u>(3,151)</u>	<u>-</u>	200
Items that may be reclassified subsequently to profit or loss, net of income tax	<u>242,563</u>	<u>2</u>	<u>(11,023)</u>	<u>-</u>	2,301
Other comprehensive income for the year, net of income tax	<u>448,863</u>	<u>4</u>	<u>152,812</u>	<u>1</u>	194
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,474,396</u>	<u>42</u>	<u>\$ 4,472,695</u>	<u>40</u>	-
EARNINGS PER SHARE (Note 32)					
Basic	<u>\$1.03</u>		<u>\$1.11</u>		
Diluted	<u>\$1.03</u>		<u>\$1.11</u>		

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

(Concluded)

TAICHUNG COMMERCIAL BANK CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Thousands of New Taiwan Dollars)**

	Ordinary Shares	Capital Surplus	Retained Earnings			Other Equity		Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Financial Statements of Foreign Operations	Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2019	\$ 35,255,084	\$ 726,981	\$ 6,985,726	\$ 110,159	\$ 4,093,133	\$ (38,327)	\$ 690,897	\$ 47,823,653
Appropriation of 2018 earnings								
Legal reserve	-	-	1,202,511	-	(1,202,511)	-	-	-
Special reserve	-	-	-	40,084	(40,084)	-	-	-
Cash dividends	-	-	-	-	(987,142)	-	-	(987,142)
Share dividends	1,833,265	-	-	-	(1,833,265)	-	-	-
Net profit for the year ended December 31, 2019	-	-	-	-	4,319,883	-	-	4,319,883
Other comprehensive (loss) income for the year ended December 31, 2019, net of income tax	-	-	-	-	(117,889)	(57,989)	328,690	152,812
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	4,201,994	(57,989)	328,690	4,472,695
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	70,079	-	(70,079)	-
BALANCE AT DECEMBER 31, 2019	37,088,349	726,981	8,188,237	150,243	4,302,204	(96,316)	949,508	51,309,206
Appropriation of 2019 earnings								
Legal reserve	-	-	1,281,622	-	(1,281,622)	-	-	-
Cash dividends	-	-	-	-	(1,038,474)	-	-	(1,038,474)
Share dividends	1,928,594	-	-	-	(1,928,594)	-	-	-
Net profit for the year ended December 31, 2020	-	-	-	-	4,025,533	-	-	4,025,533
Other comprehensive (loss) income for the year ended December 31, 2020, net of income tax	-	-	-	-	(27,761)	(24,794)	501,418	448,863
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	3,997,772	(24,794)	501,418	4,474,396
Issuance of ordinary shares for cash (Note 29)	2,500,000	50,000	-	-	-	-	-	2,550,000
Issuance of ordinary shares under employee share options (Note 33)	-	26,625	-	-	-	-	-	26,625
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	26,059	-	(26,059)	-
BALANCE AT DECEMBER 31, 2020	\$ 41,516,943	\$ 803,606	\$ 9,469,859	\$ 150,243	\$ 4,077,345	\$ (121,110)	\$ 1,424,867	\$ 57,321,753

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

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 4,664,493	\$ 5,067,304
Adjustments for:		
Depreciation expense	353,537	316,406
Amortization expense	53,800	47,034
Provision for bad debts expense, commitments and guarantees liabilities	366,410	477,441
Loss (gain) on financial assets and liabilities at fair value through profit or loss	92,252	(412,975)
Losses (gains) on disposal of properties and equipment	120	(998)
Interest expense	3,697,723	4,925,783
Interest revenue	(11,545,960)	(12,827,343)
Dividend income	(72,140)	(28,735)
Net changes in provision for losses on others	446	(12,000)
Compensation costs of employee share options	26,625	-
Share of profit of subsidiaries and associates	(409,567)	(563,897)
Gains on disposal of investments in debt instruments at fair value through other comprehensive income	(83,178)	(7,606)
(Reversal of) impairment losses on financial assets	8,068	(6,451)
Unrealized loss on foreign currency exchange	1,279,863	535,108
Gain on lease suspension	(1,143)	(1,131)
Total adjustment	<u>(6,233,144)</u>	<u>(7,559,364)</u>
Net changes in operating assets and liabilities		
Due from the Central Bank and call loans to other banks	(1,452,847)	132,740
Financial assets at fair value through profit or loss	(5,211,325)	3,107,856
Receivables	357,123	824,495
Notes discounted and loans	(21,217,414)	16,766,237
Other financial assets	740	837
Other assets	635	(23,626)
Due to the Central Bank and other banks	510,278	3,148,308
Financial liabilities at fair value through profit or loss	(491,417)	(512,305)
Securities sold under repurchase agreements	(8,068,948)	464,558
Payables	464,016	(6,359,193)
Deposits and remittances	53,407,354	(4,376,405)
Other financial liabilities	107,246	(2,127)
Provision for employee benefits	(79,296)	(158,109)
Other liabilities	<u>129,225</u>	<u>(111,155)</u>
Changes in operating assets and liabilities	<u>18,455,370</u>	<u>12,902,111</u>
Cash generated from operations	16,886,719	10,410,051
Interest received	11,912,914	13,183,372
Dividend received	559,198	352,738
Interest paid	(3,821,404)	(5,007,439)
Income tax paid	<u>(762,769)</u>	<u>(765,910)</u>
Net cash generated from operating activities	<u>24,774,658</u>	<u>18,172,812</u>

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TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	\$ (15,159,499)	\$ (7,184,780)
Proceeds from disposal of financial assets at fair value through other comprehensive income	6,422,235	4,644,563
Purchase of financial assets at amortized cost	(793,961,984)	(753,231,971)
Proceeds from repayments sale of financial assets at amortized cost	787,997,560	744,915,247
Payments for properties and equipment	(1,850,995)	(1,436,689)
Proceeds from disposal of properties and equipment	-	1,691
Increase in refundable deposits	(613,024)	(21,829)
Payments for intangible assets	<u>(97,992)</u>	<u>(40,066)</u>
Net cash used in investing activities	<u>(17,263,699)</u>	<u>(12,353,834)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing from Central Bank and other banks	2,167,280	-
Repayment of bank debentures	(2,500,000)	(6,000,000)
Repayment of the principal portion of lease liabilities	(148,529)	(114,132)
Cash dividends distributed	(1,038,474)	(987,142)
Proceeds from issuance of ordinary shares	<u>2,550,000</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>1,030,277</u>	<u>(7,101,274)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>(23,328)</u>	<u>(28,707)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,517,908	(1,311,003)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>37,238,467</u>	<u>38,549,470</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>\$ 45,756,375</u>	<u>\$ 37,238,467</u> (Continued)

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
RECONCILIATIONS OF THE AMOUNTS IN THE STATEMENTS OF CASH FLOWS WITH THE EQUIVALENT ITEMS REPORTED IN THE BALANCE SHEETS AT DECEMBER 31, 2020 AND 2019		
Cash and cash equivalents in the balance sheets	\$ 11,216,775	\$ 10,256,669
Due from the central bank and call loans to other banks in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	21,766,479	16,725,082
Securities purchased under resale agreements in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	<u>12,773,121</u>	<u>10,256,716</u>
Cash and cash equivalents at the end of the year	<u>\$ 45,756,375</u>	<u>\$ 37,238,467</u>

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

(Concluded)

TAICHUNG COMMERCIAL BANK CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

1. GENERAL INFORMATION

Taichung Commercial Bank Co., Ltd. (the “Bank”), formerly known as Taichung District Association Saving Co., Ltd. (Taichung District Association) was established on September 27, 1952 by the Taiwan Provincial Government. It was incorporated in April of 1953 and started operation in August of the same year. In July of 1975, the Banking Law was revised and implemented. On January 1, 1978, the Taichung District Association Saving Co., Ltd. (Taichung District Association) was restructured into Taichung SME Bank Co., Ltd. (Taichung SME Bank) and its shares were listed on May 15, 1984.

In line with the national financial policy to provide public and social financial services and support the economic construction as well as the development of industrial and commercial, Taichung SME Bank was renamed as Taichung Commercial Bank Co., Ltd. in December 1998. As of December 31, 2020, the Bank had a business department, a trust department, a foreign exchange transaction department, 81 domestic branches, a Malaysia Labuan branch and an offshore banking unit (OBU). The operations of the Bank consist of planning, managing, operating a trust business and overseas financial business. These operations are regulated under the Bank Law of the Republic of China (“ROC”).

At the time of the establishment, the amount of capital invested by the Bank was \$500 thousand. In order to improve the capital structure and cooperate with the government decree, the Bank has successively applied for increase and decrease of capital. As of December 31, 2020, the Bank’s capital amount was \$41,516,943 thousand.

The financial statements are presented in the Bank’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Bank’s board of directors on February 25, 2021.

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

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

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Bank’s accounting policies:

- 1) Amendments to IFRS 3 “Definition of a Business”

The Bank applies the amendments to IFRS 3 to transactions that occur on or after January 1, 2020. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. To determine whether an acquired process is substantive, different criteria apply, depending on whether there are outputs at the acquisition date. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

2) Amendments to IAS 1 and IAS 8 “Definition of Material”

The Bank adopted the amendments starting from January 1, 2020. The threshold of materiality that could influence users has been changed to “could reasonably be expected to influence”. Accordingly, disclosures in the consolidated financial statements do not include immaterial information that may obscure material information.

3) Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

The Bank elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Prior to the application of the amendment, the Bank shall determine whether or not the abovementioned rent concessions need to be accounted for as lease modifications.

The Bank applied the amendment from January 1, 2020. Because the abovementioned rent concessions affect only in 2020, retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

b. The IFRSs endorsed by the FSC for application starting from 2021

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9” Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	Effective immediately upon promulgation by the IASB January 1, 2021

The initial application in 2021 of the above-listed IFRSs endorsed by the FSC is not expected to have material impact on the Bank’s accounting policies.

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 IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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

- Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.
- Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.
- Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.
- Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.
- Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.
- Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Amendments to IAS 1 “Disclosure of Accounting Policies”

The amendments specify that the Bank should refer to the definition of material to determine its material accounting policy information to be disclosed. Accounting policy information is material if it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments also clarify that:

- Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed;
- The Bank may consider the accounting policy information as material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial; and
- Not all accounting policy information relating to material transactions, other events or conditions is itself material.

The amendments also illustrate that accounting policy information is likely to be considered as material to the financial statements if that information relates to material transactions, other events or conditions and:

- 1) The Bank changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;
- 2) The Bank chose the accounting policy from options permitted by the standards;
- 3) The accounting policy was developed in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” in the absence of an IFRS that specifically applies;
- 4) The accounting policy relates to an area for which the Bank is required to make significant judgements or assumptions in applying an accounting policy, and the Bank discloses those judgements or assumptions; or

- 5) The accounting is complex and users of the financial statements would otherwise not understand those material transactions, other events or conditions.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing the Bank's financial statements, the Bank accounts for subsidiaries and associates by using the equity method. In order to agree with the amount of net income, other comprehensive income and equity attributable to owner of the bank in the consolidated financial statements, the differences of accounting treatment between the Bank basis and the consolidated basis are adjusted under the heading of investments accounted for using the equity method, share of profits of subsidiaries and associates for using the equity method and share of the other comprehensive income of subsidiaries and associates accounted for using the equity method in the financial statements.

c. Classification of current and non-current assets and liabilities

Accounts included in the Bank's financial statements are not classified as current or non-current but are stated in the order of their liquidity. Refer to Note 38 for the maturity analysis of assets and liabilities.

d. Foreign currencies

In preparing the Bank's financial statements, transactions in currencies other than the Bank's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary item denominated in a foreign currency and measured at historical cost is stated at the reporting currency as originally translated from the foreign currency.

For the purpose of presenting financial statements, the functional currencies of the Bank is translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, time deposits that can be readily terminated without the deduction of principal, and highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. For the statements of cash flows, cash and cash equivalents include cash and cash equivalents on the balance sheets, due from the Central Bank and call loans to other banks and securities purchased under resale agreements that are in conformity with the definition of cash and cash equivalents in IAS 7 “Statement of Cash Flows”, as endorsed and issued into effect by the FSC.

f. Bonds purchased under resell/notes issued under repurchase agreements

A bond purchased under resell/a note issued under repurchase agreements is considered as a financing transaction if the risk and reward are attributed to the dealer. When a bond is purchased under a resale agreement, its purchase price is listed as “bonds purchased under resale agreements”, an asset account. For a note issued under repurchase agreement, the selling price is listed as “notes issued under repurchase agreements”, a liability account. The difference between purchase (sale) price under the agreement and actual sale (purchase) price is recorded as interest income (expense).

g. Investments in subsidiaries

The Bank uses the equity method to account for its investments in subsidiaries. A subsidiary is an entity (including a structured entity) that is controlled by the Bank.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Bank’s share of the profit or loss and other comprehensive income of the subsidiary. The Bank also recognizes the changes in the Bank’s share of equity of subsidiaries.

The Bank assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee’s financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Bank recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years.

Profits or losses resulting from downstream transactions are eliminated in full in the Bank's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized in the Bank's financial statements only to the extent of interests in the subsidiaries that are not related to the Bank.

h. Investments in associates

An associate is an entity over which the Bank has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Bank uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Bank's share of the profit or loss and other comprehensive income of the associate. The Bank also recognizes the changes in the Bank's share of the equity of associates attributable to the Bank.

The entire carrying amount of an investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

i. Property and equipment

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

Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Investment properties

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

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

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

k. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. Impairment of property, plant and equipment, right-of-use asset, intangible assets other than goodwill

At the end of each reporting period, the Bank reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, excluding goodwill, 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 estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to the individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The 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, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding 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 on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

m. Financial instruments

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

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

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a) Measurement categories

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, and any dividends, interest earned and remeasurement gains or losses on such financial assets are recognized in gains on financial assets and liabilities at fair value through profit or loss. Fair value is determined in the manner described in Note 37.

ii. Financial assets at amortized cost

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

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, due from the Central Bank and call loans to other banks, securities purchased under resale agreements, notes discounted and loans, trade receivables at amortized cost, other financial assets and refundable deposits, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;

- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

iii. Investments in debt instruments at FVTOCI

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

- i) The debt instrument is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and
- ii) The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

iv. Investments in equity instruments at FVTOCI

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

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

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

b) Impairment of financial assets

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

The Bank always recognizes lifetime expected credit losses (ECLs) for notes discounted and loans, trade receivables. For all other financial instruments, the Bank recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

For internal credit risk management purposes, the Bank determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Bank):

- i. Internal or external information show that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is more than 90 days past due unless the Bank has reasonable and corroborative information to support a more lagged default criterion.

According to the Regulations, the Bank determines the allowance for credit losses by evaluating the recoverability of the outstanding balances of various loans at the balance sheet date. The allowances for doubtful accounts are determined based on management's evaluation of the collectability of individual accounts, the borrowers'/clients' financial condition and payment history. Such doubtful accounts are categorized into: Normal loans, need attention, less likely to be collectible in full, difficult to collect, and uncollectible accounts; and the allowance should be provided at 1%, 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement for each category. Under the rule No. 10010006830 issued by the Banking Bureau of the FSC, additional allowance for doubtful accounts should be provided at 1% of the total loans. Under the rule No. 10300329440 issued by the Banking Bureau of the FSC, allowance for doubtful accounts should be provided at 1.5% or more of the loans for real estate.

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

c) Derecognition of financial assets

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

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

2) 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.

Equity instruments issued by the Bank is recognized at the proceeds received, net of direct issue costs.

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

i. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading at FVTPL.

Financial liabilities at fair value through profit or loss are stated at fair value, and any dividends, interest earned and remeasurement gains or losses on such financial assets are recognized in gains on financial assets and liabilities at fair value through profit or loss. Fair value is determined in the manner described in Note 37.

ii. Financial guarantee contracts

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

- i) The amount of the loss allowance reflecting expected credit losses; and
- ii) The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the revenue recognition policies.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, cross-currency swap contracts, cross-currency option contracts, interest structured instrument contracts, non-deliverable forward contracts and asset swap contracts.

Derivatives are initially recognized at fair value at the date on which 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 immediately unless the derivative is designated and effective as a hedging instrument; in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

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

n. Provisions (excluding amounts in provision for employee benefits)

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

o. Revenue recognition

The Bank identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. The interest income generated by all interest-bearing financial instruments is recognized on an accrual basis at the effective interest rate in accordance with relevant regulations.

2) Service fee and commissions income

The Bank identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied. Service fee income and expenses are recognized when loans or other services are provided. If the contract between the labor service and the collection of consideration is within one year, the major financial components of the contract will not be adjusted.

3) Dividend income

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

p. Leases

At the inception of a contract, the Bank assesses whether the contract is, or contains, a lease.

1) The Bank as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

When a lease includes both land and building elements, the Bank assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the lessee. The lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of a contract. If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

2) The Bank as lessee

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

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the Bank's financial statements.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses the lessee's incremental borrowing rate

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Bank remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line on the balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

The Bank negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the revised consideration for the lease less than the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Bank elects to apply the practical expedient to these rent concessions and, therefore, does not assess whether the rent concessions are lease modifications. Instead, the Bank recognizes the reduction in lease payment in profit or loss as other non-interest gains, net in the period in which the events or conditions that trigger the concession occur, and makes a corresponding adjustment to the lease liability.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

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

Net defined benefit liabilities represent the actual deficit in the Bank's defined benefit plans. 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.

3) Employee benefit - employees' preferential deposits

The Bank has granted a preferential interest rate to its current employees and retired employees for their deposits within a prescribed amount. The preferential interest rate in excess of market interest rate is considered employee benefits.

Under Article 30 of the "Regulations Governing the Preparation of Financial Reports by Public Bank", if the Bank's preferential deposit interest rate for an employee as stated in the employment contract exceeds the market interest rate, the excess will be subject to IAS 19 "Employee Benefits" upon the employee's retirement. The actuarial valuation assumptions and parameters are based on the guidelines announced by authority.

4) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that remeasurement is recognized in profit or loss.

r. Share-based payment arrangements

Employee share options granted to employees

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Bank's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. The expense is recognized in full at the grant date if the grants are vested immediately. The grant date of issued ordinary shares for cash which are reserved for employees is the date on which the board of directors approves the transaction.

At the end of each reporting period, the Bank revises its estimate of the number of employee share options that are expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

s. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also 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 asset to be recovered.

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

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes 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 the Bank's accounting policies, the Bank's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The Bank considers the economic implications of the COVID-19 when making its critical accounting 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 revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

Estimated impairment of financial assets

The provision for impairment of loans, notes discounted, trade receivables, investments in debt instruments, and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Bank uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Bank's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Notes 37 and 38. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 4,414,269	\$ 4,553,156
Checks for clearing	1,249,821	1,007,649
Due from banks	<u>5,552,685</u>	<u>4,695,864</u>
	<u>\$ 11,216,775</u>	<u>\$ 10,256,669</u>

- a. The loss allowance are measured at an amount equal to 12-month ECLs per historical experience and forward-looking information; there was no loss allowance on cash and cash equivalents as of December 31, 2020 and 2019.
- b. Reconciliations of cash and cash equivalents between the statements of cash flows and the balance sheets as of December 31, 2020 and 2019 were shown in the statements of cash flows.

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Deposit reserves		
Deposit reserves for checking accounts	\$ 19,301,038	\$ 14,879,013
Deposit reserves for demand accounts	18,458,399	16,997,138
Inter-bank clearing account	2,017,397	1,512,809
Deposit reserves for foreign currency deposits	73,057	60,000
		(Continued)

	December 31	
	2020	2019
Due from banks	\$ 461,327	\$ 368,014
Deposit reserves for trust compensation	<u>60,000</u>	<u>60,000</u>
	<u>\$ 40,371,218</u>	<u>\$ 33,876,974</u>

(Concluded)

- a. The loss allowance are measured at an amount equal to 12-month ECLs per historical experience and forward-looking information; there was no loss allowance on due from the Central Bank and call loans to other banks as of December 31, 2020 and 2019.
- b. The monthly depositary reserves to be deposited in the Central Bank of the Republic of China are calculated by applying the legally required reserve ratio to the monthly average balance of the reserve accounts. These reserve accounts can be used any time but the demand accounts can only be used for monthly deposit reserve adjustments. In addition, the Bank deposited reserves in the amount of \$5,000,000 thousand for demand accounts on deposits paid to other securities lender project from Central Bank on December 31, 2020. Refer to Note 35.
- c. The Bank deposited the reserves for trust compensation on government bonds measured at amortized cost on December 31, 2020 and 2019, with a nominal amount of \$60,000 thousand. Refer to Note 35.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2020	2019
<u>Financial assets at FVTPL</u>		
Commercial paper	\$ 24,872,947	\$ 20,074,138
Domestic listed shares	381,119	515,102
Foreign listed shares	88,533	-
Corporate bonds	11,628	-
PEM group policy assets	799,269	1,029,839
Beneficiary certificate	328,093	314,607
Asset swap contracts	3,048,884	1,812,530
Cross-currency swap contracts	96,053	71,394
Foreign exchange forward contracts	168,822	82,809
Cross-currency option contracts	344,366	112,417
Non-deliverable forward contracts	-	4,802
Interest rate-linked structured instrument	<u>2,155</u>	<u>-</u>
	<u>\$ 30,141,869</u>	<u>\$ 24,017,638</u>
<u>Financial liabilities at FVTPL</u>		
Cross-currency swap contracts	\$ 369,085	\$ 88,092
Foreign exchange forward contracts	19,739	18,767
Cross-currency option contracts	348,164	113,590
Non-deliverable forward contracts	-	4,953
Interest rate-linked structured instrument	<u>2,155</u>	<u>-</u>
	<u>\$ 739,143</u>	<u>\$ 225,402</u>

- a. The Bank engages in exchange rate related derivative financial contracts, mainly to provide customers with hedging instruments for foreign exchange positions arising from transactions such as import/export and currency exchange, to avoid the risks arising from the business and to flatten the demand for foreign exchange funds arising from non-transactional operations.
- b. The nominal principal amounts of outstanding derivative contracts as of December 31, 2020 and 2019 were as follows:

	December 31			
	2020		2019	
	Contract Amounts	Interest Rate Range	Contract Amounts	Interest Rate Range
Asset swap contracts	\$ 3,039,300	0.90%-3.50%	\$ 1,811,600	0.90%-1.35%
Cross-currency swap contracts	9,459,647	-	3,916,766	-
Foreign exchange forward contracts	6,802,817	-	4,750,507	-
Cross-currency option contracts	23,397,218	-	12,000,872	-
Non-deliverable forward contracts	-	-	183,000	-
Interest rate-linked structured instrument contracts	109,938	5.25%-6.20%	-	-

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2020	2019
Investments in equity instruments at FVTOCI	\$ 2,255,183	\$ 947,629
Investments in debt instruments at FVTOCI	<u>37,833,733</u>	<u>30,000,344</u>
	<u>\$ 40,088,916</u>	<u>\$ 30,947,973</u>

- a. Investments in equity instruments at FVTOCI

	December 31	
	2020	2019
Domestic listed shares	\$ 1,192,223	\$ -
Domestic unlisted shares	751,556	664,957
Foreign listed shares	<u>311,404</u>	<u>282,672</u>
	<u>\$ 2,255,183</u>	<u>\$ 947,629</u>

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

Dividend income of \$72,140 thousand and \$28,735 thousand was recognized in profit or loss for the years ended December 31, 2020 and 2019, respectively. The income was related to investments held as of December 31, 2020 and 2019.

b. Investments in debt instruments at FVTOCI

	December 31	
	2020	2019
Corporate bonds	\$ 26,959,132	\$ 21,503,613
Government bonds	5,379,466	5,997,423
Foreign bonds	3,486,270	799,314
Bank debentures	<u>2,008,865</u>	<u>1,699,994</u>
	<u>\$ 37,833,733</u>	<u>\$ 30,000,344</u>

Foreign bonds denominated in foreign currency details were as follows:

	December 31	
	2020	2019
USD	\$ 50,000	\$ 26,000
CNY	445,000	-
AUD	6,000	-

- 1) The Bank recognized impairment loss of \$5,318 thousand and gain on reversal of impairment loss of \$113 thousand in 2020 and 2019 respectively, after assessing the expected credit losses of the investments in debt instruments at FVTOCI.
- 2) Refer to Note 38 for information relating to their credit risk management and impairment.

10. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST

	December 31	
	2020	2019
Foreign bonds	\$ 24,794,803	\$ 23,806,064
Government bonds	12,654,717	14,246,649
NCDs issued by the CBC	64,970,000	59,535,000
Corporate bonds	11,159,474	11,413,931
Credit certificate	-	<u>9,291</u>
	113,578,994	109,010,935
Less: Allowance for impairment loss	(34,140)	(41,662)
Less: Withdrawal of reserves for trust compensation and refundable deposits	<u>(920,400)</u>	<u>(844,900)</u>
	<u>\$ 112,624,454</u>	<u>\$ 108,124,373</u>

a. The foreign bonds denominated in foreign currencies were as follows:

	December 31	
	2020	2019
USD	\$ 661,159	\$ 638,859
CNY	890,000	550,000
AUD	66,000	61,000
ZAR	490,000	450,000

- b. As of December 31, 2020 and 2019, the government bonds and the foreign bonds at amortized cost amounted to \$1,200,000 thousand and \$1,123,960 thousand (US\$40,000 thousand), \$2,000,000 thousand and \$8,850,000 thousand (US\$295,000 thousand), respectively, which had been sold under repurchase agreements. Refer to Note 39 for information relating to their carrying amount.
- c. The Bank recognized impairment loss of \$2,750 thousand and gain on reversal of impairment loss of \$6,338 thousand in 2020 and 2019, respectively, after assessing the expected credit losses of the investments in debt instruments at amortized cost.
- d. Refer to Note 38 for information relating to their credit risk management and impairment.

11. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Securities purchased under resale agreements in the amounts of \$12,773,121 thousand and \$10,256,716 thousand as of December 31, 2020 and 2019 would be subsequently resold for \$12,774,072 thousand and \$10,258,145 thousand, respectively, with interest rate ranging from 0.21% to 0.25% and 0.54% to 0.56%, respectively.

12. RECEIVABLES, NET

	December 31	
	2020	2019
Receivables on credit cards	\$ 742,251	\$ 785,636
Accounts receivable factored without recourse	154,805	649,997
Acceptances	443,447	505,650
Interest receivables	1,029,476	1,196,510
Receivables on foreign currency settlement	1,082,521	870,200
Other receivables	<u>217,419</u>	<u>183,564</u>
	3,669,919	4,191,557
Less: Allowance for doubtful accounts	<u>(124,136)</u>	<u>(127,809)</u>
	<u>\$ 3,545,783</u>	<u>\$ 4,063,748</u>

- a. Movements in the total carrying amount of receivables for the years ended December 31, 2020 and 2019 were as follows:

2020

	12-month ECLs	Lifetime ECL	Credit-impaired Financial Assets	Total
Balance at January 1, 2020	\$ 53,228,633	\$ 36,880	\$ 114,345	\$ 53,379,858
Transfers to lifetime ECL	(11,526)	11,969	(443)	-
Transfers to credit-impaired financial assets	(4,686)	(3,663)	8,349	-
Transfers to 12-month ECLs	8,574	(8,353)	(221)	-
New receivables purchased or originated	10,768,943	6,812	1,530	10,777,285
Write-offs	-	-	(13,708)	(13,708)
Derecognition	(1,376,055)	(12,732)	(21,934)	(1,410,721)
Foreign exchange differences and other changes	<u>449,722</u>	<u>(1,492)</u>	<u>20,209</u>	<u>468,439</u>
Balance at December 31, 2020	<u>\$ 63,063,605</u>	<u>\$ 29,421</u>	<u>\$ 108,127</u>	<u>\$ 63,201,153</u>

2019

	12-month ECLs	Lifetime ECL	Credit-impaired Financial Assets	Total
Balance at January 1, 2019	\$ 50,102,235	\$ 41,261	\$ 122,335	\$ 50,265,831
Transfers to lifetime ECL	(13,807)	14,695	(888)	-
Transfers to credit-impaired financial assets	(6,736)	(6,189)	12,925	-
Transfers to 12-month ECLs	8,704	(8,339)	(365)	-
New receivables purchased or originated	4,784,584	6,425	62,349	4,853,358
Write-offs	-	-	(81,898)	(81,898)
Derecognition	(1,259,806)	(14,845)	(25,336)	(1,299,987)
Foreign exchange differences and other changes	<u>(386,541)</u>	<u>3,872</u>	<u>25,223</u>	<u>(357,446)</u>
Balance at December 31, 2019	<u>\$ 53,228,633</u>	<u>\$ 36,880</u>	<u>\$ 114,345</u>	<u>\$ 53,379,858</u>

The above-mentioned carrying amount of receivables include due from banks, due from the Central Banks and call loans to other banks, securities purchased under resale agreements, receivables on credit cards, accounts receivable factored without recourse, acceptances, interest receivables, other receivables, delinquent receivables not arising from loans and refundable deposits.

- b. Movements in the allowance for doubtful accounts of receivables for the years ended December 31, 2020 and 2019 were as follows:

2020

	12-month ECLs	Lifetime ECL	Credit-impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2020	\$ 23,183	\$ 3,809	\$ 79,341	\$ 106,333	\$ 23,736	\$ 130,069
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(36)	314	(278)	-	-	-
Transfers to credit-impaired financial assets	(18)	(300)	318	-	-	-
Transfers to 12-month ECLs	1,290	(1,116)	(174)	-	-	-
Derecognition of financial assets in current period	(18,945)	(1,209)	(6,435)	(26,589)	-	(26,589)
New financial assets purchased or originated	9,948	958	2,071	12,977	-	12,977
Difference of impairment loss under regulations	-	-	-	-	(7,156)	(7,156)
Write-offs	-	-	(11,004)	(11,004)	(2,704)	(13,708)
Recovery of written-offs	-	-	-	-	16,114	16,114
Foreign exchange differences and other changes	<u>(2,045)</u>	<u>1,099</u>	<u>14,895</u>	<u>13,949</u>	<u>-</u>	<u>13,949</u>
Balance at December 31, 2020	<u>\$ 13,377</u>	<u>\$ 3,555</u>	<u>\$ 78,734</u>	<u>\$ 95,666</u>	<u>\$ 29,990</u>	<u>\$ 125,656</u>

2019

	12-month ECLs	Lifetime ECL	Credit-impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2019	\$ 19,743	\$ 3,905	\$ 82,827	\$ 106,475	\$ 49,142	\$ 155,617
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(42)	376	(334)	-	-	-
Transfers to credit-impaired financial assets	(23)	(360)	383	-	-	-
Transfers to 12-month ECLs	1,564	(1,335)	(229)	-	-	-
Derecognition of financial assets in current period	(15,513)	(1,600)	(6,843)	(23,956)	-	(23,956)
New financial assets purchased or originated	19,522	777	60,039	80,338	-	80,338
Difference of impairment loss under regulations	-	-	-	-	(38,185)	(38,185)
Write-offs	-	-	(78,185)	(78,185)	(3,713)	(81,898)
Recovery of written-offs	-	-	-	-	16,492	16,492
Foreign exchange differences and other changes	(2,068)	2,046	21,683	21,661	-	21,661
Balance at December 31, 2019	\$ 23,183	\$ 3,809	\$ 79,341	\$ 106,333	\$ 23,736	\$ 130,069

The allowance for doubtful accounts of the abovementioned receivables includes allowances for delinquent receivables not arising from loans, refer to Note 15.

13. NOTES DISCOUNTED AND LOANS, NET

	December 31	
	2020	2019
Bills negotiated	\$ 293,388	\$ 393,291
Overdrafts	1,310	1,404
Secured overdrafts	30,988	38,166
Accounts receivable financing	51,149	51,595
Short-term unsecured loans	39,175,727	39,586,875
Short-term secured loans	101,315,539	100,653,393
Medium-term unsecured loans	54,480,676	49,151,361
Medium-term secured loans	110,808,195	103,127,599
Long-term unsecured loans	6,842,847	5,210,470
Long-term secured loans	147,939,346	141,838,997
Delinquent loans	<u>814,242</u>	<u>963,045</u>
	461,753,407	441,016,196
Add: Adjustment of premium or discount	23,940	26,487
Less: Allowance for doubtful accounts	<u>(6,334,993)</u>	<u>(6,573,319)</u>
	<u>\$ 455,442,354</u>	<u>\$ 434,469,364</u>

- a. As of December 31, 2020 and 2019, the delinquent loans on which interest ceased to accrue amounted to \$805,311 thousand and \$949,601 thousand, respectively. The unrecognized interest revenues on these loans were \$18,132 thousand and \$22,534 thousand for the years ended December 31, 2020 and 2019, respectively.
- b. There was no credit loan written off without a lawsuit in 2020 and 2019.
- c. Movements in the total carrying amount of notes discounted and loans for the years ended December 31, 2020 and 2019 were as follows:

2020

	12-month ECLs	Lifetime ECL	Credit-impaired Financial Assets	Total
Balance at January 1, 2020	\$ 414,614,376	\$ 16,873,865	\$ 9,554,442	\$ 441,042,683
Transfers to lifetime ECL	(6,082,112)	6,325,653	(243,541)	-
Transfers to credit-impaired financial assets	(691,922)	(1,670,809)	2,362,731	-
Transfers to 12-month ECLs	3,710,454	(3,688,229)	(22,225)	-
New notes discounted and loans purchased or originated	241,882,507	2,407,137	412,670	244,702,314
Write-offs	(86,432)	(119,711)	(882,681)	(1,088,824)
Derecognition	(200,050,154)	(5,008,302)	(2,839,452)	(207,897,908)
Foreign exchange differences and other changes	<u>(14,787,455)</u>	<u>(262,136)</u>	<u>68,673</u>	<u>(14,980,918)</u>
Balance at December 31, 2020	<u>\$ 438,509,262</u>	<u>\$ 14,857,468</u>	<u>\$ 8,410,617</u>	<u>\$ 461,777,347</u>

2019

	12-month ECLs	Lifetime ECL	Credit-impaired Financial Assets	Total
Balance at January 1, 2019	\$ 435,002,129	\$ 15,341,731	\$ 7,916,421	\$ 458,260,281
Transfers to lifetime ECL	(7,768,850)	7,849,116	(80,266)	-
Transfers to credit-impaired financial assets	(3,018,334)	(1,694,994)	4,713,328	-
Transfers to 12-month ECLs	2,487,600	(2,417,603)	(69,997)	-
New notes discounted and loans purchased or originated	217,445,398	2,752,410	593,167	220,790,975
Write-offs	(41,246)	(366,663)	(927,477)	(1,335,386)
Derecognition	(210,078,061)	(4,281,192)	(2,954,801)	(217,314,054)
Foreign exchange differences and other changes	<u>(19,414,260)</u>	<u>(308,940)</u>	<u>364,067</u>	<u>(19,359,133)</u>
Balance at December 31, 2019	<u>\$ 414,614,376</u>	<u>\$ 16,873,865</u>	<u>\$ 9,554,442</u>	<u>\$ 441,042,683</u>

- d. Movements in the allowance for doubtful accounts of notes discounted and loans for the years ended December 31, 2020 and 2019 were as follows:

2020

	12-month ECLs	Lifetime ECL	Credit-impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2020	\$ 1,776,230	\$ 852,354	\$ 2,468,257	\$ 5,096,841	\$ 1,476,478	\$ 6,573,319
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(13,847)	183,729	(169,882)	-	-	-
Transfers to credit-impaired financial assets	(4,145)	(91,716)	95,861	-	-	-
Transfers to 12-month ECLs	148,413	(145,767)	(2,646)	-	-	-
Derecognition of financial assets in current period	(1,028,000)	(207,309)	(621,706)	(1,857,015)	-	(1,857,015)
New financial assets purchased or originated	1,120,880	160,030	199,554	1,480,464	-	1,480,464
Difference of impairment loss under regulations	-	-	-	-	381,150	381,150
Write-offs	(245)	(20,452)	(432,530)	(453,227)	(635,597)	(1,088,824)
Recovery of written-offs	-	-	-	-	606,074	606,074
Foreign exchange differences and other changes	(274,379)	194,957	319,247	239,825	-	239,825
Balance at December 31, 2020	\$ 1,724,907	\$ 925,826	\$ 1,856,155	\$ 4,506,888	\$ 1,828,105	\$ 6,334,993

2019

	12-month ECLs	Lifetime ECL	Credit-impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2019	\$ 1,767,936	\$ 661,840	\$ 2,035,208	\$ 4,464,984	\$ 2,066,719	\$ 6,531,703
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(20,881)	31,563	(10,682)	-	-	-
Transfers to credit-impaired financial assets	(8,619)	(99,038)	107,657	-	-	-
Transfers to 12-month ECLs	133,519	(128,814)	(4,705)	-	-	-
Derecognition of financial assets in current period	(1,053,833)	(155,288)	(632,674)	(1,841,795)	-	(1,841,795)
New financial assets purchased or originated	1,127,791	112,374	192,290	1,432,455	-	1,432,455
Difference of impairment loss under regulations	-	-	-	-	(559,801)	(559,801)
Write-offs	(118)	(50,704)	(370,099)	(420,921)	(914,465)	(1,335,386)
Recovery of written-offs	-	-	-	-	884,025	884,025
Foreign exchange differences and other changes	(169,565)	480,421	1,151,262	1,462,118	-	1,462,118
Balance at December 31, 2019	\$ 1,776,230	\$ 852,354	\$ 2,468,257	\$ 5,096,841	\$ 1,476,478	\$ 6,573,319

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Investments in subsidiaries	\$ 5,276,869	\$ 5,334,013
Investments in associates	<u>163,148</u>	<u>156,788</u>
	<u>\$ 5,440,017</u>	<u>\$ 5,490,801</u>

a. Investments in subsidiaries

The following table shows the Bank's proportion of ownership and voting right of subsidiaries at the end of reporting date:

	<u>December 31</u>			
	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>Proportion of Ownership (%)</u>	<u>Amount</u>	<u>Proportion of Ownership (%)</u>
Domestic non-listed (cabinet) companies				
Taichung Bank Leasing Co., Ltd.	\$ 1,931,004	100.00	\$ 1,904,602	100.00
Taichung Bank Insurance Brokers Co., Ltd.	1,831,053	100.00	2,024,588	100.00
Taichung Bank Securities Co., Ltd.	<u>1,514,812</u>	100.00	<u>1,404,823</u>	100.00
	<u>\$ 5,276,869</u>		<u>\$ 5,334,013</u>	

Detail of share of profit of subsidiaries for using the equity method was as follows:

Investee Company	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Taichung Bank Leasing Co., Ltd.	\$ 27,868	\$ 74,928
Taichung Bank Insurance Brokers Co., Ltd.	256,747	471,300
Taichung Bank Securities Co., Ltd.	<u>128,246</u>	<u>20,671</u>
	<u>\$ 412,861</u>	<u>\$ 566,899</u>

b. Investments in associates

The following table shows the Bank's proportion of ownership and voting right of associates at the end of reporting date:

	December 31			
	2020		2019	
	Amount	Proportion of Ownership (%)	Amount	Proportion of Ownership (%)
Associates that are not individually material				
Taichung Bank Securities Investment Trust Co., Ltd.	<u>\$ 163,148</u>	38.46	<u>\$ 156,788</u>	38.46

Detail of share of loss of associates for using the equity method was as follows:

Investee Company	For the Year Ended December 31	
	2020	2019
Taichung Bank Securities Investment Trust Co., Ltd.	<u>\$ (3,294)</u>	<u>\$ (3,002)</u>

Investment was accounted for using the equity method and the share of profit (loss) of the investment was calculated based on financial statements which have been audited.

The Bank is the single largest shareholder of Taichung Bank Securities Investment Trust Co., Ltd. with 38.46% interest in the investee, in which the remaining interest is held by several other shareholders. The Bank considered the absolute size of its holding, and the relative size and dispersion of the other shareholdings in Taichung Bank Securities Investment Trust Co., Ltd. and concluded that it does not have control over Taichung Bank Securities Investment Trust Co., Ltd. The management of the Bank considered the Bank as exercising significant influence over Taichung Bank Securities Investment Trust Co., Ltd. and, therefore, classified Taichung Bank Securities Investment Trust Co., Ltd. as associate of the Bank.

15. OTHER FINANCIAL ASSETS, NET

	December 31	
	2020	2019
Other delinquent receivables, net	<u>\$ 2,246</u>	<u>\$ 2,246</u>

Other delinquent receivables, net were as follows:

	December 31	
	2020	2019
Delinquent receivables not arising from loans	\$ 3,766	\$ 4,506
Less: Allowance for doubtful accounts (Note 12)	<u>(1,520)</u>	<u>(2,260)</u>
	<u>\$ 2,246</u>	<u>\$ 2,246</u>

16. PROPERTIES AND EQUIPMENT, NET

	2020					
	Land	Building and Structures	Transportation Equipment	Miscellaneous Equipment	Construction in Progress	Total
<u>Cost</u>						
Balance, beginning of year	\$ 7,847,588	\$ 2,101,530	\$ 46,811	\$ 1,711,704	\$ 1,526,236	\$ 13,233,869
Addition	-	-	5,187	127,378	1,718,430	1,850,995
Disposals	-	-	(69)	(21,660)	-	(21,729)
Exchange differences, net	-	-	(16)	(501)	-	(517)
Balance, end of year	<u>7,847,588</u>	<u>2,101,530</u>	<u>51,913</u>	<u>1,816,921</u>	<u>3,244,666</u>	<u>15,062,618</u>
<u>Accumulated depreciation</u>						
Balance, beginning of year	-	1,191,481	24,227	1,321,576	-	2,537,284
Addition	-	40,005	5,809	147,531	-	193,345
Disposals	-	-	(69)	(21,540)	-	(21,609)
Exchange differences, net	-	-	(3)	(105)	-	(108)
Balance, end of year	-	<u>1,231,486</u>	<u>29,964</u>	<u>1,447,462</u>	-	<u>2,708,912</u>
<u>Impairment</u>						
Balance, beginning of year	<u>77,000</u>	-	-	-	-	<u>77,000</u>
Balance, end of year	<u>77,000</u>	-	-	-	-	<u>77,000</u>
Balance, end of year, net	<u>\$ 7,770,588</u>	<u>\$ 870,044</u>	<u>\$ 21,949</u>	<u>\$ 369,459</u>	<u>\$ 3,244,666</u>	<u>\$ 12,276,706</u>
	2019					
	Land	Building and Structures	Transportation Equipment	Miscellaneous Equipment	Construction in Progress	Total
<u>Cost</u>						
Balance, beginning of year	\$ 7,843,120	\$ 2,086,402	\$ 40,814	\$ 1,635,455	\$ 202,835	\$ 11,808,626
Addition	-	8,525	11,496	92,467	1,324,201	1,436,689
Disposals	-	-	(5,493)	(16,849)	-	(22,342)
Reclassifications	4,468	6,603	-	800	(800)	11,071
Exchange differences, net	-	-	(6)	(169)	-	(175)
Balance, end of year	<u>7,847,588</u>	<u>2,101,530</u>	<u>46,811</u>	<u>1,711,704</u>	<u>1,526,236</u>	<u>13,233,869</u>
<u>Accumulated depreciation</u>						
Balance, beginning of year	-	1,145,069	23,950	1,194,278	-	2,363,297
Addition	-	39,809	5,103	144,123	-	189,035
Disposals	-	-	(4,826)	(16,823)	-	(21,649)
Reclassifications	-	6,603	-	-	-	6,603
Exchange differences, net	-	-	-	(2)	-	(2)
Balance, end of year	-	<u>1,191,481</u>	<u>24,227</u>	<u>1,321,576</u>	-	<u>2,537,284</u>
<u>Impairment</u>						
Balance, beginning of year	<u>77,000</u>	-	-	-	-	<u>77,000</u>
Balance, end of year	<u>77,000</u>	-	-	-	-	<u>77,000</u>
Balance, end of year, net	<u>\$ 7,770,588</u>	<u>\$ 910,049</u>	<u>\$ 22,584</u>	<u>\$ 390,128</u>	<u>\$ 1,526,236</u>	<u>\$ 10,619,585</u>

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

Building and structures	
Building	30 to 60 years
Renovation	10 to 29 years
Transportation equipment	3 to 5 years
Miscellaneous equipment	2 to 15 years

17. LEASE ARRANGEMENTS

a. Right-of-use assets, net

	<u>December 31</u>	
	2020	2019
<u>Carrying amount</u>		
Land and buildings	\$ 647,467	\$ 633,218
Transportation equipment	<u>183,764</u>	<u>46,934</u>
	<u>\$ 831,231</u>	<u>\$ 680,152</u>
	<u>For the Year Ended December 31</u>	
	2020	2019
Additions to right-of-use assets	<u>\$ 358,851</u>	<u>\$ 238,810</u>
Depreciation charge for right-of-use assets	\$ 108,618	\$ 111,446
Land and buildings	<u>51,485</u>	<u>15,836</u>
Transportation equipment	<u>\$ 160,103</u>	<u>\$ 127,282</u>
Income from the subleasing of right-of-use assets (presented in other income)	<u>\$ 1,036</u>	<u>\$ 660</u>

Except for the aforementioned addition and recognized depreciation, the Bank did not have significant sublease or impairment of right-of-use assets during the years ended December 31, 2020 and 2019.

b. Lease liabilities

	<u>December 31</u>	
	2020	2019
Carrying amount	<u>\$ 853,806</u>	<u>\$ 692,171</u>

Range of discount rates for lease liabilities was as follows:

	<u>December 31</u>	
	2020	2019
Land	3.89%-4.14%	4.14%
Buildings	3.89%-4.14%	4.14%
Transportation equipment	3.89%-4.14%	4.14%

c. Material lease-in activities and terms

The Bank leases domestic offices, ATM sites and business cars with lease terms of 1 to 15 years. The lease contract specifies that lease payments will be adjusted on the basis of changes in market rental rates. The Bank does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms.

d. Other lease information

Lease arrangements under operating leases for the leasing out of freehold properties are set out in Note 18.

	For the Year Ended December 31	
	2020	2019
Expenses relating to short-term leases	<u>\$ 1,862</u>	<u>\$ 4,114</u>
Expenses relating to low-value asset leases	<u>\$ 6,463</u>	<u>\$ 2,791</u>
Total cash outflow for leases	<u>\$ (187,729)</u>	<u>\$ (149,429)</u>

The Bank's leases of certain office equipment which qualify as short-term leases and leases of certain computer equipment which qualify as low-value asset leases. The Bank has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

18. INVESTMENT PROPERTIES, NET

	2020		
	Land	Structures	Total
<u>Cost</u>			
Balance, beginning of year	<u>\$ 15,801</u>	<u>\$ 5,972</u>	<u>\$ 21,773</u>
Balance, end of year	<u>15,801</u>	<u>5,972</u>	<u>21,773</u>
<u>Accumulated depreciation</u>			
Balance, beginning of year	-	3,670	3,670
Additions	<u>-</u>	<u>89</u>	<u>89</u>
Balance, end of year	<u>-</u>	<u>3,759</u>	<u>3,759</u>
Balance, end of year, net	<u>\$ 15,801</u>	<u>\$ 2,213</u>	<u>\$ 18,014</u>
	2019		
	Land	Structures	Total
<u>Cost</u>			
Balance, beginning of year	<u>\$ 20,269</u>	<u>\$ 12,575</u>	<u>\$ 32,844</u>
Reclassifications	<u>(4,468)</u>	<u>(6,603)</u>	<u>(11,071)</u>
Balance, end of year	<u>15,801</u>	<u>5,972</u>	<u>21,773</u>
<u>Accumulated depreciation</u>			
Balance, beginning of year	-	10,184	10,184
Additions	-	89	89
Reclassifications	<u>-</u>	<u>(6,603)</u>	<u>(6,603)</u>
Balance, end of year	<u>-</u>	<u>3,670</u>	<u>3,670</u>
Balance, end of year, net	<u>\$ 15,801</u>	<u>\$ 2,302</u>	<u>\$ 18,103</u>

- a. The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Building and structures

Building	60 years
Renovation	10 to 25 years

- b. The fair value of the investment properties of the Bank on December 31, 2020 and 2019 were \$53,579 thousand and \$53,847 thousand, respectively. The fair value was not evaluated by independent qualified professional valuers. The valuation was arrived at by reference to the market evidence of transaction price for similar properties, and the fair value was measured by using Level 3 inputs.
- c. The abovementioned investment properties were leased out for 5 years. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.
- d. The maturity analysis of lease payments receivable under operating leases of investment properties as of December 31, 2020 and 2019 was as follows:

	<u>December 31,</u>	
	2020	2019
Year 1	\$ 5,617	\$ 5,835
Year 2	5,080	4,190
Year 3	1,170	3,652
Year 4	<u>864</u>	<u>165</u>
	<u>\$ 12,731</u>	<u>\$ 13,842</u>

19. INTANGIBLE ASSETS, NET

	<u>For the Year Ended December 31</u>	
	2020	2019
Balance, beginning of year	\$ 117,987	\$ 125,025
Additions	97,992	40,066
Amortization	(53,800)	(47,034)
Exchange influence	<u>(151)</u>	<u>(70)</u>
Balance, ending of year	<u>\$ 162,028</u>	<u>\$ 117,987</u>

Computer software is amortized on a straight-line basis over its estimated useful lives as follows:

Computer software	1 to 5 years
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20. OTHER ASSETS, NET

	<u>December 31</u>	
	2020	2019
Refundable deposits	\$ 1,912,965	\$ 1,224,441
Prepayments	<u>116,218</u>	<u>116,853</u>
	<u>\$ 2,029,183</u>	<u>\$ 1,341,294</u>

As of December 31, 2020 and 2019, the government bonds at amortized cost in the amounts of \$860,400 thousand and \$784,900 thousand, respectively, were pledged to district court for litigation, as a collateral for the overdraft of the U.S. dollar clearing account and the provision of guarantee deposit for business operations, which were stated as refundable deposits. Refer to Note 35.

21. DUE TO THE CENTRAL BANK AND OTHER BANKS

	<u>December 31</u>	
	2020	2019
Call loans from banks	\$ 6,411,231	\$ 6,200,860
Due to Chunghwa Post Co., Ltd.	326,094	326,187
Due to banks	<u>300,013</u>	<u>13</u>
	<u>\$ 7,037,338</u>	<u>\$ 6,527,060</u>

22. FUNDS BORROWED FROM CENTRAL BANK AND OTHER BANKS

	<u>December 31</u>	
	2020	2019
Funds borrowed from central bank	<u>\$ 2,167,280</u>	<u>\$ -</u>
Funds borrowed from central banks (%)	0.10	-

Refer to Note 35 for information relating to collaterals provided for funds borrowed from central bank and other banks.

23. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	<u>December 31</u>	
	2020	2019
Government bonds	\$ 1,203,592	\$ 2,002,755
Foreign bonds	<u>1,096,485</u>	<u>8,366,270</u>
	<u>\$ 2,300,077</u>	<u>\$ 10,369,025</u>

The post-year repurchase price and rate were as follows:

	<u>December 31</u>	
	2020	2019
Government bonds	\$ 1,203,981	\$ 2,003,566
Foreign bonds	<u>1,097,527</u>	<u>8,415,535</u>
	<u>\$ 2,301,508</u>	<u>\$ 10,419,101</u>
Government bonds	0.20%-0.21%	0.50%-0.54%
Foreign bonds	0.38%	2.18%-2.45%

The foreign bonds denominated in foreign currencies were as follows:

	<u>December 31</u>	
	2020	2019
USD	\$ 39,022	\$ 278,876

24. PAYABLES

	<u>December 31</u>	
	2020	2019
Accrued expenses	\$ 1,429,235	\$ 1,362,966
Notes and checks in clearing	1,249,821	1,007,649
Foreign currency settlement payable	1,083,053	870,282
Acceptances	455,797	514,383
Interest payable	313,555	450,880
Factored accounts payable	105,876	49,615
Collections payable	29,010	34,172
Other payables	<u>562,359</u>	<u>612,068</u>
	<u>\$ 5,228,706</u>	<u>\$ 4,902,015</u>

25. DEPOSITS AND REMITTANCES

	<u>December 31</u>	
	2020	2019
Deposits		
Checking	\$ 8,826,292	\$ 8,067,443
Demand	172,808,539	139,366,362
Demand savings	150,643,016	134,211,159
Time	150,719,288	144,034,144
Time savings	155,188,149	159,025,088
Remittances	<u>88,554</u>	<u>162,288</u>
	<u>\$ 638,273,838</u>	<u>\$ 584,866,484</u>

26. BANK DEBENTURES

	<u>December 31</u>	
	2020	2019
Subordinated financial debenture	<u>\$ 11,500,000</u>	<u>\$ 14,000,000</u>

a. The Bank issued first subordinated financial debenture on November 13, 2012, which was approved under ruling reference No. 10100305900 issued by the Banking Bureau of the FSC on September 24, 2012. Detail of the subordinated financial debenture issuance is summarized as follows:

- 1) Total approved principal: \$3,000,000 thousand.
- 2) Principal issued: \$3,000,000 thousand.
- 3) Denomination: \$1,000 thousand, issued at par.
- 4) Period: 7 years with maturities on November 13, 2019.
- 5) Nominal interest rate: Fixed interest rate, 2.1%.

- 6) Repayment: The subordinated financial debenture will be paid on the maturity date.
 - 7) The interest will be paid semi-annually from the issuance date.
- b. The Bank issued first subordinated financial debenture and second subordinated financial debenture on June 25, 2013 and December 16, 2013, respectively, which were approved under ruling reference No. 10200089330 issued by the Banking Bureau of the FSC on April 8, 2013. Details of the financial subordinated debenture issuance are summarized as follows:
- 1) Total approved principal: \$6,000,000 thousand.
 - 2) Principal issued:
 - a) Debenture I on 2013: \$2,500,000 thousand.
 - b) Debenture II on 2013: \$3,000,000 thousand.
 - 3) Denomination:
 - a) Debenture I on 2013: \$500 thousand, issued at par.
 - b) Debenture II on 2013: \$500 thousand, issued at par.
 - 4) Period:
 - a) Debenture I on 2013: 7 years with maturities on June 25, 2020.
 - b) Debenture II on 2013: 6 years with maturities on December 16, 2019.
 - 5) Nominal interest rate:
 - a) Debenture I on 2013: Fixed interest rate, 2.1%.
 - b) Debenture II on 2013: Fixed interest rate, 2.1%.
 - 6) Repayment: The subordinated financial debenture will be paid on the maturity date.
 - 7) The interest will be paid semi-annually from the issuance date.
- c. The Bank issued first subordinated financial debenture on December 28, 2015, which was approved under ruling reference No. 10400200460 issued by the Banking Bureau of the FSC on August 26, 2015. Detail of the subordinated financial debenture issuance is summarized as follows:
- 1) Total approved principal: \$1,500,000 thousand.
 - 2) Principal issued: \$1,500,000 thousand.
 - 3) Denomination: \$10,000 thousand, issued at par.
 - 4) Period: No due date.
 - 5) Nominal interest rate: According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%.
 - 6) Repayment: To be executed according to the issuance.
 - 7) The interest will be paid annually from the issuance date.

- d. The Bank issued first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture, third no due date non-cumulative subordinated financial debenture and first no due date non-cumulative subordinated financial debenture on March 28, 2017, May 18, 2017, August 28, 2017 and December 28, 2016, respectively, which were approved under ruling reference No. 10500210950 issued by the Banking Bureau of the FSC on September 2, 2016. Details of the subordinated financial debenture issuance are summarized as follows:
- 1) Total approved principal: \$3,500,000 thousand.
 - 2) Principal issued:
 - a) Debenture I on 2016: \$1,500,000 thousand.
 - b) Debenture I on 2017: \$1,000,000 thousand.
 - c) Debenture II on 2017: \$500,000 thousand.
 - d) Debenture III on 2017: \$500,000 thousand.
 - 3) Denomination:
 - a) Debenture I on 2016: \$10,000 thousand, issued at par.
 - b) Debenture I on 2017: \$10,000 thousand, issued at par.
 - c) Debenture II on 2017: \$10,000 thousand, issued at par.
 - d) Debenture III on 2017: \$10,000 thousand, issued at par.
 - 4) Period: No due date.
 - 5) Nominal interest rate: According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%.
 - 6) Repayment: To be executed according to the issuance.
 - 7) The interest will be paid annually from the issuance date.
- e. The Bank issued first no due date non-cumulative subordinated financial debenture, fourth no due date non-cumulative subordinated financial debenture and fifth no due date non-cumulative subordinated financial debenture on April 25 2018, December 5, 2017 and December 27, 2017, respectively, which were approved under ruling reference No. 10600229120 issued by the Banking Bureau of the FSC on September 22, 2017. Details of the subordinated financial debenture issuance are summarized as follows:
- 1) Total approved principal: \$5,000,000 thousand.
 - 2) Principal issued:
 - a) Debenture IV on 2017: \$1,350,000 thousand.
 - b) Debenture V on 2017: \$2,650,000 thousand.
 - c) Debenture I on 2018: \$1,000,000 thousand.
 - 3) Denomination:
 - a) Debenture IV on 2017: \$10,000 thousand, issued at par.
 - b) Debenture V on 2017: \$10,000 thousand, issued at par.
 - c) Debenture I on 2018: \$10,000 thousand, issued at par.
 - 4) Period: No due date.

- 5) Nominal interest rate: According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%.
 - 6) Repayment: To be executed according to the issuance.
 - 7) The interest will be paid annually from the issuance date.
- f. The Bank issued second no due date non-cumulative subordinated financial debenture on December 18, 2018, which was approved under ruling reference No. 10702156550 issued by the Banking Bureau of the FSC on August 23, 2018. Detail of the subordinated financial debenture issuance is summarized as follows:
- 1) Total approved principal: \$1,500,000 thousand.
 - 2) Principal issued: \$1,500,000 thousand.
 - 3) Denomination: \$10,000 thousand, issued at par.
 - 4) Period: No due date.
 - 5) Nominal interest rate: According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%.
 - 6) Repayment: To be executed according to the issuance.
 - 7) The interest will be paid annually from the issuance date.

27. PROVISIONS

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Provision for employee benefits	\$ 1,089,282	\$ 1,133,772
Provision for losses on guarantees	235,963	174,463
Provision for loan commitments	72,060	63,357
Provision for outstanding claims	14,090	-
Other provision	<u>13,097</u>	<u>11,878</u>
	<u>\$ 1,424,492</u>	<u>\$ 1,383,470</u>

- a. Details of provision for employee benefits were as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Benefit plans	\$ 913,854	\$ 972,820
Preferential interest on employees' deposits	139,406	131,433
Other long-term employee benefit liabilities	<u>36,022</u>	<u>29,519</u>
	<u>\$ 1,089,282</u>	<u>\$ 1,133,772</u>

1) Defined contribution plans

The Bank adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

The amounts of contributions paid by the Bank in 2020 and 2019 in accordance with the defined contribution plan and recognized in the statements of comprehensive income were \$86,591 thousand and \$85,112 thousand for the years ended December 31, 2020 and 2019, respectively.

2) Defined benefit plans

The defined benefit plan adopted of the Bank in accordance with the Labor Standards Law is operated by the government of the ROC. 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 10% 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 balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the “Bureau”); the Bank has no right to influence the investment policy and strategy.

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

	December 31	
	2020	2019
Present value of defined benefit obligation	\$ 1,763,272	\$ 1,817,070
Fair value of plan assets	<u>(849,418)</u>	<u>(844,250)</u>
Deficit	<u>913,854</u>	<u>972,820</u>
Net defined benefit liabilities	<u>\$ 913,854</u>	<u>\$ 972,820</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2019	<u>\$ 1,719,860</u>	<u>\$ (719,393)</u>	<u>\$ 1,000,467</u>
Service cost			
Current service cost	14,250	-	14,250
Net interest expense (income)	<u>19,348</u>	<u>(10,365)</u>	<u>8,983</u>
Recognized in profit or loss	<u>33,598</u>	<u>(10,365)</u>	<u>23,233</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (21,788)	\$ (21,788)
Actuarial loss - changes in financial assumptions	73,096	-	73,096
Actuarial loss - experience adjustments	<u>68,402</u>	<u>-</u>	<u>68,402</u>
Recognized in other comprehensive income	<u>141,498</u>	<u>(21,788)</u>	<u>119,710</u>
Contributions from the employer	-	(151,850)	(151,850)
Benefits paid	(59,146)	59,146	-
Company paid	<u>(18,740)</u>	<u>-</u>	<u>(18,740)</u>
Balance at December 31, 2019	<u>1,817,070</u>	<u>(844,250)</u>	<u>972,820</u>
Service cost			
Current service cost	9,810	-	9,810
Net interest expense (income)	<u>13,628</u>	<u>(6,810)</u>	<u>6,818</u>
Recognized in profit or loss	<u>23,438</u>	<u>(6,810)</u>	<u>16,628</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(24,070)	(24,070)
Actuarial loss - changes in financial assumptions	45,236	-	45,236
Actuarial gain - experience adjustments	<u>(7,301)</u>	<u>-</u>	<u>(7,301)</u>
Recognized in other comprehensive income	<u>37,935</u>	<u>(24,070)</u>	<u>13,865</u>
Contributions from the employer	-	(75,278)	(75,278)
Benefits paid	(100,990)	100,990	-
Company paid	<u>(14,181)</u>	<u>-</u>	<u>(14,181)</u>
Balance at December 31, 2020	<u>\$ 1,763,272</u>	<u>\$ (849,418)</u>	<u>\$ 913,854</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans was as follows:

	For The Year Ended December 31	
	2020	2019
Operating expenses	<u>\$ 16,628</u>	<u>\$ 23,233</u>

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

- a) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- b) Interest risk: A decrease in the government or corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

- c) Salary risk: The present value of the defined benefit obligation is calculated using the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2020	2019
Discount rate(s)	0.50%	0.75%
Expected rate(s) of salary increase	1.50%	1.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2020	2019
Discount rate(s)		
0.25% increase	<u>\$ (45,236)</u>	<u>\$ (49,168)</u>
0.25% decrease	<u>\$ 46,826</u>	<u>\$ 50,983</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 45,550</u>	<u>\$ 49,708</u>
0.25% decrease	<u>\$ (44,235)</u>	<u>\$ (48,188)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2020	2019
Expected contributions to the plan for the next year	<u>\$ 65,395</u>	<u>\$ 127,438</u>
Average duration of the defined benefit obligation	10.4 years	11 years

3) Preferential interest on employees' deposits

The Bank had revised the interest rate of the employees' savings deposit since December 21, 2014, in accordance with the regulations of the Financial Management Law No. 10110000850 and the Regulations Governing the Preparation of Financial Reports by Public Banks, and the preferential interest on employee's deposit liabilities were carried out by qualified actuaries.

The amounts included in the balance sheets in respect of the preferential interest on employee's deposit plan were as follows:

	December 31	
	2020	2019
Present value of the preferential interest on deposits	\$ 139,406	\$ 131,433
Fair value of plan assets	<u>-</u>	<u>-</u>
Deficit	<u>139,406</u>	<u>131,433</u>
Provision for preferential interest on deposits	<u>\$ 139,406</u>	<u>\$ 131,433</u>

Movements in preferential interest on employees' deposits obligation were as follows:

	Present Value of the Preferential Interest on Employees' Deposits Obligation	Fair Value of the Plan Assets	Net Preferential Interest on Employees' Deposits Liabilities
Balance at January 1, 2019	\$ <u>120,769</u>	\$ -	\$ <u>120,769</u>
Service cost			
Past service cost	6,700	-	6,700
Net interest expense	<u>4,286</u>	<u>-</u>	<u>4,286</u>
Recognized in profit or loss	<u>10,986</u>	<u>-</u>	<u>10,986</u>
Remeasurement			
Actuarial loss - changes in demographic assumptions	6,770	-	6,770
Actuarial loss - experience adjustments	<u>21,177</u>	<u>-</u>	<u>21,177</u>
Recognized in other comprehensive income	<u>27,947</u>	<u>-</u>	<u>27,947</u>
Company paid	<u>(28,269)</u>	<u>-</u>	<u>(28,269)</u>
Balance at December 31, 2019	<u>131,433</u>	<u>-</u>	<u>131,433</u>
Service cost			
Past service cost	11,407	-	11,407
Net interest expense	<u>4,692</u>	<u>-</u>	<u>4,692</u>
Recognized in profit or loss	<u>16,099</u>	<u>-</u>	<u>16,099</u>
Remeasurement			
Actuarial loss - experience adjustments	<u>20,941</u>	<u>-</u>	<u>20,941</u>
Recognized in other comprehensive income	<u>20,941</u>	<u>-</u>	<u>20,941</u>
Company paid	<u>(29,067)</u>	<u>-</u>	<u>(29,067)</u>
Balance at December 31, 2020	<u>\$ 139,406</u>	<u>\$ -</u>	<u>\$ 139,406</u>

An analysis by function of the amounts recognized in profit or loss in respect of the preferential interest on employees' deposits plan was as follows:

	For The Year Ended December 31	
	2020	2019
Operating expenses	<u>\$ 16,099</u>	<u>\$ 10,986</u>

The actuarial valuations of the present value of preferential interest on employees' deposits obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2020	2019
Discount rate(s)	4.00%	4.00%
Expected return on employees' deposits	2.00%	2.00%
Excess interest rate	2.00%	2.00%
Preferential deposit withdrawal rate	3.50%	3.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of preferential interest on employees' deposits obligation would increase (decrease) as follows:

	December 31	
	2020	2019
Discount rate(s)		
0.25% increase	<u>\$ (3,381)</u>	<u>\$ (3,202)</u>
0.25% decrease	<u>\$ 3,529</u>	<u>\$ 3,343</u>
Preferential deposit withdrawal rate		
0.25% increase	<u>\$ 3,647</u>	<u>\$ 3,454</u>
0.25% decrease	<u>\$ (3,799)</u>	<u>\$ (3,599)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of preferential interest on employees' deposits obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2020	2019
Expected contributions to the plan for the next year	<u>\$ -</u>	<u>\$ -</u>
Average duration of preferential interest on employees' deposits obligation	10.3 years	10.4 years

4) Other long-term employee benefit liabilities

Other long-term employee benefits of the Bank are long-term disability benefits. If the employee does not encounter any casualty due to occupational disaster or accidental death, the Bank will pay the pension according to the seniority.

The amounts of interest expense recognized by the Bank in the statements of comprehensive income for long-term employee benefits in 2020 and 2019 were \$6,503 thousand and \$6,531 thousand, respectively. As of December 31, 2020 and 2019, other long-term employee benefit liabilities were \$36,022 thousand and \$29,519 thousand, respectively.

b. Movements of the provision for losses on guarantees were as follows:

2020

	12-month ECLs	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2020	\$ 109,720	\$ 1,778	\$ 58,621	\$ 170,119	\$ 4,344	\$ 174,463
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(5)	3,399	(3,394)	-	-	-
Transfers to credit-impaired financial assets	(6)	-	6	-	-	-
Transfers to 12-month ECLs	3,815	(736)	(3,079)	-	-	-
Derecognition of financial assets in current period	(78,990)	(1,042)	(15,768)	(95,800)	-	(95,800)
New financial assets purchased or originated	141,620	3,975	-	145,595	-	145,595
Difference of impairment loss under regulations	-	-	-	-	21,507	21,507
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Foreign exchange differences and other changes	<u>(7,196)</u>	<u>(2,575)</u>	<u>(31)</u>	<u>(9,802)</u>	<u>-</u>	<u>(9,802)</u>
Balance at December 31, 2020	<u>\$ 168,958</u>	<u>\$ 4,799</u>	<u>\$ 36,355</u>	<u>\$ 210,112</u>	<u>\$ 25,851</u>	<u>\$ 235,963</u>

2019

	12-month ECLs	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2019	\$ 121,061	\$ 1,751	\$ 55,221	\$ 178,033	\$ 11,815	\$ 189,848
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(3)	3	-	-	-	-
Transfers to credit-impaired financial assets	(434)	-	434	-	-	-
Transfers to 12-month ECLs	11,027	(292)	(10,735)	-	-	-
Derecognition of financial assets in current period	(86,834)	(1,458)	(7,647)	(95,939)	-	(95,939)
New financial assets purchased or originated	80,868	1,720	4,221	86,809	-	86,809
Difference of impairment loss under regulations	-	-	-	-	(7,471)	(7,471)
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Foreign exchange differences and other changes	(15,965)	54	17,127	1,216	-	1,216
Balance at December 31, 2019	<u>\$ 109,720</u>	<u>\$ 1,778</u>	<u>\$ 58,621</u>	<u>\$ 170,119</u>	<u>\$ 4,344</u>	<u>\$ 174,463</u>

In 2020 and 2019, a provision was recognized for bad-debt expense, commitments and guarantees.

c. Movements of the other provision were as follows:

2020

	12-month ECLs	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2020	\$ 9,638	\$ -	\$ 7	\$ 9,645	\$ 2,233	\$ 11,878
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	-	-	-	-	-	-
Transfers to credit-impaired financial assets	-	-	-	-	-	-
Transfers to 12-month ECLs	-	-	-	-	-	-
Derecognition of financial assets in current period	(9,638)	-	(7)	(9,645)	-	(9,645)
New financial assets purchased or originated	9,157	3,263	-	12,420	-	12,420
Difference of impairment loss under regulations	-	-	-	-	(1,556)	(1,556)
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Foreign exchange differences and other changes	-	-	-	-	-	-
Balance at December 31, 2020	<u>\$ 9,157</u>	<u>\$ 3,263</u>	<u>\$ -</u>	<u>\$ 12,420</u>	<u>\$ 677</u>	<u>\$ 13,097</u>

2019

	12-month ECLs	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2019	\$ 12,108	\$ -	\$ -	\$ 12,108	\$ 11,825	\$ 23,933
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	-	-	-	-	-	-
Transfers to credit-impaired financial assets	-	-	-	-	-	-
Transfers to 12-month ECLs	-	-	-	-	-	-
Derecognition of financial assets in current period	(12,073)	-	-	(12,073)	-	(12,073)
New financial assets purchased or originated	9,628	-	7	9,635	-	9,635
Difference of impairment loss under regulations	-	-	-	-	(9,592)	(9,592)
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Foreign exchange differences and other changes	(25)	-	-	(25)	-	(25)
Balance at December 31, 2019	<u>\$ 9,638</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 9,645</u>	<u>\$ 2,233</u>	<u>\$ 11,878</u>

In 2020 and 2019, a provision was recognized for bad-debt expense, commitments and guarantees.

d. Movements of the loan commitments were as follows:

2020

	12-month ECLs	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2020	\$ 48,760	\$ 1,848	\$ 4,025	\$ 54,633	\$ 8,724	\$ 63,357
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(5,991)	5,353	638	-	-	-
Transfers to credit-impaired financial assets	(3)	(8)	11	-	-	-
Transfers to 12-month ECLs	1,685	(1,685)	-	-	-	-
Derecognition of financial assets in current period	(8,260)	(141)	(4,025)	(12,426)	-	(12,426)
New financial assets purchased or originated	24,551	1,298	1,917	27,766	-	27,766
Difference of impairment loss under regulations	-	-	-	-	(5,392)	(5,392)
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Foreign exchange differences and other changes	<u>(1,774)</u>	<u>540</u>	<u>(11)</u>	<u>(1,245)</u>	<u>-</u>	<u>(1,245)</u>
Balance at December 31, 2020	<u>\$ 58,968</u>	<u>\$ 7,205</u>	<u>\$ 2,555</u>	<u>\$ 68,728</u>	<u>\$ 3,332</u>	<u>\$ 72,060</u>

2019

	12-month ECLs	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Assessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2019	\$ 39,745	\$ 2,040	\$ -	\$ 41,785	\$ 22,024	\$ 63,809
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(4)	4	-	-	-	-
Transfers to credit-impaired financial assets	(4)	(4,032)	4,036	-	-	-
Transfers to 12-month ECLs	1,177	(1,177)	-	-	-	-
Derecognition of financial assets in current period	(9,439)	(791)	-	(10,230)	-	(10,230)
New financial assets purchased or originated	21,880	1,041	-	22,921	-	22,921
Difference of impairment loss under regulations	-	-	-	-	(13,300)	(13,300)
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Foreign exchange differences and other changes	(4,595)	4,763	(11)	157	-	157
Balance at December 31, 2019	<u>\$ 48,760</u>	<u>\$ 1,848</u>	<u>\$ 4,025</u>	<u>\$ 54,633</u>	<u>\$ 8,724</u>	<u>\$ 63,357</u>

In 2020 and 2019, a provision was recognized for bad-debt expense, commitments and guarantees.

- e. Please refer to Note 36 for the amount of \$14,090 thousand for the outstanding compensation loss of the Bank in 2020.

28. OTHER LIABILITIES

	December 31	
	2020	2019
Guarantee deposit received	\$ 185,604	\$ 122,812
Advance receipts	304,137	237,720
Others	<u>434</u>	<u>418</u>
	<u>\$ 490,175</u>	<u>\$ 360,950</u>

29. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Number of shares authorized (in thousands)	<u>6,150,000</u>	<u>4,320,000</u>
Shares authorized	<u>\$ 61,500,000</u>	<u>\$ 43,200,000</u>
Number of shares issued and fully paid (in thousands)	<u>4,151,694</u>	<u>3,708,835</u>
Shares issued	<u>\$ 41,516,943</u>	<u>\$ 37,088,349</u>

Ordinary shares issued have a par value of \$10, carry one vote per share and carry the right to receive dividends.

As of January 1, 2019, the Bank had issued ordinary shares totaling \$35,255,084 thousand, divided into 3,525,508 thousand ordinary shares at par value of \$10 per share. In September 2019, the Bank transferred \$1,833,265 thousand of unappropriated earnings to ordinary shares, consisting of 183,327 thousand ordinary shares at par value of \$10 per share. As of December 31, 2019, the Bank had increased the number of ordinary shares to \$37,088,349 thousand, consisting of 3,708,835 thousand ordinary shares at par value of \$10 per share.

In September 2020, the Bank transferred \$1,928,594 thousand of unappropriated earnings to ordinary shares, consisting of 192,859 thousand ordinary shares at par value of \$10 per share. In July 2020, the board of directors of the Bank resolved to issue 250,000 thousand ordinary shares with a par value of \$10, for a consideration of \$10.2 per share issued at premium. On October 13, 2020, the above transaction was approved under ruling reference No. 1090359541 issued by the Banking Bureau of the FSC and the subscription base date was determined as at December 17, 2020. As of December 31, 2020, the Bank had increased ordinary shares to \$41,516,943 thousand, divided into 4,151,694 thousand ordinary shares at \$10 par value per share.

b. Capital surplus

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
May be used to offset a deficit, distributed as <u>cash dividends, or transferred to share capital*</u>		
Issuance of ordinary shares	\$ 713,633	\$ 663,633
<u>May be used to offset a deficit only</u>		
Issuance of ordinary shares - employee share options	58,664	32,124
Expired employee share options	6,767	6,682
Share of changes in capital surplus of associates	16,813	16,813
Conversion of bank debentures' components	<u>7,729</u>	<u>7,729</u>
	<u>\$ 803,606</u>	<u>\$ 726,981</u>

* Such capital surplus may be used to offset a deficit; in addition, when the Bank has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Bank's capital surplus and to once a year).

c. Appropriation of earnings and dividend policy

Under the Bank's dividends policy as set forth in the Articles, where the Bank made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 30% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Bank's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors, refer to employees' compensation and remuneration of directors in Note 30.

The appropriation of earnings mentioned above shall be retained by the board of directors in accordance with the changing operating environment, operating and investment needs. When dividends are declared, cash dividends must be at least 10% of total dividends declared.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Bank's paid-in capital. The legal reserve may be used to offset deficits. If the Bank has no deficit and the legal reserve has exceeded 25% of the Bank's paid-in capital, the excess may be transferred to capital or distributed in cash.

In addition, the Banking Law limits the appropriation of cash dividends to 15% of the Bank's paid-in capital. But when the legal reserve equals the Bank's paid-in capital, this 15% limit may be waived. If the ratio of own capital to risk assets does not meet the standards set by the business authority, the appropriation of earnings in cash or other assets should be subject to the restrictions or prohibitions of the relevant provisions of the business authority.

Under related regulations, a special reserve is appropriated from the balance of the retained earnings at an amount from the net income and unappropriated earnings that is equal to the debit balance of accounts in the shareholders' equity section. Afterward, if there is any reversal of the decrease in shareholders' equity, the Bank is allowed to appropriate retained earnings from the reversed amount.

According to Order No. 1010012865 issued by the FSC, Order No. 1010047490 issued by the FSC and International Financial Reporting Standards and "Q&A on the application of the reference to the special reserve following adoption of IFRSs", retained earnings should be appropriated to or reversed from a special reserve by the Bank. Afterward, if there is any reversal of the decrease in other shareholders' equity, the Bank is allowed to appropriating retained earnings from the reversal amount. According to Order No. 10510001510 issued by the FSC, a special reserve should be appropriated between 0.5% and 1% of net income after tax when banks appropriate earnings of 2016 through 2018. After that, under No. 10802714560 issued by the FSC, the Bank no longer use special reserve to protect the right of its employee in response to the developments of financial technology since 2019. From the fiscal year of 2019, the Bank can reverse the amount of expenditure of employees' transfer arising from financial technology development within the amount of the abovementioned special reserve from 2016 to 2018.

The appropriations of earnings for 2019 and 2018 were approved in the shareholders' meetings of the Bank on June 30, 2020 and June 28, 2019, respectively, as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2019	2018	2019	2018
Legal reserve	\$ 1,281,622	\$ 1,202,511	\$ -	\$ -
Special reserve	-	40,084	-	-
Cash dividends	1,038,474	987,142	0.28	0.28
Share dividends	1,928,594	1,833,265	0.52	0.52

The appropriations of earnings for 2020 which had been proposed by the Bank's board of directors on February 25, 2021 were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 1,207,149	\$ -
Cash dividends	996,407	0.24
Share dividends	1,868,262	0.45

The appropriations of earnings for 2020 are subject to the resolution of the shareholders' meeting to be held on May 28, 2021.

d. Other equity items

	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized Gain on Financial Assets at FVTOCI	Total
Balance at January 1, 2020	\$ (96,316)	\$ 949,508	\$ 853,192
Recognized for the year			
Unrealized gains			
Equity instruments	-	212,001	212,001
Debt instruments	-	258,888	258,888
Net remeasurement of loss allowance - debt instruments	-	5,318	5,318
Share from subsidiaries and associates accounted for using the equity method	(1,466)	28,202	26,736
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	-	(26,059)	(26,059)
Cumulative translation adjustment			
Exchange differences for current period	(23,328)	-	(23,328)
Income tax related to other comprehensive income	-	(2,991)	(2,991)
Balance at December 31, 2020	<u>\$ (121,110)</u>	<u>\$ 1,424,867</u>	<u>\$ 1,303,757</u>
Balance at January 1, 2019	\$ (38,327)	\$ 690,897	\$ 652,570
Recognized for the year			
Unrealized gains			
Equity instruments	-	243,824	243,824
Debt instruments	-	50,230	50,230
Net remeasurement of loss allowance - debt instruments	-	(113)	(113)
Share from subsidiaries and associates accounted for using the equity method	(29,282)	55,626	26,344

(Continued)

	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized Gain on Financial Assets at FVTOCI	Total
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	\$ -	\$ (70,079)	\$ (70,079)
Cumulative translation adjustment			
Exchange differences for current period	(28,707)	-	(28,707)
Income tax related to other comprehensive income	-	(20,877)	(20,877)
Balance at December 31, 2019	<u>\$ (96,316)</u>	<u>\$ 949,508</u>	<u>\$ 853,192</u> (Concluded)

30. NET PROFIT FROM CONTINUING OPERATIONS

Net profit from continuing operations was attributable to:

- a. Net interest

	<u>For the Year Ended December 31</u>	
	2020	2019
<u>Interest revenue</u>		
Notes discounted and loans	\$ 9,873,666	\$ 10,997,189
Due from banks and call loans to the other banks	88,377	132,515
Investment in securities	1,501,954	1,589,724
Revolving interests of credit cards	37,443	41,679
Accounts receivable factoring without recourse	7,683	6,536
Securities purchased under resale agreements	36,409	58,767
Others	<u>428</u>	<u>933</u>
	<u>11,545,960</u>	<u>12,827,343</u>
<u>Interest expense</u>		
Deposits	(3,032,879)	(3,953,514)
Due to the Central Bank and other banks	(3,801)	(4,908)
Funds borrowed from the Central Bank and other banks	(33,481)	(54,937)
Securities sold under repurchase agreements	(79,062)	(240,500)
Financial debentures	(497,196)	(643,380)
Structured instruments	(6,696)	(98)
Lease liabilities	(30,875)	(28,392)
Others	<u>(13,733)</u>	<u>(54)</u>
	<u>(3,697,723)</u>	<u>(4,925,783)</u>
	<u>\$ 7,848,237</u>	<u>\$ 7,901,560</u>

b. Service fee income, net

	<u>For the Year Ended December 31</u>	
	2020	2019
<u>Service fee income</u>		
Loans	\$ 565,057	\$ 466,542
Trust business	1,073,654	901,283
Guarantee	154,934	152,298
Others	<u>472,767</u>	<u>544,225</u>
	<u>2,266,412</u>	<u>2,064,348</u>
<u>Service fee expense</u>		
Cross-bank transactions	(37,004)	(35,904)
Others	<u>(112,816)</u>	<u>(102,770)</u>
	<u>(149,820)</u>	<u>(138,674)</u>
	<u>\$ 2,116,592</u>	<u>\$ 1,925,674</u>

The Bank provides custody, trust, investment management and consultancy services to third parties, so the Bank's activities involve the planning, management and trading decisions of financial instruments. For the trust funds or investment portfolios that are managed and used on behalf of the trustee, the independent accounting reports and preparation of financial statements for internal management purposes are not included in the Bank's financial statements.

c. Gain on financial assets and liabilities at fair value through profit or loss

	<u>For the Year Ended December 31</u>	
	2020	2019
<u>Realized profit and loss</u>		
Commercial papers	\$ 85,066	\$ 132,342
Shares	51,166	290,686
Beneficiary certificates	(18,512)	(5,220)
Derivative financial instruments	72,852	9,206
Corporate bonds	<u>906</u>	<u>-</u>
	<u>191,478</u>	<u>427,014</u>
<u>Valuation</u>		
Commercial papers	(11,436)	(1,507)
Shares	21,105	(153,131)
Beneficiary certificates	56,859	30,547
Derivative financial instruments	(149,305)	58,703
Corporate bonds	1,428	-
PEM Group policy assets	<u>(202,381)</u>	<u>51,349</u>
	<u>(283,730)</u>	<u>(14,039)</u>
	<u>\$ (92,252)</u>	<u>\$ 412,975</u>

- 1) Realized profit and loss of gain on financial assets and liabilities at fair value through profit or loss include disposal profit in 2020 and 2019 amounted to \$62,058 thousand and \$264,212 thousand, dividend revenue amounted to \$16,420 thousand and \$12,411 thousand and interest revenue amounted to \$113,000 thousand and \$150,391 thousand, respectively.

2) Net income from exchange rate commodities includes realized and unrealized gains and losses on exchange forward contracts, cross-currency options and cross-currency swap. The translation gains or losses included net income from exchange rate commodities when significant assets and liabilities denominated in foreign currencies classified as at FVTPL are not designated for hedging relationship.

d. Realized gains on financial assets at fair value through other comprehensive income

	For the Year Ended December 31	
	2020	2019
Dividend income	\$ 72,140	\$ 28,735
Gain on disposal of bonds	<u>83,178</u>	<u>7,606</u>
	<u>\$ 155,318</u>	<u>\$ 36,341</u>

e. Reversal of (impairment losses) on financial assets

	For the Year Ended December 31	
	2020	2019
Investments in debt instruments at FVTOCI	\$ (5,318)	\$ 113
Financial assets at amortized cost	<u>(2,750)</u>	<u>6,338</u>
	<u>\$ (8,068)</u>	<u>\$ 6,451</u>

f. Other non-interest gains (losses), net

	For the Year Ended December 31	
	2020	2019
(Losses) gains on disposal of properties and equipment	\$ (120)	\$ 998
Others	<u>15,787</u>	<u>14,525</u>
	<u>\$ 15,667</u>	<u>\$ 15,523</u>

g. Bad-debt expenses and provision for losses on commitments and guarantees

	For the Year Ended December 31	
	2020	2019
Reversal of bad-debt for receivables	\$ (5,563)	\$ (16,486)
Bad-debt for notes discounted and loans	298,742	509,127
(Reversal of) provision for losses on guarantees	61,500	(15,226)
Loan commitment	10,367	26
Others	<u>1,364</u>	<u>-</u>
	<u>\$ 366,410</u>	<u>\$ 477,441</u>

h. Employee benefits expenses

	<u>For the Year Ended December 31</u>	
	2020	2019
Salaries	\$ 2,845,960	\$ 2,800,248
Labor and health insurance	212,411	185,725
Pension expense	103,219	108,345
Remuneration of directors and supervisors	123,292	104,811
Other employee expenses	<u>216,207</u>	<u>206,924</u>
	<u>\$ 3,501,089</u>	<u>\$ 3,406,053</u>

i. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Bank, the Bank accrues employees' compensation and remuneration of directors at rates of 0.5%-3% and no higher than 2.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and the remuneration of directors for the years ended December 31, 2020 and 2019 which were approved by the Bank's board of directors on February 25, 2021 and February 25, 2020, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	2020	2019
Employees' compensation	0.75%	0.75%
Remuneration of directors	2.01%	1.50%

Amount

	<u>For the Year Ended December 31</u>	
	2020	2019
Employees' compensation	<u>\$ 35,975</u>	<u>\$ 38,880</u>
Remuneration of directors	<u>\$ 96,195</u>	<u>\$ 77,759</u>

If there will be a change in the amounts after the financial statements are authorized for issue, the differences will be 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 years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2021 and 2020 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

j. Depreciation and amortization expenses

	<u>For the Year Ended December 31</u>	
	2020	2019
Properties and equipment	\$ 193,345	\$ 189,035
Investment properties	89	89
Right-of-use assets	160,103	127,282
Intangible assets	<u>53,800</u>	<u>47,034</u>
	<u>\$ 407,337</u>	<u>\$ 363,440</u>

k. Other selling and administrative expenses

	<u>For the Year Ended December 31</u>	
	2020	2019
Taxes	\$ 617,743	\$ 673,558
Professional service	193,930	170,534
Advertisement	81,824	86,915
Insurance	165,157	172,403
Entertainment	67,774	77,224
Donation	141,988	121,368
Postage	64,447	59,592
Others	<u>456,528</u>	<u>435,492</u>
	<u>\$ 1,789,391</u>	<u>\$ 1,797,086</u>

31. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of income tax expense were as follows:

	<u>For the Year Ended December 31</u>	
	2020	2019
Current tax		
In respect of the current period	\$ 609,812	\$ 742,944
Income tax on unappropriated earnings	1,169	1,507
Adjustments for prior periods	(2,974)	862
Deferred tax		
In respect of the current period	<u>30,953</u>	<u>2,108</u>
Income tax expense recognized in profit or loss	<u>\$ 638,960</u>	<u>\$ 747,421</u>

A reconciliation of accounting profit and income tax expense was as follows:

	<u>For the Year Ended December 31</u>	
	2020	2019
Profit before tax from continuing operations	<u>\$ 4,664,493</u>	<u>\$ 5,067,304</u>
Income tax expense calculated at the statutory rate	\$ 932,899	\$ 1,013,461
Non-deductible expenses in determining taxable income	831	1,247
Tax-exempt income	(296,598)	(269,656)
Unrecognized temporary differences	3,633	-
Income tax on unappropriated earnings	1,169	1,507
Adjustments for prior years' tax	<u>(2,974)</u>	<u>862</u>
Income tax expense recognized in profit or loss	<u>\$ 638,960</u>	<u>\$ 747,421</u>
b. Income tax recognized in other comprehensive income		

	<u>For the Year Ended December 31</u>	
	2020	2019
<u>Deferred tax</u>		
In respect of the current period		
Fair value changes of financial assets at FVTOCI	\$ (2,991)	\$ (20,877)
Remeasurement of defined benefit plans	<u>6,961</u>	<u>29,531</u>
Total income tax benefit recognized in other comprehensive income	<u>\$ 3,970</u>	<u>\$ 8,654</u>

c. Current tax liabilities

	<u>December 31</u>	
	2020	2019
Current tax liabilities		
Income tax payable	<u>\$ 121,429</u>	<u>\$ 276,191</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2020

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Property, plant and equipment	\$ 3,644	\$ -	\$ -	\$ 3,644
Unrealized losses on structure notes payment	213,491	40,476	-	253,967
Defined benefit obligations	226,754	(15,858)	6,961	217,857
Allowance for doubtful accounts	320,053	(61,991)	-	258,062
Others	<u>(24,570)</u>	<u>6,420</u>	<u>(2,991)</u>	<u>(21,141)</u>
	<u>\$ 739,372</u>	<u>\$ (30,953)</u>	<u>\$ 3,970</u>	<u>\$ 712,389</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax liabilities</u>				
Temporary differences				
Provision for land value increment tax	<u>\$ 111,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,021</u> (Concluded)

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Property, plant and equipment	\$ 3,644	\$ -	\$ -	\$ 3,644
Unrealized losses on structure notes payment	223,761	(10,270)	-	213,491
Defined benefit obligations	228,845	(31,622)	29,531	226,754
Allowance for doubtful accounts	286,247	33,806	-	320,053
Others	<u>(9,671)</u>	<u>5,978</u>	<u>(20,877)</u>	<u>(24,570)</u>
	<u>\$ 732,826</u>	<u>\$ (2,108)</u>	<u>\$ 8,654</u>	<u>\$ 739,372</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Provision for land value increment tax	<u>\$ 111,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,021</u>

e. Income tax assessments

The income tax returns of the Bank through 2018 have been assessed by the tax authority.

32. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Basic earnings per share	<u>\$ 1.03</u>	<u>\$ 1.11</u>
Diluted earnings per share	<u>\$ 1.03</u>	<u>\$ 1.11</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2019 are as follows:

Unit: NT\$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 1.16</u>	<u>\$ 1.11</u>
Diluted earnings per share	<u>\$ 1.16</u>	<u>\$ 1.11</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net profit for the year

	<u>For the Year Ended December 31</u>	
	2020	2019
Earnings used in the computation of basic earnings per share	<u>\$ 4,025,533</u>	<u>\$ 4,319,883</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 4,025,533</u>	<u>\$ 4,319,883</u>

The weighted average number of ordinary shares outstanding (in thousands of shares) was as follows:

	<u>For the Year Ended December 31</u>	
	2020	2019
Weighted average number of ordinary shares used in the computation of basic earnings per share	3,911,940	3,901,694
Effect of potentially dilutive ordinary shares		
Employees' compensation or bonuses issued to employees	<u>3,801</u>	<u>4,052</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>3,915,741</u>	<u>3,905,746</u>

If the Bank offered to settle the compensation or bonuses paid to employees in cash or shares, the Bank assumed that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

33. SHARE-BASED PAYMENT ARRANGEMENTS

According to the Company Act, the Bank remains 15% of shares as provision for subscription by qualified employees when there is issuance of ordinary shares for cash. On October 19, qualified employees were granted 37,500 thousand options. Each option entitles the holder with the right to subscribe for one ordinary share of the Bank. The options were granted at an exercise price of \$10.2.

Information on employee share options was as follows:

	For the Year Ended December 31, 2020	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Balance at January 1	-	\$ -
Options granted	37,500	10.2
Options exercised	(37,380)	10.2
Options expired	<u>(120)</u>	10.2
Balance at December 31	<u>-</u>	
Options exercisable, end of the year	<u>-</u>	
Weighted-average fair value of options granted (\$)		<u>\$ 0.71</u>

Options granted by Taichung Commercial Bank Co., Ltd. in October 2020 are priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

Grant-date share price	\$10.8
Exercise price	\$10.2
Volatility	19.98%
Duration	54 days
Dividend yield	0%
Risk-free interest rate	0.05%

Compensation costs recognized were \$26,625 thousand for the year ended December 31, 2020.

34. RELATED-PARTY TRANSACTIONS

Related Party	Relationship with the Bank
China Man-Made Fiber Corporation	Parent company of the Bank
Hsu Tian Investment Co., Ltd.	Legal director of the Bank
Pan Asia Chemical Co., Ltd. and Ho Yang Management Consultant Co., Ltd. (Note 3)	Legal directors of the Bank
Kuei-Fong Wang (Note 2)	Natural director of the Bank
Hsin-Chang Tsai, Li-Woon Lim, Pi-Ta Chen, Chien-An Shin (Note 2)	Independent directors of the Bank
Jin-Yi Lee (Note 3)	Independent director of the Bank
Hsin-Ching Chang, Wei-Liang Lin, Ming-Hsiung Huang, Te-Wei Chia, Siou-Huei Ye (Note 1), Shih-Yi Chiang, Li-Tzu Lai (Note 2)	Legal representatives of the Bank's director
Lai-Hsing Tsai, Chien-Hui Huang, Ming-Shan Chuang (Note 3)	Legal representatives of the Bank's director
24 persons including the Chairman and general manager's spouse	The spouses and second-degree relatives, etc. of the Bank's chairman and general managers

(Continued)

Related Party	Relationship with the Bank
40 persons including the director of the Board's spouse	The spouses and children of the Bank's directors
6 persons including Yi-Yuan Tung	Key management personnel
18 persons including associate general manager's spouse	The spouses and children of the Bank's associate general managers
105 persons including Hung-Lung Tsai	Managers of the Bank
11 persons including Kuei-Hsien Wang	The spouses and children of the parent company's chairman and general managers
Taichung Bank Securities Investment Trust Co., Ltd.	Associate accounted for using the equity method
Taichung Bank Insurance Brokers Co., Ltd.	Subsidiary
Taichung Bank Leasing Co., Ltd.	Subsidiary
Taichung Bank Securities Co., Ltd.	Subsidiary
TCCBL Co., Ltd.	Sub-subsidiary
Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Sub-subsidiary
Taichung Bank Venture Capital Co., Ltd.	Sub-subsidiary
China Fiber Investment Co., Ltd.	Related party in substance
Pan Asia Investment Co., Ltd.	Related party in substance
Taichung Commercial Bank Cultural and Educational Foundation, Taichung Commercial Bank Workers' Welfare Commission	Related party in substance
Deh Hsing Investment Co., Ltd.	Related party in substance
Iolite Company Limited	Related party in substance
Hammock (Hong Kong) Company Limited	Related party in substance
Hebei Hanoshi Contact Lens Co., Ltd.	Related party in substance
Chou Chin Industrial Co., Ltd.	Related party in substance
Chou Chang Co., Ltd.	Related party in substance
Pan Feng Enterprise Co., Ltd.	Related party in substance
Greenworld Food Co., Ltd.	Related party in substance
Nan Chung Petrochemical Corporation	Related party in substance
Je Mi Fang Corporation	Related party in substance
Rai Chia Investment Co., Ltd.	Related party in substance
Xiang Fong Development Co., Ltd.	Related party in substance
Reliance Securities Co., Ltd.	Related party in substance
Sheen Ren Knitting Factory Co., Ltd.	Related party in substance
Ta Fa Investment Co., Ltd.	Related party in substance
Tai Yi Investment Co., Ltd.	Related party in substance
Formosa Imperial Wineseller Corp.	Related party in substance
Tou Ming Industry Limited Company	Related party in substance
Jin Bang Ge Industrial Company Limited.	Related party in substance
Ta Yi Development Co., Ltd.	Related party in substance
Yu Hui Limited	Related party in substance
Formosawine Vintners Corporation	Related party in substance
Bomi International Co., Ltd.	Related party in substance
Shanghai Bomi Food Co., Ltd.	Related party in substance
Noble House Global Limited	Related party in substance
Noble House Glory Corporation	Related party in substance
Wang Wanjin Culture and Education Foundation	Related party in substance
Chaoqing Investment Co., Ltd.	Related party in substance
Sheng Yuan Ze Investment Limited Company	Related party in substance

(Continued)

<u>Related Party</u>	<u>Relationship with the Bank</u>
Pan Hsu Investment Co., Ltd.	Related party in substance
Precious Wealth International Limited	Related party in substance
Storm Model Management Co., Ltd.	Related party in substance
Bonwell Praise Co., Ltd.	Related party in substance
Chen Teng Public Relations (Shanghai) Company	Related party in substance
Shanghai Bomi Consulting management Limited Company	Related party in substance
Shuo-Jung Co., Ltd.	Related party in substance
Fengteng Co., Ltd.	Related party in substance
Shanghai Nianjia Culture Communication Co., Ltd.	Related party in substance
	(Concluded)

Note 1: Chin-Yuan Lai, who was the legal representative of Hsu Tian Investment Co., Ltd. and the legal director of the Bank, resigned on June 26, 2018. Hsu Tian Investment Co., Ltd. reassigned the position of legal representative to Siou-Huei Ye on May 28, 2019.

Note 2: 12 directors out of 24 directors (including 4 independent directors), were elected at the shareholders' meeting of the Bank on June 30, 2020. The followings were respectively elected as directors: Kuei-Fong Wang and Ming-Hsiung Huang (legal representative of Hsu Tian Investment Co., Ltd), Wei-Liang Lin (legal representative of Hsu Tian Investment Co., Ltd), Te-Wei Chia (legal representative of Hsu Tian Investment Co., Ltd), Shih-Yi Chiang (legal representative of Hsu Tian Investment Co., Ltd), Hsin-Ching Chang (legal representative of Hsu Tian Investment Co., Ltd), Siou-Huei Ye (legal representative of Hsu Tian Investment Co., Ltd), Li-Tzu Lai (legal representative of Hsu Tian Investment Co., Ltd), Hsin-Chang Tsai (independent directors of the Bank), Li-Woon Lim (independent directors of the Bank), Chien-An Shin (independent directors of the Bank) and Pi-Ta Chen (independent directors of the Bank).

Note 3: Resigned after the shareholders' meeting of the Bank on June 30, 2020.

Significant transactions between the Bank and related parties:

a. Receivables

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Taichung Bank Insurance Brokers Co., Ltd.	\$ 16,663	\$ 20,837
Taichung Bank Securities Co., Ltd.	<u>158</u>	<u>-</u>
	<u>\$ 16,821</u>	<u>\$ 20,837</u>

As of December 31, 2020 and 2019, the receivables from Taichung Bank Insurance Brokers Co., Ltd. were receivables on service fee income.

b. Loans

For the year ended December 31, 2020

	Numbers/ Name	Highest Balance	Balance, End of the Year	Compliance		Interest Revenue	Collaterals	The Difference Between Related and Non-related Party
				Performing Loans	Overdue Loans			
Employees consumption loans	13	\$ 5,529	\$ 3,897	\$ 3,897	\$ -	\$ 53	Credit loans	None
Loans on mortgage	40	237,517	156,316	156,316	-	1,645	Real estate	//
Other loans	Lee OO	2,552	2,414	2,414	-	35	"	//
	Chang OO	4,500	4,500	4,500	-	67	"	//
	Liu OO	1,911	1,774	1,774	-	24	"	//
	Tsai OO	5,000	5,000	5,000	-	-	"	//
	Lin OO	504	412	412	-	-	"	//
	Chiu OO	1,500	1,500	1,500	-	11	"	//
	Fang OO	25,932	4,616	4,616	-	35	"	//
	Lin OO	18,800	17,600	17,600	-	297	"	//
	Tsai OO	380	248	248	-	6	"	//
	Liang OO	886	767	767	-	11	"	//
	Ye OO	33,000	11,000	11,000	-	153	"	//
	Huang OO	1,570	1,435	1,435	-	23	"	//
	Chiu OO	3,238	2,935	2,935	-	40	"	//
	Hsu OO	2,200	2,200	2,200	-	5	"	//

For the year ended December 31, 2019

	Numbers/ Name	Highest Balance	Balance, End of the Year	Compliance		Interest Revenue	Collaterals	The Difference Between Related and Non-related Party
				Performing Loans	Overdue Loans			
Employees consumption loans	11	\$ 4,772	\$ 3,223	\$ 3,223	\$ -	\$ 67	Credit loans	None
Loans on mortgage	37	187,417	115,535	115,535	-	1,585	Real estate	//
Other loans	Lee OO	2,685	2,552	2,552	-	41	//	//
	Chen OO	4,000	-	-	-	17	//	//
	Liu OO	2,044	1,911	1,911	-	29	//	//
	Yang OO	846	-	-	-	4	//	//
	Zhong OO	12,230	-	-	-	154	//	//
	Fang OO	4,432	1,916	1,916	-	34	//	//
	Lin OO	38,000	18,800	18,800	-	354	//	//
	Liang OO	1,002	886	886	-	14	//	//
	Ye OO	33,000	11,000	11,000	-	166	//	//
	Huang OO	1,701	1,570	1,570	-	27	//	//
	Chiu OO	3,534	3,238	3,238	-	49	//	//
	Tsai OO	1,529	-	-	-	29	//	//
	Chen OO	1,600	-	-	-	5	//	//

According to Articles 32 and 33 of the Banking Law, credit loans cannot be made to related parties except loans to government and consumers; secured loans to related parties shall be provided with adequate collateral, and the terms of credits to related parties should be similar to those for third parties.

c. Deposits

	For the Year Ended December 31, 2020		
	Ending Balance	Interest Ratio	Interest Expense
Taichung Bank Insurance Brokers Co., Ltd.	\$ 1,330,849	0.01-0.81	\$ 1,893
Taichung Bank Securities Investment Trust Co., Ltd.	166,905	0.00-1.05	1,130
Taichung Commercial Bank Workers' Welfare Commission	140,183	0.01-4.80	7,151
Taichung Bank Leasing Co., Ltd.	57,503	0.00-0.13	94
China Man-Made Fiber Corporation	83,721	0.01-0.05	27
Reliance Securities Co., Ltd.	13,748	0.04-0.55	96
Taichung Commercial Bank Cultural and Educational Foundation	8,202	0.01-0.84	72
Formosa Imperial Wineseller Corp.	733	0.04	-
Greenworld Food Co., Ltd.	4,259	0.04	1
Pan Asia Chemical Corporation	113,890	0.01-0.04	7
Chou Chin Industrial Co., Ltd.	11,639	0.01-0.04	2
Chou Chang Co., Ltd.	84	0.01	-
Taichung Bank Securities Co., Ltd.	106,957	0.01-0.30	31
Pan Hsu Investment Co., Ltd.	4	0.01	-
TCCBL Co., Ltd.	794	0.05	1
Je Mi Fang Corporation	20,051	0.04-0.81	42
Yu Hui Limited	4	0.01	-
Hsu Tian Investment Co., Ltd.	41,153	0.01-0.05	1
Pan Feng Enterprise Co., Ltd.	260	0.04	-
Shuo-Jung Co., Ltd.	17,748	0.01	-
Deh Hsing Investment Co., Ltd.	6,834	0.04	3
Pan Asia Investment Co., Ltd.	6	0.01	-
Taichung Bank Venture Capital Co., Ltd.	188,268	0.01-0.04	11
Others	<u>347,616</u>	0.00-4.80	<u>3,851</u>
	<u>\$ 2,661,411</u>		<u>\$ 14,413</u>
	For the Year Ended December 31, 2019		
	Ending Balance	Interest Ratio	Interest Expense
Taichung Bank Insurance Brokers Co., Ltd.	\$ 1,452,291	0.01-1.07	\$ 2,401
Taichung Bank Securities Investment Trust Co., Ltd.	176,452	0.00-1.05	1,280
Taichung Commercial Bank Workers' Welfare Commission	139,771	0.01-5.09	7,258
Taichung Bank Leasing Co., Ltd.	68,474	0.00-0.48	112
China Man-Made Fiber Corporation	67,328	0.01-0.48	45
Reliance Securities Co., Ltd.	13,652	0.08-0.80	104
Taichung Commercial Bank Cultural and Educational Foundation	8,223	0.01-1.09	88
Formosa Imperial Wineseller Corp.	206	0.08	1
Greenworld Food Co., Ltd.	3,897	0.08	1
Pan Asia Chemical Corporation	38,487	0.01-0.08	14

(Continued)

For the Year Ended December 31, 2019

	Ending Balance	Interest Ratio	Interest Expense
Chou Chin Industrial Co., Ltd.	\$ 5,639	0.01-0.08	\$ 2
Chou Chang Co., Ltd.	4,728	0.01	-
Taichung Bank Securities Co., Ltd.	22,915	0.01-0.33	31
Pan Hsu Investment Co., Ltd.	3	0.01	-
TCCBL Co., Ltd.	846	0.33-0.48	4
Je Mi Fang Corporation	14,799	0.08	12
Yu Hui Limited	4	0.01	-
Hsu Tian Investment Co., Ltd.	46,712	0.01-0.48	13
Pan Feng Enterprise Co., Ltd.	248	0.08	-
Deh Hsing Investment Co., Ltd.	6,830	0.08	1
Pan Asia Investment Co., Ltd.	6	0.01	-
Others	<u>321,852</u>	0.00-5.09	<u>4,180</u>
	<u>\$ 2,393,363</u>		<u>\$ 15,547</u> (Concluded)

The interest rates did not significantly differ from those with ordinary customers except for the interest rates on the Bank's employee deposits at 4.80% and 5.09% as of December 31, 2020 and 2019, respectively.

d. Financial debenture

The Bank issued, first no due date non-cumulative subordinated financial debenture on 2015, first no due date non-cumulative subordinated financial debenture on 2016, first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture, third no due date non-cumulative subordinated financial debenture, fourth no due date non-cumulative subordinated financial debenture and fifth no due date non-cumulative subordinated financial debenture on 2017, first no due date non-cumulative subordinated financial debenture and second no due date non-cumulative subordinated financial debenture on 2018, and entrusted Concord Securities Co., Ltd. and KGI Securities Co., Ltd. as financial advisors for the issuance and collection of bonds.

As of December 31, 2020, the related parties subscribed for the financial debenture issued by the Bank through underwriting brokers as follows:

Counterparty	Subscription	Period
Hsu Tian Investment Co., Ltd.	\$ 4,000,000	First no due date non-cumulative subordinated financial debenture on 2015, first no due date non-cumulative subordinated financial debenture on 2016, first no due date non-cumulative subordinated financial debenture and fifth no due date non-cumulative subordinated financial debenture on 2017, first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture on 2018

(Continued)

Counterparty	Subscription	Period
Others	\$ 3,750,000	First no due date non-cumulative subordinated financial debenture on 2015, first no due date non-cumulative subordinated financial debenture on 2016, first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture, third no due date non-cumulative subordinated financial debenture, fourth no due date non-cumulative subordinated financial debenture, fifth no due date non-cumulative subordinated financial debenture on 2017, first no due date non-cumulative subordinated financial debenture and second no due date non-cumulative subordinated financial debenture on 2018 (Concluded)

The interest payables on the financial debentures of the above-mentioned related parties were \$47,108 thousand and \$50,136 thousand on December 31, 2020 and 2019, respectively. The interest expenses were \$318,702 thousand and \$320,872 thousand in 2020 and 2019, respectively.

e. Guarantee deposit received

	For the Year Ended December 31	
	2020	2019
Taichung Bank Insurance Brokers Co., Ltd.	\$ 200	\$ 200
Taichung Bank Leasing Co., Ltd.	230	230
Taichung Bank Securities Co., Ltd.	<u>529</u>	<u>435</u>
	<u>\$ 959</u>	<u>\$ 865</u>

f. Leases arrangement

Bank is lessor under operating leases

The Bank leases out its buildings to its subsidiaries, Taichung Bank Securities Co., Ltd., Taichung Bank Insurance Brokers Co., Ltd. and Taichung Bank Leasing Co., Ltd. under operating leases with lease terms of 5 years, and the lease terms with its related parties are similar to those of the non-related parties. As of December 31, 2020 and 2019, the gross lease payments to be received were \$9,276 thousand and \$13,196 thousand, respectively. Lease income recognized for the years ended December 31, 2020 and 2019 were \$5,565 thousand and \$5,244 thousand, respectively.

g. Service fee income, net

	For the Year Ended December 31	
	2020	2019
Service fee income		
Taichung Bank Insurance Brokers Co., Ltd.	\$ 200,000	\$ 250,000
Taichung Bank Securities Investment Trust Co., Ltd.	590	889
Taichung Bank Securities Co., Ltd.	<u>5,539</u>	<u>-</u>
	206,129	250,889
Service fee expense		
Taichung Bank Securities Co., Ltd.	<u>(2,832)</u>	<u>(2,068)</u>
	<u>\$ 203,297</u>	<u>\$ 248,821</u>

The above amounts are for the promotion and channel revenue, etc. Taichung Bank Insurance Brokers Co., Ltd. pays the toll fee on a monthly basis; the service fee expense from Taichung Bank Securities Co., Ltd. is brokerage fee. The price of transactions with its related parties is similar to those of the non-related parties.

h. Other non-interest gains, net

	For the Year Ended December 31	
	2020	2019
Taichung Bank Securities Co., Ltd.	<u>\$ 3,659</u>	<u>\$ 678</u>

The above amount is other non-interest gains. The price of transactions with its related parties is similar to those of the non-related parties.

i. Other expenses

	For the Year Ended December 31	
	2020	2019
Taichung Bank Securities Co., Ltd.	\$ 30,133	\$ 26,689
Greenworld Food Co., Ltd.	1,292	1,092
Je Mi Fang Corporation	1,472	372
Pan Feng Enterprise Co., Ltd.	<u>161</u>	<u>399</u>
	<u>\$ 33,058</u>	<u>\$ 28,552</u>

The above amounts are other business expenses. The price of transactions with its related parties is similar to those of the non-related parties.

j. Compensation of directors and key management personnel

For the years ended December 31, 2020 and 2019, the amounts of compensation of directors and key management personnel were as follows:

	December 31	
	2020	2019
Short-term benefits	\$ 172,853	\$ 152,340
Post-employment benefits	621	657
Other long-term employee benefits	<u>17</u>	<u>13</u>
	<u>\$ 173,491</u>	<u>\$ 153,010</u>

35. PLEDGED ASSETS

	December 31	
	2020	2019
Investments in debt instrument at amortized cost - government bonds	\$ 920,400	\$ 844,900
Deposit reserves for demand accounts	<u>5,000,000</u>	<u>-</u>
	<u>\$ 5,920,400</u>	<u>\$ 844,900</u>

Government bonds were pledged to district courts for litigation, the collateral for the overdraft of the clearing account and the compensation reserve for the securities firm and the trust business. The details were as follows:

	December 31	
	2020	2019
Guarantee to district courts for litigation	\$ 360,400	\$ 284,900
Reserve of trust compensation	60,000	60,000
Collateral for overdraft of clearing account	<u>500,000</u>	<u>500,000</u>
	<u>\$ 920,400</u>	<u>\$ 844,900</u>

36. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in Notes 8, 11 and 23, significant commitments and contingencies of the Bank as of December 31, 2020 and 2019 were as follows:

a. Significant commitments

	December 31	
	2020	2019
Loan commitments (excluding credit card)	\$ 143,630,068	\$ 139,176,198
Loan commitments - credit card	12,799,065	11,743,903
Guarantee receivable	22,879,091	16,485,312
Trust liabilities	65,050,103	67,330,687
Letters of credit	3,430,243	3,318,935

b. According to Article 17 of the Implementation Rules of Trust Law, the Bank should disclose its balance sheet of trust account and its asset items, which were as follows:

**Trust Account Balance Sheet
December 31, 2020**

Trust Asset	Amount	Trust Liabilities	Amount
Cash in banks	\$ 4,689,969	Securities under custody	
Short-term investments	53,842,003	payable	\$ 2,918,386
Structured finance instruments	1,406,286	Trust capital	62,131,717
Real estate		Net income	1,569,531
Land	2,056,768	Deferred carry-over amounts	<u>(1,569,531)</u>
Buildings	136,691		
Securities under custody	<u>2,918,386</u>		
Trust asset	<u>\$ 65,050,103</u>	Trust liability	<u>\$ 65,050,103</u>

**Trust Account Asset Items
December 31, 2020**

Item	Amount
Cash in banks	\$ 4,689,969
Short-term investments	53,842,003
Structured finance instruments	1,406,286
Real estate	
Land	2,056,768
Buildings	136,691
Securities under custody	<u>2,918,386</u>
	<u>\$ 65,050,103</u>

**Trust Account Income Statement
Year Ended December 31, 2020**

	Amount
Trust income	
Interest revenue	\$ 2,641,698
Trust expense	
Management fee	(1,072,146)
Tax	<u>(21)</u>
Income before income tax	1,569,531
Income tax expense	<u>-</u>
Net income	<u>\$ 1,569,531</u>

**Trust Account Balance Sheet
December 31, 2019**

Trust Asset	Amount	Trust Liabilities	Amount
Cash in banks	\$ 3,588,759	Securities under custody	
Short-term investments	54,341,837	payable	\$ 5,884,557
Structured finance instruments	2,041,602	Trust capital	61,446,130
Real estate		Net income	2,047,880
Land	1,350,853	Deferred carry-over amounts	<u>(2,047,880)</u>
Buildings	123,079		
Securities under custody	<u>5,884,557</u>		
Trust asset	<u>\$ 67,330,687</u>	Trust liability	<u>\$ 67,330,687</u>

**Trust Account Asset Items
December 31, 2019**

Item	Amount
Cash in banks	\$ 3,588,759
Short-term investments	54,341,837
Structured finance instruments	2,041,602
Real estate	
Land	1,350,853
Buildings	123,079
Securities under custody	<u>5,884,557</u>
	<u>\$ 67,330,687</u>

**Trust Account Income Statement
Year Ended December 31, 2019**

	Amount
Trust income	
Interest revenue	\$ 2,921,019
Dividend income	27,138
Trust expense	
Management fee	(900,164)
Tax	<u>(113)</u>
Income before income tax	2,047,880
Income tax expense	<u>-</u>
Net income	<u>\$ 2,047,880</u>

c. Maturity analysis of capital expenditures

Capital expenditure commitments represent contractual commitments for the acquisition of capital expenditures on construction and equipment.

Considering the expansion of business scale and the increasing number of employees in the future, the Bank held a tender for the construction project of head office through an online open bidding process on February 11, 2019. Dacin Construction Co., Ltd. and Earthpower Co., Ltd. won the bidding, both parties entered into a joint venture agreement worth \$11,160,000 thousand on March 29, 2019, and started construction on April 27, 2019. In addition, the Bank entered into a contract of planning, design and supervision worth \$480,492 thousand with YSL architects & associates.

Maturity analysis of capital expenditures was summarized as follows:

	December 31	
	2020	2019
Year 1	\$ 3,949,454	\$ 823,970
Year 2	3,309,926	4,580,756
Year 3	1,236,643	3,510,675
Year 4	14,394	1,233,409
Year 5	<u>-</u>	<u>71,971</u>
	<u>\$ 8,510,417</u>	<u>\$ 10,220,781</u>

- d. The Bank and Pihsiang Energy Technology Co., Ltd. returned the consumer consignment litigation. The first instance of Taichung District Court issued a civil judgment of the 2018 Result No. 598 that the Bank lost the case on February 4, 2020. The return to the lawsuit (i.e., Pihsiang Energy Technology) is \$100 million, and the interest is calculated at 5% of the annual interest rate from April 10, 2018 to the settlement date. The litigation costs shall be borne by the defendant (ie., the Bank) Burden, the appointed lawyer assessed that the content of the original judgment should be contradictory and unprovoked. Therefore, the Bank filed an appeal on February 27, 2020, and is now in the High Court Taichung Branch's 2020 renewed trial No. 78. According to the civil judgment result of the 2018 repetition word No. 598 on February 4, 2020, the Bank has prepared in advance the outstanding indemnities (statutory fruits and litigation costs) of the open litigation (statutory fruits and litigation costs) of \$14,090 thousand which accounted for the interest expenses of \$13,644 thousand and other business and management expenses-litigation fees of \$446 thousand in 2020.

37. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments not measured at fair value

Except as detailed in the following table, the carrying amounts of financial instruments recognized in the financial statements approximate their fair values or that the fair values cannot be reasonably measured. Therefore, those were not disclosed in this note.

- 1) Fair value hierarchy

December 31, 2020

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Investments in debt instrument at amortized cost	\$ 113,544,854	\$ 89,450,493	\$ 25,317,446	\$ -	\$ 114,767,939
<u>Financial liabilities</u>					
Financial liabilities at amortized cost					
Bank debentures	11,500,000	-	11,663,699	-	11,663,699

December 31, 2019

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Investments in debt instrument at amortized cost	\$ 108,969,273	\$ 85,512,551	\$ 24,092,164	\$ -	\$ 109,604,715
<u>Financial liabilities</u>					
Financial liabilities at amortized cost					
Bank debentures	14,000,000	-	14,014,140	-	14,014,140

- 2) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Non-derivatives	The market transaction price in the non-active market is taken as the fair value.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
<u>Financial assets at FVTPL</u>				
Derivative financial assets	\$ 3,660,280	\$ -	\$ 3,660,280	\$ -
Commercial papers	24,872,947	24,872,947	-	-
Domestic listed shares	381,119	381,119	-	-
Foreign listed shares	88,533	88,533	-	-
Beneficiary certificates	328,093	328,093	-	-
Domestic corporate bonds	11,628	11,628	-	-
Others	799,269	-	799,269	-
	<u>\$ 30,141,869</u>	<u>\$ 25,682,320</u>	<u>\$ 4,459,549</u>	<u>\$ -</u>
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
Domestic unlisted shares	\$ 751,556	\$ -	\$ -	\$ 751,556
Domestic listed shares	1,192,223	1,192,223	-	-
Foreign listed shares	311,404	311,404	-	-
Investments in debt instruments				
Domestic corporate bonds	26,959,132	26,959,132	-	-
Domestic government bonds	5,379,466	5,379,466	-	-
Foreign bonds	3,486,270	-	3,486,270	-
Bank debentures	2,008,865	2,008,865	-	-
	<u>\$ 40,088,916</u>	<u>\$ 35,851,090</u>	<u>\$ 3,486,270</u>	<u>\$ 751,556</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities	\$ 739,143	\$ -	\$ 739,143	\$ -

Reconciliation of Level 3 fair value measurements of financial instruments:

Item	Beginning Balance	Valuation Gains (Losses)	Increase		Decrease		Ending Balance
			Buy or Issue	Transfer in	Sell, Disposal	Transfer Out	
Financial assets at FVTOCI							
Unlisted shares	\$ 664,957	\$ 86,599	\$ -	\$ -	\$ -	\$ -	\$ 751,556

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
<u>Financial assets at FVTPL</u>				
Derivative financial assets	\$ 2,083,952	\$ -	\$ 2,083,952	\$ -
Commercial papers	20,074,138	20,074,138	-	-
Domestic listed shares and emerging market shares	515,102	515,102	-	-
Beneficiary certificates	314,607	314,607	-	-
Others	1,029,839	-	1,029,839	-
	<u>\$ 24,017,638</u>	<u>\$ 20,903,847</u>	<u>\$ 3,113,791</u>	<u>\$ -</u>
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
Domestic unlisted shares	\$ 664,957	\$ -	\$ -	\$ 664,957
Foreign listed shares	282,672	282,672	-	-
Investments in debt instruments				
Domestic corporate bonds	21,503,613	21,503,613	-	-
Domestic government bonds	5,997,423	5,997,423	-	-
Foreign bonds	799,314	-	799,314	-
Bank debentures	1,699,994	1,699,994	-	-
	<u>\$ 30,947,973</u>	<u>\$ 29,483,702</u>	<u>\$ 799,314</u>	<u>\$ 664,957</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities	\$ 225,402	\$ -	\$ 225,402	\$ -

Reconciliation of Level 3 fair value measurements of financial instruments:

Item	Beginning Balance	Valuation Gains (Losses)	Increase		Decrease		Ending Balance
			Buy or Issue	Transfer in	Sell, Disposal	Transfer Out	
Financial assets at FVTOCI							
Unlisted shares	\$ 510,523	\$ 154,434	\$ -	\$ -	\$ -	\$ -	\$ 664,957

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Non-derivatives	The market transaction price in the non-active market is taken as the fair value.
Derivatives	
Option contracts	Valuation model: The execution price, maturity date, market volatility, interest rate and exchange rate set by the contract are used as evaluation parameters. The model with closed solution is then used for evaluation.
Cross-currency swap contracts	Discounted cash flow:
Foreign exchange forward contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Asset swap contract	Convertible corporate bond closing price on the day minus bond value. The pure bond value is discounted by the cash flow provided by the convertible corporate bonds in accordance with Taiwan Bills Index Rate (TAIBIR).
Structured finance instruments	
Interest structured instruments	The counterparty quotes.

3) The quantitative information on fair value of significant unobservable input (Level 3)

The quantitative information on unobservable inputs of the financial instruments classified in Level 3, and held by the Bank on December 31, 2020 and 2019, were as follows:

Items	Fair Value on December 31, 2020	Fair Value on December 31, 2019	Valuation Techniques	Significant Unobservable Input	Range (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at fair value through other comprehensive income Domestic unlisted shares	\$ 751,556	\$ 664,957	Seller' quote (Monte Carlo Simulation Method)	Volatility rate	24.37%-24.97%	The lower the volatility rate, the higher the fair value

4) The assessment of fair value in Level 3

The Bank assessed fair value in accordance with evaluation report provided by independent company, and compiled the evaluation result into a quarterly report presented to the board of directors.

5) Sensitivity analysis of Level 3 fair value if reasonable possible alternative assumptions may be used.

The Bank uses the volatility rate of quantitative information on significant unobservable input of market multiple. The sensitivity analysis based on assets category is as follows:

Risk Factor	Number of Changes	Number of Influences
Liquidity discount ratio	10%	\$ (16,125)

c. Categories of financial instruments

	December 31	
	2020	2019
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 30,141,869	\$ 24,017,638
Financial assets at amortized cost (Note 1)	637,888,916	602,274,531
Financial assets at FVTOCI		
Equity instruments	2,255,183	947,629
Debt instruments	37,833,733	30,000,344
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	739,143	225,402
Financial liabilities at amortized cost (Note 2)	666,800,089	620,787,396

Note 1: The balances include financial assets at amortized cost, which comprise cash and cash equivalents, due from the Central Bank and call loans to other banks, investment in debt instrument at amortized cost, securities purchased under resell agreements, receivables, notes discounted and loans, refundable deposits, and other delinquent receivables.

Note 2: The balances include financial liabilities at amortized cost, which comprise due to the Central Bank and other banks, funds borrowed from Central Bank and other banks, securities sold under resale agreements, payables, deposits and remittances, bank debentures, other financial liabilities, and guarantee deposits received.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Overview

The financial risk management objectives of the Bank is to achieve the goal of balancing risk tolerance, business objectives and external legal restrictions. These risks include market risks (including interest rate, exchange rate, equity securities, product price and the product price risks) and liquidity risks of on-and-off balance sheet business.

The Bank has formulated a relevant risk management policy, which has been approved by the board of directors to effectively identify, measure, monitor and control credit risk, market risk and liquidity risk.

Risk Management Organizational Structure

The board of directors is the highest decision-making unit for the Bank's corporate risk management and assumes the ultimate responsibility for risk management. The Bank has a risk management committee and a risk management department, which grants risk authority and confers responsibilities on the relevant departments to ensure the smooth operation of risk management. The responsibilities of the committee are as follows:

- a. Consideration of the risk management programmer.
- b. Consideration and review of risk limits.
- c. Consideration of the bill on institutionalization of risk management.
- d. Report to the board of directors regularly.

Members of the risk management committee set up various risk management measurement indicators according to the nature of their business and the scope of their duties, and the risk management department should report to the risk management committee to provide a reference for senior decision-making.

1) Market risk

- a) The source and definition of market risk

Market risks refer to the loss due to the changes in market price, such as the changes of the market interest rate, the exchange rate, the share price and the product price.

- b) Market risk management policy

The objective of the Group market risk management is to develop a sound and effective market risk management mechanism that is consistent with the size, nature and complexity of the Bank's business to ensure that the risks borne by the Bank can be properly managed and market risks are effectively identified, measured, monitored and controlled, and strike a balance between the level of risk tolerance and the expected level of compensation.

- c) Market risk management process

- i. Identification and measurement

The relevant market risks should be assessed through appropriate procedures to consider whether the risk is within an acceptable risk range before new products, business activities, processes and systems are rolled out or operated. The relevant units should use the methods of business analysis or product analysis to identify the sources of market risks, define the market risk factors of each financial commodity and make appropriate specifications.

Market risk measurement can use a variety of effective measures to properly measure risk, including but not limited to the following methods: Statistical basis measures, sensitivity analysis and situational analysis. The risk management department should measure the risk of the site on a daily basis and conduct regular stress tests to measure the amount of abnormal losses that may occur in the current extremes or historical extremes.

ii. Monitoring and reporting

The risk management department should report to the risk management committee and the board of directors regularly on the implementation of the Bank's market risk management, including the Bank's market risk location, risk level, profit and loss status, quota usage and compliance with relevant market risk management regulations and suggestions. The authorities also set up relevant limit management, stop loss mechanism, overrun treatment and exception management methods to effectively monitor market risks. In the event of an overrun or exception, it should be notified immediately to facilitate the immediate response.

d) Interest rate risk

i. Definition of interest rate risk

Interest rate risk refers to the change in interest rate, which causes the Bank to bear the risk of changes in the fair value of the interest rate risk or the loss of the surplus. The main sources of risk include deposits and interest-related securities.

ii. Measurement methods and management procedures

The Bank monitors the interest rate risk system, sets the scope of the indicators to regularly monitor and report the results to the asset and liability management committee, the risk management committee and the board of directors, and adjusts according to the overall operating conditions of the Bank. In addition, the Bank measures the interest rate risk by DV01, assuming that the interest rate curve moves 100BP in parallel, the degree of impact on earnings and equity controls the interest rate risk.

e) Exchange rate risk

i. Definition of exchange rate risk

Exchange rate risk is the gain or loss resulting from the conversion of two different currencies at different times. The Bank's exchange rate risk is mainly due to the spot and forward foreign exchange of the business. Since the foreign exchange transactions are mostly based on the principle of flattening the customer's position for the day, the exchange rate risk is relatively small.

ii. Measurement methods and management procedures

The Bank adopts the quota management mechanism for the exchange rate risk system, sets the business quota and overnight limit for each currency, controls the maximum net foreign exchange position that can be held by all levels of personnel, and sets the maximum transaction amount according to the counterparty, and monitors it regularly. The results will be reported to the risk management committee and the board of directors for discussion.

In addition, the Bank assumes that the exchange rate of USD/NTD, CNY/NTD, and AUD/NTD is relatively revaluated/depreciated by 3%, and the degree of impact on earnings and equity controls the exchange rate risk.

f) Equity securities price risk

i. Definition of equity securities price risk

The market risk of the Bank's equity securities is the individual risk arising from changes in the market price of individual equity securities and the general market risk arising from changes in the overall market price. The main risks include listing counter shares and beneficiary certificates.

ii. Measurement methods and management procedures

The Bank adopts a quota management mechanism for the equity securities price risk, ensuring that all levels are traded within the authorized amount, and sets up relevant mechanisms for stop loss control, and regularly reports the monitoring results to the risk management committee and the board of directors for discussion.

In addition, the Bank assumes that when the price of equity securities rises/falls by 15%, the degree of impact on earnings and equity controls the risk of equity securities.

g) Market risk sensitivity analysis

Interest risk

The Bank assumed that when other change factors remain unchanged, if the yield curve increased/decreased by 100 basis points, the income before income tax of the Bank as of December 31, 2020 and 2019 would have increased/decreased by \$875,992 thousand and \$751,798 thousand, respectively, and other equity would have decreased/increased by \$1,751,581 thousand and \$2,002,094 thousand, respectively.

Exchange rate risk

The Bank assumed that when other change factors remain unchanged, if the exchange rate of USD/NTD, CNY/NTD, and AUD/NTD appreciated/depreciated by 3%, the income before income tax as of December 31, 2020 and 2019 would have decreased/increased \$3,336 thousand and increased/decreased \$20,939 thousand, respectively, and other equity would have increased/decreased by \$103,213 thousand and \$26,883 thousand, respectively.

Equity securities price risk

The Bank assumed that when other change factors remain unchanged, if the price of equity securities increased/decreased by 15%, the income before income tax as of December 31, 2020 and 2019 would have increased/decreased by \$119,662 thousand and \$124,456 thousand, respectively, and other equity would have increased/decreased by \$338,277 thousand and \$142,144 thousand, respectively.

The summary of sensitivity analysis was as follows:

December 31, 2020			
Main Risk	Range of Change	Influence Amount	
		Other Equity	Income
Interest risk	Interest rate curve rises 100BPS	\$ (1,751,581)	\$ 875,992
	Interest rate curve falls 100BPS	1,751,581	(875,992)
Exchange rate risk	USD/NTD, CNY/NTD, AUD/NTD increase by 3% respectively	103,213	(3,336)
	USD/NTD, CNY/NTD, AUD/NTD decrease by 3% respectively	(103,213)	3,336
Equity securities price risk	Equity securities prices rise by 15%	338,277	119,662
	Equity securities prices fall by 15%	(338,277)	(119,662)

December 31, 2019			
Main Risk	Range of Change	Influence Amount	
		Other Equity	Income
Interest risk	Interest rate curve rises 100BPS	\$ (2,002,094)	\$ 751,798
	Interest rate curve falls 100BPS	2,002,094	(751,798)
Exchange rate risk	USD/NTD, CNY/NTD, AUD/NTD increase by 3% respectively	26,883	20,939
	USD/NTD, CNY/NTD, AUD/NTD decrease by 3% respectively	(26,883)	(20,939)
Equity securities price risk	Equity securities prices rise by 15%	142,144	124,456
	Equity securities prices fall by 15%	(142,144)	(124,456)

2) Credit risk

a) The source and definition of credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Bank. Credit risk exists in both on and off balance sheet items. The on balance sheet exposures to credit risks are mainly from notes discounted and loans, the credit card business, due from other banks and call loans to other banks, acceptance, investment in debt instrument and derivatives. The off-balance sheet exposures to credit risks are mainly from financial guarantees, letter of credits and loan commitments.

b) Credit risk management policy

Before launching new products or businesses, the Bank ensures compliance with all applicable rules and regulations and identifies relevant credit risks. On December 31, 2020, the ratio of loans with collateral to the total amount of loans was approximately 78%. The ratio of financing guarantees to commercial letters of collateral holdings was approximately 33%, and the collateral required for loans, loan commitments or guarantees is usually in the forms of cash, inventories, liquid securities or other property in circulation. If the customers default, the Bank will execute its rights on collateral in accordance with the terms of contracts.

c) Credit risk management program

The measurement and management of credit risks from the Bank's main businesses were as follows:

i. Loans business (including loan commitment and guarantees)

i) Determination that credit risk has increased significantly since the initial recognition.

The Bank assesses the change in the probability of default of loans during the lifetime on each reporting date to determine if the credit risk has increased significantly since the initial recognition. In order to make this assessment, the Bank considers the reasonable and supportable information that the credit risk has increased significantly since the initial recognition (including forward-looking information). The main considerations include:

Quantitative indicators

- Changes in external credit ratings of Taiwan Corporate Credit Rating Index (TCRI)

The TCRI rating of the listed cabinet company corresponding to the external rating has been reduced from the investment grade to the non-investment grade, that is, the credit risk has been significantly increased since the initial recognition.

- Information on overdue status

When the contract amount is overdue for more than one month, it is determined that the credit risk of the financial asset has increased significantly since the initial recognition.

Qualitative indicators

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

ii) Definition of default and credit impairment financial assets

The definition of financial asset default is the same as that of financial asset credit impairment. If one or more of the following conditions are met, the Bank determines that the financial asset has defaulted and become credit impaired:

Quantitative indicators

- Changes in external TCRI credit ratings

The TCRI rating of the listed cabinet company is default grade, which means that the credit has been deducted since the initial recognition.

- Information on overdue status

When the contract amount is overdue for more than three months, it is determined that the credit of the financial asset has been impaired since the initial recognition.

Qualitative indicators

If there is evidence that the borrower will not be able to pay the contract, or that the borrower has significant financial difficulties, such as:

- The debtor has gone bankrupt or may have called for bankruptcy or financial restructuring.
- Other debt instrument contracts of the debtor have defaulted.
- Due to the economic or contractual reasons associated with the debtor’s financial difficulties, the debtor’s creditors give the borrower an unconfirmed concession and report the overdue loan.

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

iii) Measurement of expected credit losses

In order to assess the expected credit losses, the combined company divides the credit assets into the following combinations according to the credit risk characteristics such as the use of borrowing, industrial nature, collateral type and borrowing status.

Product Portfolio	
Corporation loans	Corporation loans - secured
	Corporation loans - unsecured
Consumer loans	House mortgage
	Consumer loans - secured
	Consumer loans - unsecured
	Credit loans
	Debit card
	Credit card

The Bank evaluates loss allowance of financial assets, which credit risk does not significantly increase after initial recognition based on 12 months expected credit losses. The Bank evaluates loss allowance of financial assets, which credit risk significantly increases after initial recognition based on lifetime expected credit losses.

In order to evaluate expected credit losses, the Bank takes into consideration the debtor’s probability of default (“PD”) within the next 12 months and lifetime, which includes the loss given default (“LGD”), the results are then multiplied by the exposure at default (“EAD”), while also considering the effect of time value of money to calculate the expected credit losses during the duration of 12 months and lifetime separately.

PD is the default percentage of a borrower. LGD is the loss ratio once a borrower default. The Bank applied PD and LGD to evaluate loan business impairment based on each portfolio's historical information calculated internally (i.e. credit loss experience), and adjusted historical data based on current observable information and forward-looking macroeconomic information calculated by using packet direct estimation method.

The Bank evaluates the loan default risk by packet direct estimation method. The Bank calculates 12 months and lifetime ECLs of financing commitment based on packet direct estimation method. The Bank uses credit conversion factor to calculate the portion of financing commitment expected to be used in 12 months after record date and the credit duration to calculate the default exposure amount of ECLs.

Consideration of forward-looking estimation

In considering the expected credit losses, the Bank uses forward looking economic factors that affect credit risk and expected credit losses to consider forward looking information. Forward looking information is based on the Taiwan National Development Council's regular promulgation of the "Benefit Strategy Signal" of Taiwan's overall prosperity as indicators, which are divided into boom expansion period, contraction period and flat period. The Bank evaluates the economic situation to adjust the default probability every quarter, and then incorporates it into the overall expected credit loss assessment.

ii. Debt instrument investment

The Bank considers the historical default loss rate provided by the external rating agencies and the current financial status of the debtor to calculate 12-month or lifetime ECLs of financing commitment in debt instrument investment.

The securities held by the Bank recognize the expected credit losses according to the expected credit losses during 12-month or lifetime of financing commitment. The credit quality of the Bank's judgment securities was as follows:

- i) The determination since the initial recognition of the credit risk has increased significantly.

The Bank assesses the change in the probability of default of debt instrument investment during the lifetime on each reporting date to determine if the credit risk has increased significantly since the initial recognition. In order to make this assessment, the Bank considerations show the reasonable and supportable information that the credit risk has increased significantly since the initial recognition. The main considerations include:

Quantitative indicators

- At the time of initial recognition, the issuer's credit rating is above the investment grade, but at the financial reporting date, the issuer's credit rating is reduced to a non-investment grade.
- For debt instrument investments on the initial recognition date, the issuer's credit rating is below the non-investment grade and the credit rating on the reporting day has not changed.
- When the issuer's credit rating is a non-investment grade, the reported daily credit rating is reduced to a certain extent.

Qualitative indicators

- The credit rating of the issuer indicates that its credit risk has increased significantly.
- The fair value of the debt instrument investment is significantly and adversely changed on the reporting date.

ii) Definition of default and credit impairment financial assets

If the debt instrument investment meets one or more of the following conditions, it determines that the financial asset has defaulted and the credit is impaired.

Quantitative indicators

- Debt instrument investment is the credit impairment bond when it is purchased.
- The default rate for credit rating of the issuer or debt instrument investment will be adjusted on the reporting day.

Qualitative indicators

- The issuer modifies the issue conditions of the debt instrument investment due to financial difficulties or fails to pay the principal or interest according to the conditions of the issue.
- The issuer or the guarantee institution has ceased operations or has applied for reorganization, bankruptcy, dissolution, and sale of major assets that have a significant impact on the company's continued operations.

Measurement of expected credit losses

- In order to evaluate expected credit losses, the Bank takes into consideration the debtor's probability of default ("PD") within the next 12 months, which includes the loss given default ("LGD"), the results are then multiplied by the exposure at default ("EAD"), while also considering the effect of time value of money to calculate the expected credit losses during the duration of 12 months.
- Comparing the risk of default on the dated debt instrument with the default risk at the time of initial recognition, and considering the reasonable and corroborative information for a significant increase in credit risk since the initial recognition, to determine whether the financial instrument's credit risk has increased significantly since the initial recognition.
 - Those who meet the normal credit risk status will estimate the expected loss amount based on the one-year probability of default (PD).
 - Those who meet the significant increase in credit risk status must consider the duration of the asset project and calculate the probability of default (PD) for each duration. If the cash flow of the contract in the future period (i.e., the default exposure amount of each period) can be assessed, the cash flow method is used to assess the expected amount of credit loss, and if the cash flow of each period cannot be assessed, and the current risk calculation method is used it.

- Those who meet the abnormal credit risk status are considered to be 100%, and will not consider the probability of default in each duration. Only consider the relevant recoverable amount and evaluate the overall expected credit loss amount.
- Debt instrument investment probability of default is the value released by external credit rating agencies, which implies the possibility of future market fluctuations.

d) Credit risk hedging or mitigation policies

i. Collaterals

The Bank implements a series of policies and measures to reduce credit risks when granting of credit. One of the commonly used methods is to require borrowers to provide collaterals. To enforce the rights to collaterals, the Bank manages and assesses the collaterals according to the procedures adopted in determining the scope of collateralization and valuation of collaterals.

The main types of collateral for granting credit are as follows:

- i) Real estate.
- ii) Chattels and rights of pledge.
- iii) Guarantee from external agency.

To enhance guarantee of transaction risk, the Bank's demand for collaterals depends on the nature of derivative transactions as follows:

- i) Guarantee of amount invested: Asking different ratio of guarantee depends on the credit rating scale of clients.
- ii) Guarantee of high-risk transactions: Asking for collaterals when option contracts are under resale agreement.
- iii) Performance bond (loss on investment position): Asking for collaterals when loss on investment position exceeds the limit of approved market value.

The Bank closely observed the value of pledged financial assets and evaluated which financial assets had been impaired in order to recognize allowance for impairment. Credit-impaired financial assets and its pledged values which eliminate potential loss, are as follows:

December 31, 2020

	Total Book Value	Allowance Impairment	Exposure	Collateral Fair Value
Financial assets that were impaired				
Notes discounted and loans	\$ 8,410,617	\$ (1,856,155)	\$ 6,554,462	\$ 6,554,462
Receivables	108,127	(78,734)	29,393	26,872
				(Continued)

	Total Book Value	Allowance Impairment	Exposure	Collateral Fair Value
Guarantees and letters of credit	\$ 93,398	\$ (36,355)	\$ 57,043	\$ 38,599
Debt instrument	7,668	(7,668)	-	-
Others	<u>42,651</u>	<u>(2,555)</u>	<u>40,096</u>	<u>-</u>
Total financial assets that were impaired	<u>\$ 8,662,461</u>	<u>\$ (1,981,467)</u>	<u>\$ 6,680,994</u>	<u>\$ 6,619,933</u> (Concluded)

December 31, 2019

	Total Book Value	Allowance Impairment	Exposure	Collateral Fair Value
Financial assets that were impaired				
Notes discounted and loans	\$ 9,554,442	\$ (2,468,257)	\$ 7,086,185	\$ 7,086,185
Receivables	114,345	(79,341)	35,004	35,004
Guarantees and letters of credit	182,882	(58,628)	124,254	88,672
Debt instrument	17,477	(17,477)	-	-
Others	<u>11,000</u>	<u>(4,025)</u>	<u>6,975</u>	<u>6,975</u>
Total financial assets that were impaired	<u>\$ 9,880,146</u>	<u>\$ (2,627,728)</u>	<u>\$ 7,252,418</u>	<u>\$ 7,216,836</u>

ii. Credit risk concentration limits and control

To avoid the concentration of credit risks, the Bank has included credit limits for the same person (entity) and for the same related-party corporation (group) based on the credit risk arising from loans, securities investment and derivatives transactions.

Meanwhile, for trading and banking book investments, the Bank has set a ratio, which is the credit limit of a single issuer in relation to the total security position. The Bank has also included credit limits for a single counterparty and a single group.

In addition, to manage the concentration risk of the financial assets, the Bank has set credit limits by industry, conglomerate, country and transactions collateralized by shares, and integrated within one system to supervise the concentration of credit risk in these categories. The Bank monitors concentration of each asset and controls various types of credit risk concentration in a single transaction involving counterparties, groups, related-party corporations, industries and nations.

iii. Other credit enhancements

To reduce its credit risks, the Bank stipulates in its credit contracts the term for offsetting which clearly stated that the Bank reserves the right to offset the borrowers' debt against their deposits in the Bank.

e) Maximum exposure to credit risk

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

	December 31	
	2020	2019
Irrevocable loan commitments	\$ 9,034,662	\$ 7,152,089
Credit card commitments	12,799,065	11,743,903
Guarantee receivables	22,879,091	16,485,312
Letters of credit	3,430,243	3,318,935

The management of the Bank believes their abilities to minimize the credit risk exposures of the off-balance sheet items are mainly attributed to their rigorous evaluation of extended credit and the periodic reviews of these credits.

f) Credit risk concentration of the Bank

When the other parties to the financial instruments consist of a single individual, or a concentration of entities with similar commercial activities, they may have similar abilities to fulfill their credit obligations. The Bank does not have such situation. The Bank's credit exposure related to loans was as follows:

Object	December 31	
	2020	2019
Private enterprise	\$ 249,763,257	\$ 240,401,864
Natural person	232,097,927	216,418,787
Government agencies	2,000,000	-
Others	<u>2,115,584</u>	<u>2,626,646</u>
	<u>\$ 485,976,768</u>	<u>\$ 459,447,297</u>

Credit Risk Profile by Group or Industry	December 31	
	2020	2019
Natural person	\$ 232,097,927	\$ 216,418,787
Manufacturing	75,397,114	79,877,564
Commercial	54,776,442	53,653,692
Real estate and leasing	64,262,164	59,714,137
Construction industry	17,600,924	13,945,764
Servicing	9,964,271	10,125,067
Finance and insurance	15,917,602	10,781,093
Transportation warehousing and information communication	8,108,871	7,780,207
Others	<u>7,851,453</u>	<u>7,150,986</u>
	<u>\$ 485,976,768</u>	<u>\$ 459,447,297</u>

Credit Risk Profile by Region	December 31	
	2020	2019
Domestic	\$ 457,779,875	\$ 428,461,262
Asia	15,193,342	15,272,746
North America	9,234,010	11,519,422
Others	<u>3,769,541</u>	<u>4,193,867</u>
	<u>\$ 485,976,768</u>	<u>\$ 459,447,297</u>

Credit Risk Profile by Collateral	December 31	
	2020	2019
Unsecured	\$ 73,470,497	\$ 73,246,631
Secured		
Real estate	369,657,767	350,018,295
Letter of bank guarantee	17,302,660	15,598,868
Debenture	15,051,165	12,696,708
Chattel	2,820,268	2,454,740
Notes receivable	1,654,511	1,514,761
Stocks	3,403,272	1,782,818
Others	<u>2,616,628</u>	<u>2,134,476</u>
	<u>\$ 485,976,768</u>	<u>\$ 459,447,297</u>

g) Write-off policy

If one of the following events have occurred, overdue loans and delinquent receivables should have the estimated recoverable amount deducted and should then be written off as bad debt:

- The debtor may not recover all or part of the obligatory claim due to dissolution, disappearance, settlement, bankruptcy or other reasons.
- The appraisal value of collateral and asset of the main and subordinate debtors are very low, or the compensation is not available after deducting the amount of the first mortgage, or it is not beneficial that execution fee is close to or may exceed the Bank's reimbursable amount.
- The collateral and the assets of the main and subordinate debtors are auctioned off at multiple auctions, of which the Bank did not receive any benefit.
- Overdue loans and delinquent receivables which have been overdue for more than 2 years have been collected but not yet received.
- The minimum payable amount of credit card which is overdue for six months that should be written off in three months.

h) Information of credit quality

i. Notes discounted, loans and receivables

December 31, 2020

Notes Discounted and Loans					
	Stage 1	Stage 2	Stage 3	Difference of Impairment Loss under Regulations	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
Product category					
Corporation loans	\$ 222,062,618	\$ 2,875,763	\$ 5,459,607	\$ -	\$ 230,397,988
Consumer loans	216,422,857	11,981,206	2,951,356	-	231,355,419
Others	<u>23,787</u>	<u>499</u>	<u>(346)</u>	-	<u>23,940</u>
Total book value	438,509,262	14,857,468	8,410,617	-	461,777,347
Allowance for doubtful accounts	(1,724,907)	(925,826)	(1,856,155)	-	(4,506,888)
Difference of impairment loss under regulations	-	-	-	<u>(1,828,105)</u>	<u>(1,828,105)</u>
	<u>\$ 436,784,355</u>	<u>\$ 13,931,642</u>	<u>\$ 6,554,462</u>	<u>\$ (1,828,105)</u>	<u>\$ 455,442,354</u>
Receivables					
	Stage 1	Stage 2	Stage 3	Difference of Impairment Loss under Regulations	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
Product category					
Corporation loans	\$ 823,409	\$ 5,429	\$ 23,054	\$ -	\$ 851,892
Consumer loans	844,931	23,982	32,885	-	901,798
Others	<u>61,395,265</u>	<u>10</u>	<u>52,188</u>	-	<u>61,447,463</u>
Total book value	63,063,605	29,421	108,127	-	63,201,153
Allowance for doubtful accounts	(13,377)	(3,555)	(78,734)	-	(95,666)
Difference of impairment loss under regulations	-	-	-	<u>(29,990)</u>	<u>(29,990)</u>
	<u>\$ 63,050,228</u>	<u>\$ 25,866</u>	<u>\$ 29,393</u>	<u>\$ (29,990)</u>	<u>\$ 63,075,497</u>
Irrevocable Loan Commitments					
	Stage 1	Stage 2	Stage 3	Difference of Impairment Loss under Regulations	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
Product category					
Corporation loans	\$ 7,906,111	\$ 45,900	\$ 42,651	\$ -	\$ 7,994,662
Consumer loans	<u>1,040,000</u>	-	-	-	<u>1,040,000</u>
Total book value	8,946,111	45,900	42,651	-	9,034,662
Allowance for doubtful accounts	(54,238)	(5,349)	(2,555)	-	(62,142)
Difference of impairment loss under regulations	-	-	-	<u>(2,536)</u>	<u>(2,536)</u>
	<u>\$ 8,891,873</u>	<u>\$ 40,551</u>	<u>\$ 40,096</u>	<u>\$ (2,536)</u>	<u>\$ 8,969,984</u>

Credit Card Commitments					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Consumer loans	\$ 12,726,008	\$ 73,057	\$ -	\$ -	\$ 12,799,065
Total book value	12,726,008	73,057	-	-	12,799,065
Allowance for doubtful accounts	(4,730)	(1,856)	-	-	(6,586)
Difference of impairment loss under regulations	-	-	-	(796)	(796)
	<u>\$ 12,721,278</u>	<u>\$ 71,201</u>	<u>\$ -</u>	<u>\$ (796)</u>	<u>\$ 12,791,683</u>

Guarantee Receivables					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Corporation loans	\$ 22,707,521	\$ 78,172	\$ 93,398	\$ -	\$ 22,879,091
Total book value	22,707,521	78,172	93,398	-	22,879,091
Allowance for doubtful accounts	(168,958)	(4,799)	(36,355)	-	(210,112)
Difference of impairment loss under regulations	-	-	-	(25,851)	(25,851)
	<u>\$ 22,538,563</u>	<u>\$ 73,373</u>	<u>\$ 57,043</u>	<u>\$ (25,851)</u>	<u>\$ 22,643,128</u>

Letters of Credit					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Corporation loans	\$ 3,360,243	\$ 70,000	\$ -	\$ -	\$ 3,430,243
Total book value	3,360,243	70,000	-	-	3,430,243
Allowance for doubtful accounts	(9,157)	(3,263)	-	-	(12,420)
Difference of impairment loss under regulations	-	-	-	(677)	(677)
	<u>\$ 3,351,086</u>	<u>\$ 66,737</u>	<u>\$ -</u>	<u>\$ (677)</u>	<u>\$ 3,417,146</u>

December 31, 2019

Notes Discounted and Loans					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Corporation loans	\$ 215,960,389	\$ 3,305,915	\$ 6,117,319	\$ -	\$ 225,383,623
Consumer loans	198,629,666	13,565,815	3,437,092	-	215,632,573
Others	24,321	2,135	31	-	26,487
Total book value	414,614,376	16,873,865	9,554,442	-	441,042,683
Allowance for doubtful accounts	(1,776,230)	(852,354)	(2,468,257)	-	(5,096,841)
Difference of impairment loss under regulations	-	-	-	(1,476,478)	(1,476,478)
	<u>\$ 412,838,146</u>	<u>\$ 16,021,511</u>	<u>\$ 7,086,185</u>	<u>\$ (1,476,478)</u>	<u>\$ 434,469,364</u>

Receivables					
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Corporation loans	\$ 1,455,859	\$ 5,950	\$ 29,476	\$ -	\$ 1,491,285
Consumer loans	871,190	30,693	33,988	-	935,871
Others	<u>50,901,584</u>	<u>237</u>	<u>50,881</u>	-	<u>50,952,702</u>
Total book value	53,228,633	36,880	114,345	-	53,379,858
Allowance for doubtful accounts	(23,183)	(3,809)	(79,341)	-	(106,333)
Difference of impairment loss under regulations	-	-	-	(23,736)	(23,736)
	<u>\$ 53,205,450</u>	<u>\$ 33,071</u>	<u>\$ 35,004</u>	<u>\$ (23,736)</u>	<u>\$ 53,249,789</u>

Irrevocable Loan Commitments					
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Corporation loans	\$ 7,015,489	\$ -	\$ 11,000	\$ -	\$ 7,026,489
Consumer loans	<u>125,600</u>	<u>-</u>	<u>-</u>	-	<u>125,600</u>
Total book value	7,141,089	-	11,000	-	7,152,089
Allowance for doubtful accounts	(44,515)	-	(4,025)	-	(48,540)
Difference of impairment loss under regulations	-	-	-	(5,435)	(5,435)
	<u>\$ 7,096,574</u>	<u>\$ -</u>	<u>\$ 6,975</u>	<u>\$ (5,435)</u>	<u>\$ 7,098,114</u>

Credit Card Commitments					
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Consumer loans	\$ 11,670,034	\$ 73,869	\$ -	\$ -	\$ 11,743,903
Total book value	11,670,034	73,869	-	-	11,743,903
Allowance for doubtful accounts	(4,245)	(1,848)	-	-	(6,093)
Difference of impairment loss under regulations	-	-	-	(3,289)	(3,289)
	<u>\$ 11,665,789</u>	<u>\$ 72,021</u>	<u>\$ -</u>	<u>\$ (3,289)</u>	<u>\$ 11,734,521</u>

Guarantee Receivables					
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Corporation loans	\$ 16,287,614	\$ 14,864	\$ 182,834	\$ -	\$ 16,485,312
Total book value	16,287,614	14,864	182,834	-	16,485,312
Allowance for doubtful accounts	(109,720)	(1,778)	(58,621)	-	(170,119)
Difference of impairment loss under regulations	-	-	-	(4,344)	(4,344)
	<u>\$ 16,177,894</u>	<u>\$ 13,086</u>	<u>\$ 124,213</u>	<u>\$ (4,344)</u>	<u>\$ 16,310,849</u>

Letters of Credit					
	Stage 1	Stage 2	Stage 3	Difference of Impairment Loss under Regulations	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
Product category					
Corporation loans	\$ 3,318,887	\$ -	\$ 48	\$ -	\$ 3,318,935
Total book value	3,318,887	-	48	-	3,318,935
Allowance for doubtful accounts	(9,638)	-	(7)	-	(9,645)
Difference of impairment loss under regulations	-	-	-	(2,233)	(2,233)
	<u>\$ 3,309,249</u>	<u>\$ -</u>	<u>\$ 41</u>	<u>\$ (2,233)</u>	<u>\$ 3,307,057</u>

ii. Debt instrument investments

December 31, 2020

	Financial Assets at FVTOCI			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Product category (Note)				
Investment grade bond	\$ 37,854,441	\$ -	\$ -	\$ 37,854,441
Non-investment grade bond	-	-	-	-
Total book value	37,854,441	-	-	37,854,441
Allowance for impairment	(20,708)	-	-	(20,708)
Difference of impairment loss under regulations	-	-	-	-
	<u>\$ 37,833,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,833,733</u>

	Investments in Debt Instruments at Amortized Cost			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Product category (Note)				
Investment grade bond	\$ 48,601,326	\$ -	\$ -	\$ 48,601,326
Non-investment grade bond	-	-	7,668	7,668
Others (NCDs issued by the CBC)	64,970,000	-	-	64,970,000
Total book value	113,571,326	-	7,668	113,578,994
Allowance for impairment	(26,472)	-	(7,668)	(34,140)
Difference of impairment loss under regulations	-	-	-	-
	<u>\$ 113,544,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,544,854</u>

Note: The bond rating is based on the original credit rating of Moody's, Fitch (Fitch), Standard & Poor's (S&P) and China Credit Rating.

The breakdown below shows the Bank's investments in debt instruments classified as financial assets at FVTOCI and financial assets at amortized cost:

December 31, 2020

	Financial Assets at FVTOCI	Financial Assets at Amortized Cost
Total book value	\$ 37,437,409	\$ 113,578,994
Loss allowance	(20,708)	(34,140)
Amortized cost	37,416,701	113,544,854
Fair value adjustment	417,032	-
	<u>\$ 37,833,733</u>	<u>\$ 113,544,854</u>

The Bank's current credit risk rating mechanism and the total book value of the investments in debt instruments of each credit rating are as follows:

Credit Rating	Definition	Recognition Basis	Expected Credit Loss	Total Book Value At December 31, 2020	
				Financial Assets at FVTOCI	Financial Assets at Amortized Cost
Normal (Stage 1)	The debtor has a low credit risk and is fully capable of paying off contractual cash flows.	12-month expected credit losses	0.00%-0.44%	\$ 37,437,409	\$ 113,571,326
Abnormal (Stage 2)	Credit risk has increased significantly since the initial recognition.	Lifetime expected credit losses (no credit impaired)		-	-
Default (Stage 3)	There is evidence that the credit is impaired.	Lifetime expected credit losses (credit impaired)	100%	-	7,668
Write offs	There is evidence that the debtor is facing serious financial difficulties and the Bank cannot reasonably expect to recover the debt.	Write-off		-	-

With respect to the Bank's investments in debt instruments at FVTOCI and at amortized cost information on the changes in their loss allowance summarized by credit risk rating is as follows:

	Credit Rating		
	Normal (12-Month Expected credit Losses)	Abnormal (Lifetime ECL And Not Credit Impaired)	Default (Lifetime ECL with Credit Impaired)
<u>Financial assets at FVTOCI</u>			
Balance, January 1, 2020	\$ 15,405	\$ -	\$ -
Change credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase new debt instruments	8,900	-	-
Dispose	(4,556)	-	-
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>959</u>	<u>-</u>	<u>-</u>
Loss allowance, December 31, 2020	<u>\$ 20,708</u>	<u>\$ -</u>	<u>\$ -</u>

	Credit Rating		
	Normal (12-Month Expected credit Losses)	Abnormal (Lifetime ECL And Not Credit Impaired)	Default (Lifetime ECL with Credit Impaired)
<u>Financial assets at amortized cost</u>			
Balance, January 1, 2020	\$ 24,185	\$ -	\$ 17,477
Change credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase of new debt instruments	1,777	-	-
Dispose	(2,178)	-	(9,136)
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>2,688</u>	<u>-</u>	<u>(673)</u>
Loss allowance, December 31, 2020	<u>\$ 26,472</u>	<u>\$ -</u>	<u>\$ 7,668</u>

December 31, 2019

	Financial Assets at FVTOCI			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Product category (Note)				
Investment grade bond	\$ 30,015,749	\$ -	\$ -	\$ 30,015,749
Non-investment grade bond	-	-	-	-
Total book value	<u>30,015,749</u>	<u>-</u>	<u>-</u>	<u>30,015,749</u>
Allowance for impairment	(15,405)	-	-	(15,405)
Difference of impairment loss under regulations	-	-	-	-
	<u>\$ 30,000,344</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,000,344</u>
Investments in Debt Instruments at Amortized Cost				
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Product category (Note)				
Investment grade bond	\$ 49,458,458	\$ -	\$ -	\$ 49,458,458
Non-investment grade bond	-	-	17,477	17,477
Others (NCDs issued by the CBC)	<u>59,535,000</u>	<u>-</u>	<u>-</u>	<u>59,535,000</u>
Total book value	108,993,458	-	17,477	109,010,935
Allowance for impairment	(24,185)	-	(17,477)	(41,662)
Difference of impairment loss under regulations	-	-	-	-
	<u>\$ 108,969,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,969,273</u>

Note: The bond rating is based on the original credit rating of Moody's, Fitch (Fitch), Standard & Poor's (S&P) and China Credit Rating.

The breakdown below shows the Bank's investments in debt instruments classified as financial assets at VTOCI and financial assets at amortized cost:

December 31, 2019

	Financial Assets at FVTOCI	Financial Assets at Amortized Cost
Total book value	\$ 29,857,621	\$ 109,010,935
Loss allowance	<u>(15,405)</u>	<u>(41,662)</u>
Amortized cost	29,842,216	108,969,273
Fair value adjustment	<u>158,128</u>	<u>-</u>
	<u>\$ 30,000,344</u>	<u>\$ 108,969,273</u>

The Bank's current credit risk rating mechanism and the total book value of the investments in debt instruments of each credit rating are as follows:

Credit Rating	Definition	Recognition Basis	Expected Credit Loss	Total Book Value At December 31, 2020	
				Financial Assets at FVTOCI	Financial Assets at Amortized Cost
Normal (Stage 1)	The debtor has a low credit risk and is fully capable of paying off contractual cash flows.	12-month expected credit losses	0.00%-0.45%	\$ 29,857,621	\$ 108,993,458
Abnormal (Stage 2)	Credit risk has increased significantly since the initial recognition.	Lifetime expected credit losses (no credit impaired)		-	-
Default (Stage 3)	There is evidence that the credit is impaired.	Lifetime expected credit losses (credit impaired)	100%	-	17,477
Write offs	There is evidence that the debtor is facing serious financial difficulties and the Bank cannot reasonably expect to recover the debt.	Write-off		-	-

With respect to the Bank's investments in debt instrument at FVTOCI and at amortized cost, the information on the changes in their loss allowance summarized by credit risk rating is as follows:

	Credit Rating		
	Normal (12-Month Expected credit Losses)	Abnormal (Lifetime ECL And Not Credit Impaired)	Default (Lifetime ECL And Credit Impaired)
<u>Financial assets at FVTOCI</u>			
Balance, January 1, 2019	\$ 15,525	\$ -	\$ -
Change credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase new debt instruments	2,910	-	-

(Continued)

	Credit Rating		
	Normal (12-Month Expected credit Losses)	Abnormal (Lifetime ECL And Not Credit Impaired)	Default (Lifetime ECL And Credit Impaired)
Dispose	\$ (2,142)	\$ -	\$ -
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>(888)</u>	<u>-</u>	<u>-</u>
Loss allowance, December 31, 2019	<u>\$ 15,045</u>	<u>\$ -</u>	<u>\$ -</u> (Concluded)

	Credit Rating		
	Normal (12-Month Expected credit Losses)	Abnormal (Lifetime ECL And Not Credit Impaired)	Default (Lifetime ECL And Credit Impaired)
<u>Financial assets at amortized cost</u>			
Balance, January 1, 2019	\$ 30,685	\$ -	\$ 74,444
Change credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase of new debt instruments	2,017	-	-
Dispose	(800)	-	(56,967)
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>(7,717)</u>	<u>-</u>	<u>-</u>
Loss allowance, December 31, 2019	<u>\$ 24,185</u>	<u>\$ -</u>	<u>\$ 17,477</u>

3) Liquidity risk

a) The source and definition of liquidity risk:

Liquidity risk refers to the potential loss resulting from the shortage of funds in acquiring assets or repaying debts on maturity, such as the cash outflow arising from the depositors' withdrawal of deposits, loan drawdown, other interest, expenses, or off-balance sheet transactions. To ensure sufficient capital liquidity, measures that can be taken include cash buffer in stock or readily realizable marketable securities, allocation of the period, absorbing deposits or financing borrowing, etc.

b) The Bank's liquidity risk policies

The Bank establishes a strategy based on the conservatism principle to diversify the source and duration of funds, participates in the fund's lending market and maintains strong relationship with fund providers to ensure the stability and reliability of funding sources.

The Bank formulates relevant standards including risk identification, measurement, monitoring and reporting in order to control and grasp the potential adverse effects, regularly performs stress tests and analyzes the crisis situation to mitigate the impact of excessive capital flows, establishes a limit monitoring mechanism, and sets management indicators such as liquidity ratios, cash flow gaps, etc.

The Bank's liquidity risk management unit is the Asset and Liability Management Committee (hereinafter referred to as the "Committee"). The Committee must adopt necessary monitoring steps to maintain adequate liquidity and ensure that certain committees should regularly report to the board of directors for effective management of liquidity risks.

Maturity analysis of non-derivative financial liabilities

The Bank disclosed the analysis of cash outflows from non-derivative financial liabilities by the residual maturities as of the balance sheet date. The amounts used in the maturity analyses of derivative financial liabilities are based on contractual cash flows, so some of these amounts may not correspond to the amounts shown on the balance sheets.

December 31, 2020	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Due to the Central Bank and other banks	\$ 6,349,048	\$ 520,616	\$ 730	\$ 166,944	\$ -	\$ 7,037,338
Fund borrowed from Central Bank and other banks	-	-	356,350	109,800	1,701,130	2,167,280
Securities sold under repurchase agreements	500,808	1,800,700	-	-	-	2,301,508
Payables	3,068,276	1,088,297	113,461	380,387	272,258	4,922,679
Deposits and remittances	46,625,600	72,675,586	74,492,445	159,713,183	285,008,498	638,515,312
Bank debentures	-	-	-	64,553	11,500,000	11,564,553
Lease liabilities	20,188	40,137	59,486	117,557	730,131	967,499
Other items of cash outflow on maturity	9,061	41,423	2,632	64,280	175,454	292,850

December 31, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Due to the Central Bank and other banks	\$ 4,760,161	\$ 1,599,224	\$ 730	\$ 166,945	\$ -	\$ 6,527,060
Securities sold under repurchase agreements	6,870,766	3,548,335	-	-	-	10,419,101
Payables	3,317,210	362,133	128,829	360,228	328,008	4,496,408
Deposits and remittances	46,339,202	65,697,490	74,865,533	150,420,093	247,880,067	585,202,385
Bank debentures	-	-	2,501,005	68,701	11,500,000	14,069,706
Lease liabilities	12,429	24,968	37,377	68,656	656,315	799,745
Other items of cash outflow on maturity	38,731	20,157	3,953	180	59,791	122,812

Maturity analysis of derivative financial liabilities

a) Derivative instruments settled at net amount

Derivative instruments settled at net amount include:

Foreign exchange derivative instruments: Foreign exchange forward contracts

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

December 31, 2020	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL						
Foreign currency derivative	\$ 24,773	\$ 44,804	\$ 43,391	\$ 69,429	\$ -	\$ 182,397
Total	\$ 24,773	\$ 44,804	\$ 43,391	\$ 69,429	\$ -	\$ 182,397

December 31, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL						
Foreign currency derivative	\$ 8,052	\$ 26,392	\$ 24,616	\$ 17,549	\$ -	\$ 76,609
Total	\$ 8,052	\$ 26,392	\$ 24,616	\$ 17,549	\$ -	\$ 76,609

b) Derivative instruments settled at gross amount

The derivative instruments settled at gross amount include:

Foreign exchange derivatives instruments: Foreign exchange forward contracts and cross-currency swap contracts

The Bank disclosed the analysis of derivative instruments to be settled at gross amount by the residual maturities as of the balance sheet date. The Bank assesses the maturity dates of derivative contracts to understand the basic elements of all derivative financial instruments shown in the balance sheets. The amounts used in the maturity analyses of derivative financial liabilities are based on contractual cash flows, so some of these amounts may not correspond to the amounts shown on the balance sheets. The maturity analysis of derivative financial liabilities which be settled at gross amount was as follows:

December 31, 2020	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL						
Foreign currency derivative						
Outflows	\$ 2,614,662	\$ 3,270,267	\$ 2,811,080	\$ 3,880,455	\$ -	\$ 12,576,464
Inflows	2,594,219	3,212,438	2,682,555	3,698,415	-	12,187,627
Total outflows	2,614,662	3,270,267	2,811,080	3,880,455	-	12,576,464
Total inflows	2,594,219	3,212,438	2,682,555	3,698,415	-	12,187,627
Net flows	\$ (20,443)	\$ (57,829)	\$ (128,525)	\$ (182,040)	\$ -	\$ (388,837)

December 31, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL						
Foreign currency derivative						
Outflows	\$ 1,104,025	\$ 1,907,146	\$ 2,013,035	\$ 929,481	\$ -	\$ 5,953,687
Inflows	1,087,564	1,876,039	1,974,123	904,147	-	5,841,873
Total outflows	1,104,025	1,907,146	2,013,035	929,481	-	5,953,687
Total inflows	1,087,564	1,876,039	1,974,123	904,147	-	5,841,873
Net flows	\$ (16,461)	\$ (31,107)	\$ (38,912)	\$ (25,334)	\$ -	\$ (111,814)

4) Maturity analysis of off-balance-sheet items

The following table shows the Bank's maturity analysis of off-balance sheet items based on the residual maturities from the balance sheets. For the financial guarantee contract issued, the maximum amount of guarantee is included in the earliest period that may be required to perform the guarantee. The amounts in the table below were prepared on contractual cash flow basis; therefore, some disclosed amounts would not match with the balance sheets.

December 31, 2020	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Loan commitment	\$ 7,704,768	\$ 19,126,700	\$ 29,632,011	\$ 62,958,367	\$ 37,007,287	\$ 156,429,133
Letters of credit	979,316	2,071,735	347,453	31,739	-	3,430,243
Guarantee receivables	6,861,342	5,126,641	705,627	2,513,448	7,672,033	22,879,091
Total	\$ 15,545,426	\$ 26,325,076	\$ 30,685,091	\$ 65,503,554	\$ 44,679,320	\$ 182,738,467

December 31, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Loan commitment	\$ 10,197,687	\$ 17,979,600	\$ 27,233,146	\$ 64,306,327	\$ 31,203,341	\$ 150,920,101
Letters of credit	985,636	1,955,514	276,456	101,329	-	3,318,935
Guarantee receivables	2,095,901	5,829,509	1,215,728	1,878,103	5,466,071	16,485,312
Total	\$ 13,279,224	\$ 25,764,623	\$ 28,725,330	\$ 66,285,759	\$ 36,669,412	\$ 170,724,348

5) Cash flow and fair value risk of interest rate fluctuation

The floating-rate assets/liabilities held by the Bank may be exposed to risks of future cash inflow/outflow. Since the risk is considered substantial, it is therefore hedged by the Bank.

39. TRANSFERS OF FINANCIAL ASSETS

The transferred financial assets that do not qualify for derecognition

Most of the transferred financial assets of the Bank that are not derecognized in their entirety are securities sold under repurchase agreements. According to these transactions, the right of receiving cash flows from the transferred financial assets would be transferred to other entities and the associated liabilities of the Bank's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Bank is restricted to use, sell or pledge the transferred financial assets throughout the term of transaction, and is still exposed to interest rate risks and credit risks on these instruments, the transferred financial assets are not derecognized in their entirety. The details of financial assets that were not derecognized in their entirety and the associated financial liabilities were as follows:

December 31, 2020					
Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Associated Financial Liabilities	Fair Value of Net Position
Investments in debt instruments at amortized cost Securities sold under repurchase agreements	\$ 2,342,355	\$ 2,300,077	\$ 2,392,483	\$ 2,300,077	\$ 92,406

December 31, 2019					
Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Associated Financial Liabilities	Fair Value of Net Position
Investments in debt instruments at amortized cost Securities sold under repurchase agreements	\$ 11,011,466	\$ 10,369,025	\$ 11,123,977	\$ 10,369,025	\$ 754,952

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank did not hold financial instruments covered by Section 42 of the IAS 32 "Financial Instruments: Presentation" endorsed by the Financial Supervisory Commission; thus, it made an offset of financial assets and liabilities and reported the net amount in the balance sheets.

The Bank engages in transactions on the following financial assets and liabilities that are not subject to balance sheet offsetting based on IAS 32 but are under master netting arrangements or similar agreements. These agreements allow both the Bank and its counterparties to opt for the net settlement of financial assets and financial liabilities. If one party defaults, the other party may choose net settlement.

The netting information of financial assets and financial liabilities is set out below:

December 31, 2020

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheets	Net Amounts of Financial Assets Presented in the Balance Sheets	Related Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
Securities purchased under resale agreements	\$ 12,773,121	\$ -	\$ 12,773,121	\$ 12,773,121	\$ -	\$ -

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheets	Net Amounts of Financial Liabilities Presented in the Balance Sheets	Related Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Securities sold under repurchase agreements	\$ 2,300,077	\$ -	\$ 2,300,077	\$ 2,300,077	\$ -	\$ -

December 31, 2019

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheets	Net Amounts of Financial Assets Presented in the Balance Sheets	Related Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
Securities purchased under resale agreements	\$ 10,256,716	\$ -	\$ 10,256,716	\$ 10,256,716	\$ -	\$ -

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheets	Net Amounts of Financial Liabilities Presented in the Balance Sheets	Related Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Securities sold under repurchase agreements	\$ 10,369,025	\$ -	\$ 10,369,025	\$ 10,369,025	\$ -	\$ -

41. INFORMATION ABOUT THE BANK

a. Asset quality

Items		December 31, 2020					December 31, 2019					
		Non-performing Loan (Note 1)	Total Loan	NPL Ratio (Note 2)	Allowance For Loan Losses	Coverage Ratio (Note 3)	Non-performing Loan (Note 1)	Total Loan	NPL Ratio (Note 2)	Allowance For Loan Losses	Coverage Ratio (Note 3)	
Corporate loans	Secured	\$ 452,737	\$ 153,180,159	0.30%	\$ 1,532,063	338.40%	\$ 596,122	\$ 146,760,794	0.41%	\$ 1,560,901	261.84%	
	Unsecured	96,665	77,217,829	0.13%	2,597,748	2,687.37%	156,327	78,622,829	0.20%	3,005,494	1,922.57%	
Consumer loans	Mortgage (Note 4)	55,380	57,329,436	0.10%	905,827	1,635.66%	164,457	55,404,669	0.30%	863,083	524.81%	
	Cash card	-	10	-	1	-	-	30	-	3	-	
	Microcredit (Note 5)	456	893,160	0.05%	82,028	17,988.60%	2,676	840,780	0.32%	86,721	3,240.70%	
	Other (Note 6)	Secured	361,301	150,343,195	0.24%	831,404	230.11%	428,694	144,347,108	0.30%	692,342	161.50%
		Unsecured	16,001	22,789,618	0.07%	385,922	2,411.86%	34,021	15,039,986	0.23%	364,775	1,072.21%
Loans		982,540	461,753,407	0.21%	6,334,993	644.76%	1,382,297	441,016,196	0.31%	6,573,319	475.54%	

Items		December 31, 2020					December 31, 2019				
		Overdue Receivable	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio	Overdue Receivable	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card		\$ 3,192	\$ 742,507	0.43%	\$ 27,906	874.25%	\$ 2,568	\$ 786,214	0.33%	\$ 22,982	894.94%
Accounts receivable without recourse (Note 7)		-	154,805	-	5,805	-	-	649,997	-	10,538	-

Non-reportable overdue loans and receivables

	December 31, 2020		December 31, 2019	
	Non-Reportable NPL Balance	Non-reportable Overdue Receivable Balance	Non-Reportable NPL Balance	Non-reportable Overdue Receivable Balance
Non-reportable amount upon performance of debt negotiation program (Note 8)	\$ 1,568	\$ 820	\$ 2,114	\$ 1,100
Amount received from performance of debt negotiation program (Note 9)	8,303	19,280	9,635	17,396
Total	9,871	20,100	11,749	18,496

Note 1: The amount recognized as non-performing loans (NPL) is in compliance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. Non-performing credit loans represent the amounts of non-performing loans reported to the FSC, as required by the FSC in its letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Non-performing loan ratio = Non-performing loans ÷ Outstanding loan balance;
Non-performing credit loan ratio = Non-performing loans ÷ Accounts receivable balance.

Note 3: Allowance for doubtful accounts ratio = Allowance for doubtful accounts in loans ÷ Overdue loans;
Allowance for doubtful accounts ratio of credit card = Allowance for doubtful accounts in credit cards ÷ Overdue loans.

Note 4: Home mortgage refers to financing obtained to buy, build, or fix houses owned by the borrowers’ spouse or children, with the house used as loan collateral.

Note 5: Microcredit is covered by the FSC pronouncement dated December 19, 2005 (Ref No. 09440010950) and is excluded from credit card and cash card loans.

Note 6: “Others” under consumer loans refers to secured or unsecured loans other than mortgage loans, cash cards, microcredit, and credit cards.

Note 7: As required by the FSC in its letter dated July 19, 2005 (Ref No. 094000494), a provision for bad debts is recognized once no compensation is made by a factor or insurance company for accounts receivable factored without recourse.

Note 8: Accounts under “loans not required to be classified as NPL upon performance of a debt negotiation program” and “accounts receivable not required to be classified as overdue receivable upon debt negotiation program” were processed according the FSC pronouncement dated April 25, 2006 (Ref No. 09510001270).

Note 9: Accounts under “loans not required to be classified as NPL upon performance of a debt discharge program and rehabilitation program” and “accounts receivable not required to be classified as overdue receivable upon debt discharge program and rehabilitation program” were processed according the FSC pronouncement dated September 15, 2008 (Ref No. 09700318940).

b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

Year	December 31, 2020		
Top 10 Rank (Note 1)	Group (Note 2)	Total Credit (Note 3)	Percentage of Net Worth (%)
1	Group A 016700 real estate development activities	\$ 4,673,280	8.15
2	Group B 016700 real estate development activities	2,453,570	4.28
3	Group C 016811 real estate activities for sale and rental with own or leased property	2,448,265	4.27
4	Group D 012411 smelting and refining of iron and steel	2,349,850	4.10
5	Group E 016700 real estate development activities	2,257,493	3.94
6	Group F 016700 real estate development activities	1,839,582	3.21
7	Group G 010892 manufacture of macaroni, noodles, couscous and similar farinaceous products	1,833,471	3.20
8	Group H 012630 printed circuit board manufacturing	1,761,013	3.07
9	Group I 014612 wholesale of brick, sand, cement and products	1,608,781	2.81
10	Group J 013822 hazardous industrial waste treatment	1,370,909	2.39

Year	December 31, 2019		
Top 10 Rank (Note 1)	Group (Note 2)	Total Credit (Note 3)	Percentage of Net Worth (%)
1	Group G 010892 manufacture of macaroni, noodles, couscous and similar farinaceous products	\$ 2,665,813	5.20
2	Group A 016700 real estate development activities	2,525,418	4.92
3	Group E 016700 real estate development activities	2,503,343	4.88
4	Group B 016700 real estate development activities	2,390,690	4.66
5	Group C 016811 real estate activities for sale and rental with own or leased property	2,375,429	4.63
6	Group D 012411 smelting and refining of iron and steel	2,283,081	4.45
7	Group F 016700 real estate development activities	2,115,000	4.12
8	Group K 015500 accommodation	2,085,229	4.06
9	Group L 012699 manufacture of other electronic parts and components not elsewhere classified	1,799,897	3.51
10	Group I 014612 wholesale of brick, sand, cement and products	1,550,001	3.02

Note 1: The ranking is arranged in descending order of the outstanding loan balance, excluding all the government entities and nation-owned enterprises. If the borrower is a member company of a group, then the disclosed amount will be the total granted loan amount for that entire group. (i.e., Group A real estate development activities).

Note 2: According to Article 6 of the “Supplementary Provisions to the Stock Exchange Corporation Criteria for the Review of Securities Listings”, Group refers to the entity that has a controlling or subordinate relationship with the counterparty that obtained loans from the Bank.

Note 3: Credit balance means the sum of all the loans (including import bill negotiated, discounted export bills negotiated, overdrafts, short-term secured and unsecured loans, securities margin loan receivables, medium-term secured and unsecured loans, long-term secured and unsecured loans and delinquent receivables), exchange bills negotiated, accounts receivable factored without recourse, acceptances receivable, and guarantees issued.

c. Interest rate sensitivity information

**Interest Rate Sensitivity
December 31, 2020**

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-sensitive assets	\$ 494,400,748	\$ 11,473,341	\$ 12,395,589	\$ 89,911,813	\$ 608,181,491
Interest-sensitive liabilities	141,248,259	332,636,992	104,373,534	7,963,232	586,222,017
Interest sensitivity gap	353,152,489	(321,163,651)	(91,977,945)	81,948,581	21,959,474
Net equity					57,321,753
Ratio of interest-sensitive assets to liabilities					103.75%
Ratio of interest sensitivity gap to net equity					38.31%

December 31, 2019

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-sensitive assets	\$ 463,217,920	\$ 7,445,473	\$ 9,154,304	\$ 86,858,937	\$ 566,676,634
Interest-sensitive liabilities	145,583,754	290,922,949	99,916,922	5,351,959	541,775,584
Interest sensitivity gap	317,634,166	(283,477,476)	(90,762,618)	81,506,978	24,901,050
Net equity					51,309,206
Ratio of interest-sensitive assets to liabilities					104.60%
Ratio of interest sensitivity gap to net equity					48.53%

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

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities affected by interest rate changes.

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

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

**Interest Rate Sensitivity
December 31, 2020**

(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-sensitive assets	\$ 1,301,782	\$ 251,958	\$ 97,215	\$ 346,387	\$ 1,997,342
Interest-sensitive liabilities	446,709	1,232,085	310,522	-	1,989,316
Interest sensitivity gap	855,073	(980,127)	(213,307)	346,387	8,026
Net equity					2,039,993
Ratio of interest-sensitive assets to liabilities					100.40%
Ratio of interest sensitivity gap to net equity					0.39%

December 31, 2019

(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-sensitive assets	\$ 1,210,594	\$ 231,333	\$ 26,028	\$ 436,459	\$ 1,904,414
Interest-sensitive liabilities	781,756	909,543	216,067	-	1,907,366
Interest sensitivity gap	428,838	(678,210)	(190,039)	436,459	(2,952)
Net equity					1,710,307
Ratio of interest-sensitive assets to liabilities					99.85%
Ratio of interest sensitivity gap to net equity					(0.17%)

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

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities affected by interest rate changes.

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

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (in U.S. dollars)

d. Profitability

Unit: %

Items		December 31, 2020	December 31, 2019
Return on total assets	Pretax	0.67	0.75
	After tax	0.57	0.64
Return on net equity	Pretax	8.59	10.22
	After tax	7.41	8.72
Profit margin		37.52	38.88

Note 1: Return on total assets = Income before (after) income tax ÷ Average total assets

Note 2: Return on equity = Income before (after) income tax ÷ Average equity

Note 3: Net income ratio = Income after income tax ÷ Total net revenues

Note 4: Income before (after) income tax represents income for the years ended December 31, 2020 and 2019.

e. Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2020

(In Thousands of New Taiwan Dollars)

	Total	Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Major capital inflow on maturity	\$ 660,315,443	\$ 91,325,237	\$ 54,943,741	\$ 32,175,308	\$ 53,461,993	\$ 105,310,358	\$ 323,098,806
Major capital outflow on maturity	782,299,588	27,709,161	30,881,366	82,879,363	103,396,608	188,375,958	349,057,132
Gap	(121,984,145)	63,616,076	24,062,375	(50,704,055)	(49,934,615)	(83,065,600)	(25,958,326)

December 31, 2019

(In Thousands of New Taiwan Dollars)

	Total	Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Major capital inflow on maturity	\$ 609,292,349	\$ 85,555,035	\$ 43,772,344	\$ 29,767,509	\$ 51,719,298	\$ 97,885,687	\$ 300,592,476
Major capital outflow on maturity	726,163,310	24,967,880	30,412,825	72,406,095	98,591,847	192,988,476	306,796,187
Gap	(116,870,961)	60,587,155	13,359,519	(42,638,586)	(46,872,549)	(95,102,789)	(6,203,711)

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

**Maturity Analysis of Assets and Liabilities
December 31, 2020**

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Major capital inflow on maturity	\$ 2,453,883	\$ 324,701	\$ 263,584	\$ 348,501	\$ 333,487	\$ 1,183,610
Major capital outflow on maturity	3,092,693	437,764	787,792	584,280	986,987	295,870
Gap	(638,810)	(113,063)	(524,208)	(235,779)	(653,500)	887,740

December 31, 2019

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Major capital inflow on maturity	\$ 2,159,517	\$ 287,818	\$ 258,938	\$ 239,853	\$ 141,120	\$ 1,231,788
Major capital outflow on maturity	2,795,533	559,115	765,666	551,532	752,039	167,181
Gap	(636,016)	(271,297)	(506,728)	(311,679)	(610,919)	1,064,607

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

Note 2: When the OBU's assets account for 10% of total assets of the Bank, the Bank should provide complimentary disclosed information.

42. CAPITAL MANAGEMENT

- a. The purpose of capital management is to meet the criteria set by administration which is the basic goal of the Bank's capital management. The calculation method of the relevant qualified eligible capital and legal capital should be handled in accordance with the regulations of the competent authority.

To maintain the ratio of eligible capital to risk-weighted assets above the target level, the capital management structure of the Bank should be properly planned depending on the conditions of capital market, the characteristics of various capital instruments, the efficiency of capital utilization and the impact of operational performance.

- b. The Bank follows the relevant regulations of the competent authority and the internal operating procedures of the Bank, to regularly disclose relevant information on capital adequacy and report to the competent authority on a quarterly basis.

Self-owned capital of the Bank is divided into Tier 1 capital and Tier 2 capital according to principles of capital adequacy management.

- 1) The term “Net Tier 1 Capital” shall mean the aggregate amount of net common Equity Tier 1 and net additional Tier 1 Capital.
- a) The common equity Tier 1 capital consists of the common shares and additional paid-in capital in excess of par - common shares, the capital collected in advance, the capital reserves, the statutory surplus reserves, the special reserves, the accumulated profit or loss, the non-controlling interests and other items of interest.
- b) Additional Tier 1 capital consists of non-cumulative perpetual preferred shares and its capital share premium, the non-cumulative perpetual subordinated debts, the non-cumulative perpetual preferred shares and its capital share premium, and the non-cumulative perpetual subordinated debts which are issued by banks’ subsidiaries, and are not directly or indirectly held by banks.
- 2) Tier 2 capital

The Tier 2 capital consists of cumulative perpetual preferred shares and its capital share premium, the cumulative perpetual subordinated debts, the convertible subordinated debts, the long-term subordinated debts, the non-perpetual preferred shares and its capital share premium, when applying International Financial Reporting Standards in real estate and using the fair value method or the re-estimated value method as the deemed cost for the first time, the difference in amount between the deemed cost and the book value recognized in retained earnings, the 45% of unrealized gains on changes in the fair value of investment properties using the fair value method, as well as the 45% of unrealized gains on available-for-sale financial assets, the operational reserves and loan-loss provisions and the cumulative perpetual preferred shares and its capital share premium, the cumulative perpetual subordinated debts, the convertible subordinated debts, the long-term subordinated debts, and the non-perpetual preferred shares and its capital share premiums, which are issued by banks’ subsidiaries, and are not directly or indirectly held by banks.

c. Capital adequacy ratio (CAR)

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

Items		Year	December 31, 2020	December 31, 2019
Eligible capital	Common equity		\$ 54,945,260	\$ 49,275,639
	Other Tier 1 capital		10,139,996	10,090,735
	Tier 2 capital		2,708,875	2,754,343
	Eligible capital		67,794,131	62,120,717
Risk-weighted assets	Credit risk	Standardized approach	470,715,979	443,642,310
		Internal ratings-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	20,257,400	19,881,200
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	7,360,863	6,182,850
		Internal model approach	-	-
Risk-weighted assets			498,334,242	469,706,360
Capital adequacy ratio (%)			13.60%	13.23%
Ratio of common equity to risk-weighted assets (%)			11.03%	10.49%
Ratio of Tier 1 capital to risk-weighted assets (%)			13.06%	12.64%
Leverage ratio (%)			8.54%	8.44%

Note 1: Eligible capital and risk-weighted assets are calculated under the “Regulations Governing the Capital Adequacy Ratio of Banks” and “Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks”.

Note 2: Annual financial statements should include capital adequacy ratio of the current and prior year. Semi-annual financial statements in addition to exposing the current and prior year's financial status, should also include the capital adequacy ratio at the end of prior year.

Note 3: Formulas used were as follows:

- 1) Eligible capital = Common equity + Other Tier 1 capital + Tier 2 capital.
- 2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 4) Ratio of the common equity to risk-weighted assets = Common equity ÷ Risk-weighted assets.
- 5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity + Other Tier 1 capital) ÷ Risk-weighted assets.
- 6) Leverage ratio = Tier 1 capital ÷ Exposure measurement.

Note 4: Exempt from disclosure in the preparation of the first and third quarters of the financial reports.

43. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Details of significant assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2020						Total
	USD	CNY	JPY	AUD	EUR	Others	
<u>Financial assets in foreign currencies</u>							
Cash and cash equivalents	\$ 3,823,642	\$ 334,600	\$ 369,085	\$ 135,056	\$ 137,767	\$ 496,070	\$ 5,296,216
Due from the Central Bank and call loans to other banks	73,057	86,340	-	-	-	374,987	534,384
Financial assets at fair value through profit or loss	1,189,924	-	-	-	3,509	90,688	1,284,121
Financial assets at fair value through other comprehensive income	1,736,382	1,928,804	-	132,488	-	-	3,797,674
Notes discounted and loans Receivables	31,203,325	1,112,690	413,612	81,659	1,176,027	1,017,500	35,004,813
	786,070	118,906	209,852	14,156	445,269	68,749	1,643,002
Financial assets at amortized cost	18,565,402	3,842,754	-	1,428,655	-	941,953	24,778,764
Other assets	494,204	-	-	-	-	-	494,204
<u>Financial liabilities in foreign currencies</u>							
Due to the Central Bank and other banks	702,478	-	408,753	-	-	-	1,111,231
Deposits and remittances	54,091,838	4,231,771	635,892	2,261,598	563,998	2,237,411	64,022,508
Financial liabilities at fair value through profit or loss	304,098	-	-	-	3,780	2,154	310,032
Other financial liabilities	-	-	-	-	-	107,246	107,246
Payables	1,093,982	67,420	198,722	162,732	61,890	59,780	1,644,526
Lease liabilities	-	-	-	-	-	5,529	5,529
Securities sold under repurchased agreements	1,096,485	-	-	-	-	-	1,096,485
Provisions	21,174	-	-	-	-	-	21,174
Other liabilities	106,269	-	234	-	8,518	-	115,021
New Taiwan dollars exchange rate	28.10	4.32	0.27	21.65	34.55		

	December 31, 2019						
	USD	CNY	JPY	AUD	EUR	Others	Total
<u>Financial assets in foreign currencies</u>							
Cash and cash equivalents	\$ 1,947,264	\$ 650,362	\$ 1,020,819	\$ 369,682	\$ 111,721	\$ 389,890	\$ 4,489,738
Due from the Central Bank and call loans to other banks	60,000	94,754	-	273,260	-	-	428,014
Financial assets at fair value through profit or loss	1,183,605	-	-	210	-	-	1,183,815
Financial assets at fair value through other comprehensive income	1,081,986	-	-	-	-	-	1,081,986
Notes discounted and loans receivables	34,318,741	877,054	369,279	78,956	414,949	848,924	36,907,903
Financial assets at amortized cost	1,373,564	538,101	161,925	39,577	109,455	70,775	2,293,397
Other assets	19,180,305	2,368,093	-	1,282,208	-	959,972	23,790,578
	112,138	-	-	-	-	-	112,138
<u>Financial liabilities in foreign currencies</u>							
Due to the Central Bank and other banks	1,490,060	-	-	-	100,860	9,940	1,600,860
Deposits and remittances	47,489,149	3,128,176	678,276	2,278,560	539,523	1,838,727	55,952,411
Financial liabilities at fair value through profit or loss	104,773	-	-	300	65	-	105,138
Payables	796,707	88,547	111,876	8,857	126,869	116,283	1,249,139
Lease liabilities	-	-	-	-	-	7,726	7,726
Securities sold under repurchased agreements	8,366,270	-	-	-	-	-	8,366,270
Provisions	28,552	-	-	-	-	-	28,552
Other liabilities	53,180	-	1,803	-	3,343	-	58,326
New Taiwan dollars exchange rate	30.00	4.31	0.28	21.02	33.62		

44. CASH FLOW INFORMATION

Changes in Liabilities Arising from Financing Activities

For the year ended December 31, 2020

	Opening Balance	Cash Inflows (Outflows)	Non-cash Changes		Closing Balance
			New Leases	End of Lease Term	
Funds borrowed from Central Bank and other banks	\$ -	\$ 2,167,280	\$ -	\$ -	\$ 2,167,280
Bank debentures	14,000,000	(2,500,000)	-	-	11,500,000
Lease liabilities	692,171	(148,529)	358,851	(48,687)	853,806
	<u>\$ 14,692,171</u>	<u>\$ 481,249</u>	<u>\$ 358,851</u>	<u>\$ (48,687)</u>	<u>\$ 14,521,086</u>

For the year ended December 31, 2019

	Opening Balance	Cash Inflows (Outflows)	Non-cash Changes		Closing Balance
			New Leases	End of Lease Term	
Bank debentures	\$ 20,000,000	\$ (6,000,000)	\$ -	\$ -	\$ 14,000,000
Lease liabilities	821,579	(114,132)	238,810	(254,086)	692,171
	<u>\$ 20,821,579</u>	<u>\$ (6,114,132)</u>	<u>\$ 238,810</u>	<u>\$ (254,086)</u>	<u>\$ 14,692,171</u>

45. OTHER SIGNIFICANT EVENT

Due to the impact of the COVID-19 pandemic, future economic and financial development are uncertain. The Bank strengthened its management towards the provision of loans, monitored and assessed financial information (including net revenue, expected impairment loss, operating expenses and capital adequacy ratio, etc.) by applying stress testing under additional pressure. Based on the information available as of the balance sheet date, the epidemic did not have significant influence on the Bank's ability to continue as a going concern, asset impairment and financing risk.

46. ADDITIONAL DISCLOSURES

a. Information about significant transactions and investees:

Disclosures of relevant information in accordance with Article 18 of Regulations Governing the Preparation of Financial Reports by Public Banks are as follows:

No.	Item	Note
1	Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 10% of the paid-in capital.	None
2	Acquisition of individual real estate at costs of at least NT\$300 million or 10% of the paid-in capital.	None
3	Disposal of individual real estate at prices of at least NT\$300 million or 10% of the paid-in capital.	None
4	Allowance of service fees to Related party amounting to at least NT\$5 million.	None
5	Receivables from Related party amounting to at least NT\$300 million or 10% of the paid-in capital.	None
6	Sale of nonperforming loans.	None
7	Financial asset securitization and real estate securitization.	None
8	Other significant transactions which may affect the decisions of users of financial reports.	None

b. The related information of the Bank's investees (Note):

No.	Item	Note
1	Related information and proportionate share in investees.	Table 1
2	Financing provided.	Table 2
3	Endorsement/guarantee provided.	Table 3
4	Marketable securities held.	Table 4
5	Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 10% of the paid-in capital.	None
6	Derivative transactions.	Note 8
7	Other significant transactions which may affect the decisions of users of financial reports.	None

Note: Subsidiaries are exempt from disclosure if they belong to the financial, insurance, and securities industries, and the main business items of business registration include fund loans to others, endorsements, and trading of securities.

c. Investment in mainland China: Table 5 (attached).

d. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 6).

TAICHUNG COMMERCIAL BANK CO., LTD.

THE RELATED INFORMATION AND PROPORTIONATE SHARE IN INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company (Note 1)	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain (Loss)	Proportionate Share of the Bank and Its Affiliates in Investees (Note 1)				Note
							Shares (In Thousands)	Pro Forma Shares (Note 2)	Total		
									Shares (In Thousands)	Percentage of Ownership	
Taichung Commercial Bank Co., Ltd.	Taichung Bank Insurance Brokers Co.	Taichung City	Insurance broker industry	100.00	\$ 1,831,053	\$ 256,747	128,600	-	128,600	100.00	
	Taichung Bank Securities Investment Trust Co., Ltd.	Taipei City	Securities investment trust industry	38.46	163,148	(3,294)	19,783	-	19,783	63.41	
	Taichung Commercial Bank Securities Co., Ltd.	Taichung City	Securities industry	100.00	1,514,812	128,246	140,429	-	140,429	100.00	
	Taichung Bank Leasing Corporation Limited	Taipei City	Leasing business	100.00	1,931,004	27,868	196,463	-	196,463	100.00	
Taichung Bank Leasing Corporation Limited	TCCBL Co., Ltd. (B.V.I.)	British Virgin Islands	Financial leasing and investment business	100.00	781,046	(3,996)	30,000	-	30,000	100.00	
TCCBL Co., Ltd. (B.V.I.)	Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Suzhou	Financial leasing business	100.00	736,562	8,726	-	-	-	100.00	
Taichung Commercial Bank Securities Co., Ltd.	Taichung Bank Venture Capital Co., Ltd.	Taipei City	Venture capital business	100.00	214,732	4,732	21,000	-	21,000	100.00	

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

Note 2: a. Pro forma shares are shares assumed to be obtained through buying equity-based securities or entering into equity-linked derivative contracts for purposes defined in Article 74 of the Banking Law.
b. Equity-based securities, such as convertible bonds and warrants, are covered by Article 11 of "Securities and Exchange Law Enforcement Rules."
c. Derivative contracts, such as share options, are those conforming to the definition of derivatives in International Financial Reporting Standard 9.

Note 3: This table of "information of investees' names, locations, etc." can only be seen in the second and fourth quarter's financial statements.

TAICHUNG COMMERCIAL BANK CO., LTD.

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Lender	Borrower	Financial Statements Account (Note 2)	Related Party	Highest Balance for the Period (Note 3)	Ending Balance (Note 8)	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing (Note 4)	Business Transaction Amount (Note 5)	Reasons for Short-term Financing (Note 6)	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 7)	Aggregate Financing Limit (Note 7)	Note
													Item	Value			
1	Taichung Bank Leasing Corporation Limited	Yuan Li Engineering Inc.	Other receivables	Not related	\$ 16,298	\$ -	\$ -	4-10	Necessary for short-term financing	\$ -	Business turnover	\$ -	None	\$ -	\$ 193,100	\$ 772,402	Note 9
		Kuang Ming Shipping Corp.	Other receivables	Not related	42,150	-	-	4-10	Necessary for short-term financing	-	Business turnover	-	Margin	20,000	193,100	772,402	Note 9
		Wisdom International industrial Co., Ltd.	Other receivables	Not related	75,177	-	-	3.5-10	Necessary for short-term financing	-	Business turnover	-	None	-	193,100	772,402	Note 9
		Pao Hung Construction industrial Co., Ltd.	Other receivables	Not related	114,260	-	-	4-10	Necessary for short-term financing	-	Business turnover	-	Real estate	64,244	193,100	772,402	Note 9
		Wan Ku Fu Co., Ltd	Other receivables	Not related	128,263	121,829	95,224	4-10	Necessary for short-term financing	-	Business turnover	952	Real estate	111,829	193,100	772,402	Note 9
		Da Fang Skill Color Marketing Consulting Co., Ltd.	Other receivables	Not related	180,000	178,152	178,152	4-10	Necessary for short-term financing	-	Business turnover	1,782	Real estate	180,000	193,100	772,402	Note 9
		Qiyi Integrated Marketing Co., Ltd	Other receivables	Not related	180,000	176,081	176,081	4-10	Necessary for short-term financing	-	Business turnover	1,761	Real estate	372,093	193,100	772,402	Note 9
		TCCBL Co., Ltd. (B.V.I.)	Other receivables	Related	9,804	9,390	9,390	-	Necessary for short-term financing	-	Business turnover	94	None	-	193,100	772,402	Note 9
2	TCCBL Co., Ltd. (B.V.I.)	Cross Border Profits Limited	Other receivables	Not related	23,262	5,395	5,395	4-10	Necessary for short-term financing	-	Business turnover	26	Margin	2,810	78,105	312,418	Note 10
3	Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Zhangjiatie Zhongjun Real Estate Co., Ltd	Entrusted Loan	Not related	14,276	-	-	9.6	Necessary for short-term financing	-	Capital investment plan expenditure	-	Real estate	232,729	294,625	294,625	Note 11

Note 1: The description of the number column is as follows:

- Issuer: 0.
- The invested company is numbered sequentially by the Arabic number 1 according to the company.

Note 2: Items such as accounts receivable, corporate receivables, shareholder transactions, prepayments, provisional payments, etc., which are provided by financing are required to be filled in this field.

Note 3: The annual fund is provided to others to the highest balance.

Note 4: Nature of financing should be filled with business contracts or those who have short-term financing.

Note 5: Nature of the loan of the business contracts should be filled with the amount of business transactions. The amount of business transactions refers to the amount of business transactions between the company that lends the funds and the target of last year's loan.

Note 6: Nature of the loan required for short-term financing should specify the reasons for the loans and the use of funds for the loan, such as repayment of loans, purchase of equipment, business turnover, etc.

Note 7: The company shall fill in the borrowing limit and total limit for individual objects according to the operating procedures and explains the calculation method of the total limit in the column Note.

Note 8: If the board of directors of the public offering company according to Article 14 (1) of the Public Offering Company's Financing and Endorsement Guarantee Processing Guidelines will make a resolution, the amount of the resolution of the board of directors shall be included in the announcement balance to disclose its risk; however, if the funds are repaid, the balance after repayment should be disclosed to reflect the adjustment of risk. If the public offering company authorizes the chairman of the board to allocate or repay the loan in a certain amount and within one year according to the resolution of the board of directors in accordance with Article 14(2) of the handling criteria, the fund's loan and the amount approved by the board of directors shall be the declared balance. Although the funds will be repaid afterwards, the consideration may still be re-loaned. Therefore, the fund loan and the amount approved by the board of directors should still be used as the announced balance.

Note 9: Taichung Bank Leasing Corporation Limited should not exceed 10% of its own net value for a single enterprise. The total amount of financing provided to others is limited to 40% of the net value of Taichung Bank Leasing Corporation Limited

Note 10: TCCBL Co., Ltd. (B.V.I.) should not exceed 10% of its own net value for a single enterprise. The total amount of financing provided to others is limited to 40% of the net value of TCCBL Co., Ltd. (B.V.I.).

Note 11: Taichung Bank Financial Leasing (Suzhou) Co., Ltd. should not exceed 40% of its own net value for a single enterprise. The total amount of financing provided to others is limited to 40% of the net value of Taichung Bank Financial Leasing (Suzhou) Co., Ltd.

TAICHUNG COMMERCIAL BANK CO., LTD.

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period (Note 2)	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 1)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries (Note 3)	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent (Note 3)	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China (Note 3)
		Name	Relationship										
1	Taichung Bank Leasing Corporation Limited	TCCBL Co., Ltd. (B.V.I.)	Direct shareholding of 100% of subsidiary	\$ 11,586,024	\$ 942,289	\$ 632,228	\$ -	\$ -	32.74	\$ 19,310,040	-	-	-
2	Taichung Bank Leasing Corporation Limited	Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Indirect shareholding of 100% of subsidiary	11,586,024	2,124,584	2,050,765	1,705,122	-	106.21	19,310,040	-	-	Y

Note 1: According to Taichung Bank Leasing Corporation Limited's "Operating Procedures to Fund Endorsement and Guarantee", the endorsement limit to single company cannot surpass six times of Taichung Bank Leasing Corporation Limited's audited net worth. The endorsement limits to all subsidiaries cannot surpass 10 times of Taichung Bank Leasing Corporation Limited's audited net worth.

Note 2: The maximum balance guaranteed for endorsement of others during the year.

Note 3: It is a guarantor of the listed parent company to the endorsement of the subsidiary, the subsidiary company's endorsement to the listed parent company and the endorsement of the mainland area must be filled with Y.

TAICHUNG COMMERCIAL BANK CO., LTD.

MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars or Shares)

Name of Holding Company	Type and Name of Marketable Securities	Relationship	Financial Statements Account	December 31, 2020				Note
				Shares	Carrying Amount (Note)	Percentage of Ownership	Market Value or Net Asset Value (Note)	
Taichung Commercial Bank Co., Ltd.	<u>Domestic unlisted shares</u> Taichung Bank Leasing Corporation Limited	Subsidiary	Investment accounted for using the equity method	196,463	\$ 1,931,004	100	\$ 1,931,004	
	Taichung Bank Insurance Brokers Co., Ltd.	Subsidiary	Investment accounted for using the equity method	128,600	1,831,053	100	1,831,053	
	Taichung Bank Securities Co., Ltd.	Subsidiary	Investment accounted for using the equity method	140,429	1,514,812	100	1,514,812	
	Taichung Bank Securities Investment Trust Co., Ltd.	Association	Investment accounted for using the equity method	12,000	163,148	38	163,148	
Taichung Bank Leasing Corporation Limited	<u>Foreign unlisted shares</u> TCCBL Co., Ltd. (B.V.I.)	Sub-subsidiary	Investment accounted for using the equity method	30,000	781,046	100	781,046	
TCCBL Co., Ltd. (B.V.I.)	<u>Foreign unlisted shares</u> Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Sub-subsidiary	Investment accounted for using the equity method	-	736,562	100	736,562	
Taichung Bank Securities Co., Ltd.	<u>Domestic unlisted shares</u> Taichung Bank Venture Capital Co., Ltd.	Sub-subsidiary	Investment accounted for using the equity method	21,000	214,732	100	214,732	

Note: The financial industry, the insurance industry and the securities industry are exempt from disclosure.

TAICHUNG COMMERCIAL BANK CO., LTD.

INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2020

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

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2020	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2020	% Ownership of Direct or Indirect Investment	Investment Gain	Carrying Value as of December 31, 2020	Accumulated Inward Remittance of Earnings as of December 31, 2020
					Outflow	Inflow					
Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Financial leasing business	\$ 893,373 (CNY 186,329 thousand)	Investment in mainland China companies through an existing company established in a third region.	\$ 893,373 (CNY 186,329 thousand)	\$ -	\$ -	\$ 893,373 (CNY 186,329 thousand)	100	\$ 8,726 (CNY 2,045 thousand)	\$ 736,562 (CNY 170,619 thousand)	\$ -

Accumulated Investment in Mainland China as of December 31, 2020	Investment Amount Approved by the Investment Commission, MOEA	Maximum Investment Allowable (Note 2)
\$893,373	\$893,373	\$1,158,602

Note 1: Recognition of investment gains and losses based on the financial statements audited by the parent company's accountant.

Note 2: Based on the Investment Commission's "Regulation on the Examination of Investment or Technical Cooperation in Mainland China", investments are limited to the regulation of Taichung Bank Leasing Corporation Limited's calculation.

Note 3: Foreign currency involved translation into the New Taiwan dollar at the spot rate and average exchange rate on the date of the financial statements (CNY1=NT\$4.32, CNY1=NT\$4.27).

TABLE 6**TAICHUNG COMMERCIAL BANK CO., LTD.****INFORMATION OF MAJOR SHAREHOLDERS
DECEMBER 31, 2020**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
China Man-Made Fiber Corporation	913,492,857	22.00
Pan Asia Chemical Corporation	234,255,531	5.64

Note 1: According to Article 25 of the Banking Act of the Republic of China, the same person or same related party who individually, jointly or collectively acquires more than 5% of a bank's outstanding voting shares shall report such fact to the authorities within 10 days from the date of acquisition.

Note 2: If the shares of the major shareholders in the above table are held by trustees, the shareholdings should be separately disclosed by the trust accounts opened by the trustee. As for shareholders' handling of insider shareholding declarations with more than 10% of their shares in accordance with the Securities Exchange Act, their shareholdings include their own shareholdings plus those shares held under trust accounts with the right to utilize the trust assets, etc. For more information on insider shareholding declarations, please refer to the market observation post system website of the TWSE.

TAICHUNG COMMERCIAL BANK CO., LTD.

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TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2020

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

Item	Amount
Cash on hand	\$ 3,484,883
Cash on hand - foreign currencies (Note)	929,386
Checks for clearing	1,249,821
Due from banks	<u>5,552,685</u>
	<u>\$ 11,216,775</u>

Note: The cash on hand - foreign currencies include: US\$11,193 thousand, US\$1=NT\$28.10; EUR1,720 thousand; EUR1=NT\$34.55; JPY1,014,975 thousand, JPY1=NT\$0.27; HK\$24,622 thousand, HK\$1=NT\$3.63; AUD626 thousand, AUD1=NT\$21.65; CAD463 thousand, CAD1=NT\$22.04; CNY38,423 thousand, CNY1=NT\$4.32.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2020

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

Name	Description	Shares	Amount	Total Amount	Cost	Fair Value		
						Unit Price (NT\$)	Total Amount	
Financial assets at FVTPL								
1. Domestic listed shares and emerging market shares								
Taiwan Fire & Marine Insurance Co., Ltd.		10,662	10	\$ 106,620	\$ 295,771	20.50	\$ 218,571	
Taiwan Semiconductor Manufacturing Co., Ltd.		195	10	1,950	53,743	530.00	103,350	
Formosa Chemicals & Fibre Corporation		240	10	2,400	19,808	99.80	23,952	
Others (Note)		1,162	10	11,620	27,921		35,246	
				<u>122,590</u>	<u>397,243</u>		<u>381,119</u>	
2. Foreign listed shares								
BABA		105		96,469	96,469	843.18	88,533	
3. Cross-currency swap contracts								
	Note 8	-		-	-		96,053	
4. Beneficiary certificate								
SinoPac CSI 300 Dividend Index Fund		1,020		-	20,000	20.81	21,224	
Fuh Hwa Small Capital Fund.		207		-	20,000	101.00	20,883	
Allianz Global Investors Taiwan Technology Fund		527		-	30,000	88.10	46,448	
Allianz Global Investors Taiwan Fund		887		-	30,000	49.65	44,025	
Nomura Global Equity Fund		1,543		-	30,000	23.13	35,694	
Nomura China Opportunities Fund		1,489		-	30,000	23.17	34,498	
Fuh Hwa China New Economy A Shares Equity Fund		2,322		-	30,000	14.62	33,942	
CTBC Vietnam Equity Fund (TWD)		2,331		-	25,000	11.09	25,849	
JPMorgan US Technology Fund (USD)		22		-	28,088	2,485.08	55,847	
Others (Note)		600		-	8,766		9,683	
				-	<u>251,854</u>		<u>328,093</u>	
5. Commercial paper								
Hotai Finance Co., Ltd.		-		5,400,000	5,398,370		5,398,611	
Cathay Financial		-		4,000,000	3,997,066		3,997,352	
Mega Financial Holding Company Ltd.		-		1,860,000	1,858,814		1,857,648	
Others (Note)		-		13,624,200	13,619,208		13,619,336	
				<u>24,884,200</u>	<u>24,873,458</u>		<u>24,872,947</u>	
6. Foreign exchange forward contracts								
	Note 8	-		-	-		168,822	

(Continued)

	Name	Description	Shares	Amount	Total Amount	Cost	Fair Value	
							Unit Price (NT\$)	Total Amount
7.	Asset swap contract							
	China Airlines	6	5,756	100	\$ 575,600	\$ 575,600	100.22	\$ 576,860
	Shin Kong Financial Holding	5	3,302	100	330,200	330,200	100.06	330,408
	Highwealth	5	3,738	100	373,800	373,800	100.06	374,028
	Others (Note)		17,597	100	<u>1,759,700</u>	<u>1,759,700</u>		<u>1,767,588</u>
					<u>3,039,300</u>	<u>3,039,300</u>		<u>3,048,884</u>
8.	Cross-currency option contracts							
		Note 8	-		-	-		<u>344,366</u>
9.	PEM group policy assets							
10.	Corporate bonds							
	CSBC Corporation		-		<u>799,269</u>	<u>799,269</u>		<u>799,269</u>
			-		<u>10,000</u>	<u>10,200</u>	116.28	<u>11,628</u>
11.	Interest rate-linked structured instrument contracts							
		Note 8	-		-	-		<u>2,155</u>
					<u>\$ 28,951,828</u>	<u>\$ 29,467,793</u>		<u>\$ 30,141,869</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

(Concluded)

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF SECURITIES PURCHASED UNDER RESELL AGREEMENTS

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Type	Period	Carrying Value	Amount	Interest
Commercial paper	2020.12.16-2021.01.13	<u>\$ 12,786,000</u>	<u>\$ 12,773,121</u>	0.21%-0.25%

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF RECEIVABLES, NET

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Item	Amount
Receivables on credit cards	\$ 742,251
Accounts receivable factored without recourse	154,805
Acceptances	443,447
Interest receivables	1,029,476
Receivables on foreign currency settlement	1,082,521
Others receivables	<u>217,419</u>
	3,669,919
Less: Allowance for doubtful accounts	<u>(124,136)</u>
	<u>\$ 3,545,783</u>

TAICHUNG COMMERCIAL BANK CO., LTD.**STATEMENT OF NOTES DISCOUNTED AND LOANS, NET****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

Item	Amount
Bills negotiated	\$ 293,388
Overdrafts	1,310
Secured overdrafts	30,988
Accounts receivable financing	51,149
Short-term unsecured loans	39,175,727
Short-term secured loans	101,315,539
Medium-term unsecured loans	54,480,676
Medium-term secured loans	110,808,195
Long-term unsecured loans	6,842,847
Long-term secured loans	147,939,346
Delinquent loans	<u>814,242</u>
	461,753,407
Add: Adjustment of premium or discount	23,940
Less: Allowance for doubtful accounts	<u>(6,334,993)</u>
	<u>\$ 455,442,354</u>

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

Name	Description	Interest Payment Date	Due Date	Units/Shares (In Thousands)	Amount	Interest %	Carrying Value	Accumulated Impairment Loss	Allowance for Doubtful Accounts	Fair Value
Domestic unlisted shares										
Taiwan Stock Exchange Corporation				1,723	\$ -		\$ 52,700	\$ -	\$ 156,778	\$ 209,478
Financial Information Service Co., Ltd				5,938	-		45,500	-	222,352	267,852
Taiwan Futures Exchange				1,657	-		9,000	-	158,940	167,940
Taiwan Depository & Clearing Corporation				610	-		5,445	-	81,803	87,248
Others (Note)					-		33,039	-	(14,001)	19,038
					-		145,684	-	605,872	751,556
Domestic listed shares										
Taiwan Cement Corp.				2,752	-		110,429	-	8,437	118,866
Formosa Plastics Corporation				1,401	-		119,457	-	15,599	135,056
Taiwan Mobile Co., Ltd.				1,519	-		157,827	-	(7,597)	150,229
Uni-President Enterprises Corporation				2,061	-		139,791	-	(673)	139,118
Chunghwa Telecom Co., Ltd.				1,527	-		166,580	-	(137)	166,443
Chailease Holding Company Limited Class A Preferred Shares				1,000	-		100,000	-	(400)	99,600
Others (Note)				8,405	-		333,403	-	49,507	382,911
					-		1,127,487	-	64,736	1,192,223
Corporate bonds										
P05 YFH 1C	Par value 4,500,000	2021/05/27	2023/05/27	4,500	4,500,000	1.00	4,503,379	(3,379)	59,535	4,559,535
P09 TWM 2	Par value 1,700,000	2021/03/24	2027/03/24	1,700	1,700,000	0.66	1,700,601	(601)	17,678	1,717,678
Others (Note)					20,450,000		20,532,265	(13,534)	163,188	20,681,919
					26,650,000		26,736,245	(17,514)	240,401	26,959,132
Government bonds										
101 Central government bond A7	Par value 700,000	2021/08/10	2032/08/10	700	700,000	1.50	720,552	(197)	72,252	792,607
Central government bond 95-7	Par value 2,300,000	2021/11/10	2026/11/10	2,300	2,300,000	2.13	2,458,882	(671)	(21,231)	2,436,980
99 Central government bond A7	Par value 500,000	2021/08/12	2030/08/12	500	500,000	1.75	530,560	(145)	36,686	567,101
Central government bond 97-5	Par value 300,000	2021/08/14	2028/08/14	300	300,000	2.63	336,649	(92)	15,705	352,262
105 Central government A13	Par value 500,000	2021/10/25	2021/10/25	500	500,000	0.63	499,653	(136)	1,642	501,159
Others (Note)					650,000		703,322	(192)	26,227	729,357
					4,950,000		5,249,618	(1,433)	131,281	5,379,466
Financial bonds										
P08 SCS 1A	Par value 500,000	2021/09/25	2022/09/25	500	500,000	0.65	500,177	(177)	1,156	501,156
P08 SCS 1B	Par value 700,000	2021/09/25	2024/09/25	700	700,000	0.69	700,247	(247)	3,089	703,089
P08 SGS 2B	Par value 500,000	2021/11/29	2024/11/29	500	500,000	0.79	500,140	(140)	4,689	504,689
P09 HSBC 2	Par value 300,000	2021/03/30	2027/03/30	300	300,000	0.57	300,121	(121)	(69)	299,931
					2,000,000		2,000,685	(685)	8,865	2,008,865
Foreign listed shares										
Visa International				29			17,388	-	158,044	175,432
Master Card International				14			11,844	-	124,128	135,972
							29,232	-	282,172	311,404

(Continued)

Name	Description	Interest Payment Date	Due Date	Units/Shares (In Thousands)	Amount	Interest %	Carrying Value	Accumulated Impairment Loss	Allowance for Doubtful Accounts	Fair Value
Foreign bonds										
JPMORGAN CHASE & CO US48128BAB71				-	\$ 196,693		\$ 196,394	\$ (69)	\$ 5,816	\$ 202,141
HSBC Bank Middle East Limited XS2233205462				-	280,990		281,089	(99)	3,543	284,533
First National Bank of Abu Dhabi XS2213043495				-	561,210		561,867	(153)	2,460	564,174
Qatar Commercial Bank XS2223675146				-	280,605		280,662	(57)	(1,894)	278,711
Qatar Commercial Bank XS2227817876				-	280,605		280,662	(57)	3,522	284,127
Bank of China, Macau Branch XS2231589511				-	280,605		280,683	(78)	1,824	282,429
China Development Bank XS2263044286				-	259,020		259,752	(105)	1,841	261,488
Qatar National Bank XS2265221155				-	259,020		255,200	(52)	2,730	257,878
FOXCONN (FAR EAST) LIMITED XS2236362849				-	252,891		252,658	(65)	5,781	258,374
Others (Note)				-	<u>804,276</u>		<u>801,894</u>	<u>(341)</u>	<u>10,862</u>	<u>812,415</u>
					<u>3,455,915</u>		<u>3,450,861</u>	<u>(1,076)</u>	<u>36,485</u>	<u>3,486,270</u>
					<u>\$ 37,055,915</u>		<u>\$ 38,739,812</u>	<u>\$ (20,708)</u>	<u>\$ 1,369,812</u>	<u>\$ 40,088,916</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

(Concluded)

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF INVESTMENT IN DEBT INSTRUMENTS AT AMORTIZED COST

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Type	Description	Interest Payment Date	Maturity Date	Carrying Value (NT\$)	Interest %	Allowance For Doubtful Accounts	Unamortized Price	Fair Value
1. Government bonds								
100 Central government bond A7	Guaranteed par value \$396,500 thousand	2021/08/02	2031/08/02	\$ 600,000	1.875	\$ (174)	\$ 38,368	\$ 638,193
101 Central government bond 5	Guaranteed par value \$239,500 thousand	2021/03/07	2022/03/07	700,000	1.250	(191)	1,247	701,056
103 Central government bond A6		2021/03/03	2024/03/03	1,000,000	1.500	(277)	13,366	1,013,089
106 Central government bond A4		2021/03/01	2027/03/01	1,200,000	1.125	(329)	6,449	1,206,120
106 Central government bond A9		2021/09/20	2027/09/20	1,650,000	1.000	(450)	(2,782)	1,646,768
90 Central government bond B1	Guaranteed par value \$500,000 thousand	2021/09/11	2021/09/11	1,000,000	4.000	(278)	19,460	1,019,182
99 Central government bond A4		2021/02/22	2030/02/22	1,050,000	1.875	(307)	72,786	1,122,479
Others (Note)				5,070,000	0.63-4.25	(1,450)	235,823	5,304,375
Less: Deposit reserves for trust compensation Refundable deposits				(60,000)		-	-	(60,000)
				<u>(860,400)</u>		<u>-</u>	<u>-</u>	<u>(860,400)</u>
				<u>11,349,600</u>		<u>(3,456)</u>	<u>384,717</u>	<u>11,730,862</u>
2. Foreign bonds (Note)				<u>24,791,215</u>	0.796-8.700	<u>(16,038)</u>	<u>3,588</u>	<u>24,778,765</u>
3. Commercial paper								
NCDs				<u>64,970,000</u>	0.110-0.640	<u>-</u>	<u>-</u>	<u>64,970,000</u>
4. Corporate bonds								
P07 FENC 1		2021/01/08	2023/01/08	800,000	0.950	(1,117)	-	798,883
P07 Pegatron 1B		2021/01/10	2023/01/10	600,000	0.920	(451)	-	599,549
P07 DSC 2		2021/12/19	2023/12/19	600,000	0.970	(588)	-	599,412
P06 YL 1A		2021/12/12	2022/12/12	600,000	1.040	(2,629)	14	597,385
Others (Note)				<u>8,550,000</u>	0.820-1.750	<u>(9,861)</u>	<u>9,460</u>	<u>8,549,599</u>
				<u>11,150,000</u>		<u>(14,646)</u>	<u>9,474</u>	<u>11,144,828</u>
				<u>\$ 112,260,815</u>		<u>\$ (34,140)</u>	<u>\$ 397,779</u>	<u>\$ 112,624,455</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2020

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

Investees	Balance, January 1, 2020		Additions in Investment		Decrease in Investment		Balance, December 31, 2020			Market Value or Net Assets Value
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	%	Amount	
Taichung Bank Insurance Brokers Co. (Note 1)	128,600	\$ 2,024,588	-	\$ 293,636	-	\$ 487,171	128,600	100.00	\$ 1,831,053	\$ 1,831,053
Taichung Bank Securities Investment Trust Co., Ltd. (Note 2)	12,000	156,788	-	9,654	-	3,294	12,000	38.46	163,148	163,148
Taichung Bank Leasing Corporation Limited (Note 3)	189,729	1,904,602	6,734	27,868	-	1,466	196,463	100.00	1,931,004	1,931,004
Taichung Bank Securities Co., Ltd. (Note 4)	150,000	<u>1,404,823</u>	-	<u>128,246</u>	9,571	<u>18,257</u>	140,429	100.00	<u>1,514,812</u>	<u>1,514,812</u>
		<u>\$ 5,490,801</u>		<u>\$ 459,404</u>		<u>\$ 510,188</u>			<u>\$ 5,440,017</u>	<u>\$ 5,440,017</u>

Note 1: The increase in the current year was based on investment income recognized under equity method of \$256,747 thousand and the recognition of unrealized gain on financial instruments amounted to \$36,889 thousand. The decrease in the current year was based on cash dividends of \$487,171 thousand. The net assets value was calculated based on financial statements which have been audited.

Note 2: The increase in the current year was based on the defined benefit plans recognized under equity method of \$84 thousand and the recognition of unrealized gain on financial instruments amounted to \$9,570 thousand. The decrease in the current year was investment loss of \$3,294 thousand. The net assets value was calculated based on financial statements which have been audited.

Note 3: The increase in the current year was based on investment income recognized under equity method of \$27,868 thousand and the share dividends were 6,734 shares. The decrease in the current year was cumulative translation adjustment of \$1,466 thousand. The net assets value was calculated based on financial statements which have been audited.

Note 4: The increase in the current year was based on investment income recognized under equity method of \$128,246 thousand. The decrease in the current year was the recognition of unrealized loss on financial instruments amounted to \$18,257 thousand and reducing capital stocks decreased by 9,571 thousand shares. The net assets value was calculated based on financial statements which have been audited.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF OTHER FINANCIAL ASSETS

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

	Item	Amount
Other delinquent receivables, net		
Delinquent receivables not arising from loans		\$ 3,766
Less: Allowance for doubtful accounts		<u>(1,520)</u>
		<u>\$ 2,246</u>

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF CHANGE IN RIGHT-OF-USE ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars)

Item	Balance, Beginning of Year	Addition	Less	Balance, End of Year	Remark
Land and buildings	\$ 732,396	\$ 160,268	\$ 65,809	\$ 826,855	
Transportation equipment	<u>62,311</u>	<u>198,583</u>	<u>18,330</u>	<u>242,564</u>	
	<u>\$ 794,707</u>	<u>\$ 358,851</u>	<u>\$ 84,139</u>	<u>\$ 1,069,419</u>	

Note: The above statement is listed in order of asset categories.

TAICHUNG COMMERCIAL BANK CO., LTD.

**STATEMENT OF CHANGE IN ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)**

Item	Balance, Beginning of Year	Addition	Less	Balance, End of Year	Remark
Land and buildings	\$ 99,178	\$ 108,618	\$ 28,408	\$ 179,388	
Transportation equipment	<u>15,377</u>	<u>51,485</u>	<u>8,062</u>	<u>58,800</u>	
	<u>\$ 114,555</u>	<u>\$ 160,103</u>	<u>\$ 36,470</u>	<u>\$ 238,188</u>	

Note: The above statement is listed in order of asset categories.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Item	Description (Note)	Shares	Carrying Value	Total Amount	Rate	Cost	Fair Value	
							Unit Price (NT\$)	Total Amount
Financial liability held for trading								
Cross-currency swap contracts	Note 8	-	-	\$ -	-	\$ -	\$ -	\$ 369,085
Foreign exchange forward contracts	Note 8	-	-	-	-	-	-	19,739
Cross-currency option contracts	Note 8	-	-	-	-	182,397	-	348,164
Interest rate-linked structured instrument contracts	Note 8	-	-	-	-	-	-	<u>2,155</u>
						<u>\$ 182,397</u>		<u>\$ 739,143</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

DECEMBER 31, 2020

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

Trading Product Name	Trading Period	Carrying Value	Amount	Rate
Government bonds				
103 Central government bond A6	2020.11.19-2021.01.15	\$ 400,000	\$ 400,316	0.21%
102 Central government bond A10	2020.12.17-2021.02.25	300,000	301,014	0.20%
103 Central government bond A6	2020.12.21-2021.02.25	400,000	401,925	0.20%
Others (Note)	2020.11.13-2021.01.22	100,000	<u>100,337</u>	0.21%
			<u>1,203,592</u>	
Foreign bonds				
BNS Asia Limited	2020.12.09-2021.03.09	US\$ 20,000	549,364	0.38%
UOB TPE	2020.12.03-2021.03.03	US\$ 20,000	<u>547,121</u>	0.38%
			<u>1,096,485</u>	
			<u>\$ 2,300,077</u>	

Note: The amount of each item in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF ACCOUNTS PAYABLES

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Item	Amount
Accrued expenses	\$ 1,429,235
Notes and checks in clearing	1,249,821
Foreign currency settlement payable	1,083,053
Acceptances	455,797
Interest payable	313,555
Factored accounts payable	105,876
Collections payable	29,010
Other payables	<u>562,359</u>
	<u>\$ 5,228,706</u>

TAICHUNG COMMERCIAL BANK CO., LTD.**STATEMENT OF DEPOSITS AND REMITTANCES****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Amount
Checking deposits	
Checking	\$ 6,719,727
Bank checking	1,992,684
Certified check	<u>113,881</u>
	<u>8,826,292</u>
Demand deposits	
Demand	140,258,002
Public treasury	495,721
Foreign exchange demand	<u>32,054,816</u>
	<u>172,808,539</u>
Demand savings deposits	
Demand savings	147,906,818
Staff demand savings	<u>2,736,198</u>
	<u>150,643,016</u>
Time deposits	
Time	118,840,149
Foreign exchange time	<u>31,879,139</u>
	<u>150,719,288</u>
Time savings deposits	
Withdrawals of interest savings	142,277,158
Round-amount savings	12,756,970
Regular deposits	<u>154,021</u>
	<u>155,188,149</u>
Remittances	<u>88,554</u>
	<u>\$ 638,273,838</u>

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF BANK DEBENTURES

DECEMBER 31, 2020

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

Bonds Name	Detail of the Subordinated Financial Debenture Issuance			Bonds		Book Value
	Issuance Date	Maturity Date	Interest Rate	Category	Carrying Value	
First no due date non-cumulative subordinated financial debenture on 2015	2015.12.28	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	\$ 10,000	\$ 1,500,000
First no due date non-cumulative subordinated financial debenture on 2016	2016.12.28	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,500,000
First no due date non-cumulative subordinated financial debenture on 2017	2017.03.28	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,000,000
Second no due date non-cumulative subordinated financial debenture on 2017	2017.05.18	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	500,000
Third no due date non-cumulative subordinated financial debenture on 2017	2017.08.28	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	500,000
Fourth no due date non-cumulative subordinated financial debenture on 2017	2017.12.05	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,350,000
Fifth no due date non-cumulative subordinated financial debenture on 2017	2017.12.27	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	2,650,000
First no due date non-cumulative subordinated financial debenture on 2018	2018.04.25	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,000,000
Second no due date non-cumulative subordinated financial debenture on 2018	2018.12.18	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	<u>1,500,000</u>
						<u>\$ 11,500,000</u>

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF LEASE LIABILITIES

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Item	Description	Lease Terms	Discount Rate	Balance, End of Year	Remark
Land and buildings		1-15 years	3.89%-4.14%	\$ 668,254	
Transportation equipment		1-5 years	3.89%-4.14%	<u>185,552</u>	
				<u>\$ 853,806</u>	

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF EMPLOYEE BENEFITS EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

Item	Employee Benefit Expense	Non-interest Gains	Other Selling and Administrative Expenses	Total	Remark
Employee benefits expense					
Salaries	\$ 2,845,960	\$ -	\$ -	\$ 2,845,960	
Labor and health insurance	212,411	-	-	212,411	
Pension expense	103,219	-	-	103,219	
Remuneration of directors and supervisors	123,292	-	4,596	127,888	
Other employee expenses	<u>216,207</u>	<u>-</u>	<u>2,488</u>	<u>218,695</u>	
	<u>\$ 3,501,089</u>	<u>\$ -</u>	<u>\$ 7,084</u>	<u>\$ 3,508,173</u>	

Note 1: As of December 31, 2020 and 2019, the Bank had 2,615 and 2,490 employees, and there were 11 non-employee directors in both year.

Note 2: The average employee benefits expense amounted to \$1,298 thousand in 2020 and amounted to \$1,333 thousand in 2019.

Note 3: The average employee salaries amounted to \$1,093 thousand in 2020 and amounted to \$1,130 thousand in 2019.

Note 4: The change in average employee salaries rate was (3%) in 2020.

Note 5: The Bank has been established audit committee, and no hire supervisor.

Note 6: The Bank's salary and remuneration policy:

Director of the Board

- a. According to Article 27 of the Bank's salary and remuneration policy, the remuneration of the chairman, vice-chairman, managing director and independent director must be authorized by the board of directors and must be determined negotiated based on the industry's usual standards. The remuneration of the directors selected at the shareholders' meeting of the Bank on May 13, 2020, were paid by monthly fixed carriage fee and research fee.

(Continued)

- b. According to Article 35 of Bank's Articles of Incorporation, if the Bank has a net profit at the end of the year, the Bank shall accrue amounts for compensation of employees and remuneration of directors at rates of 0.5%-3% and upon approval by the Bank's board of directors shall be distributed in stock or cash. The Bank's board of directors can decide no higher than 2.5% of net profit before income tax as remuneration of directors. If the Bank has deficit at the end of the year, the profit shall be first utilized for offsetting losses of previous years.

The remuneration committee makes a proposal for the distribution of remuneration of directors, submits the proposal to the board of directors for resolution and approval, and then submits the report to the general meeting of shareholders.

- c. According to Article 27 of the Bank's Articles of Incorporation, an independent director shall not participate in the Bank's surplus distribution.

Managers and employees

- a. The Bank's salary system is divided into recurring salary (principal salary, various allowances) and non-recurring salary (e.g., overtime pay); the salary and remuneration of new recruits are not different due to gender, race, religion, politics, marital status or whether they belong to a trade union; the department approves salary based on academic record, work experience, job performance, professional skills and other standards, and refers to the salary survey results of corporate management consulting companies, compares the salary packages of comparable positions in the industry, and designs a fair, competitive and incentive compensation system.
- b. The employee's annual salary is equal to one month salary multiplied by 13 months, i.e., 12 calendar months and 1 month salary as Spring Festival bonus; in addition, depending on the Bank's operating performance and employee's personal performance in the current year, operating performance bonuses will be paid.
- c. The manager's salary and remuneration are handled in accordance with the regulations on the salary grade table, the position differential table, and the manager and employee appraisal shall be approved by the board of directors. The remuneration committee reviews manager's salary and remuneration regularly every year, and considers the relevant regulations on personal performance appraisal, performance and remuneration in order to link performance bonus and risk to prevent managers from undertaking high-risk business due to the pursuit of high remuneration; some operating performance bonuses may be issued or deferred.

(Concluded)