

**Taichung Commercial Bank Co., Ltd.**

**Financial Statements for the  
Years Ended December 31, 2022 and 2021 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, 2022 and 2021, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2022 and 2021, 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 the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the 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, 2022. 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 matters in the audit of the financial statements of the Bank for the year ended December 31, 2022:

#### 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 \$512,879,230 thousand, which accounted for 64% of total assets at December 31, 2022 and the expected credit losses of the notes discounted and loans amounted to \$969,901 thousand, which accounted for 7% of total net revenue for the year ended December 31, 2022. 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 involved the management's critical estimations and judgments, and also required compliance with relevant laws and regulations. Therefore, the expected credit loss of notes discounted and loans were identified as a key audit matter.

The relevant accounting policies, estimates, 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 obtained an understanding of the internal controls for the expected credit losses of notes discounted and loans of the Bank. We checked the Bank's compliance with relevant regulations issued by authorities on assessment of the expected credit losses.
- We obtained an understanding of and recalculated 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.

#### **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 Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the 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, 2022 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Shu-Lin Liu and Pan-Fa Wang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 23, 2023

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

ASSETS	2022		2021	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	\$ 24,384,724	3	\$ 17,627,033	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Notes 4, 7 and 35)	40,921,600	5	38,193,986	5
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	28,000,718	4	32,663,892	4
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4 and 9)	44,588,693	6	47,922,451	6
INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST (Notes 4, 10 and 35)	104,757,966	13	109,181,808	14
SECURITIES PURCHASED UNDER RESALE AGREEMENT (Notes 4 and 11)	11,643,340	2	11,258,439	2
RECEIVABLES, NET (Notes 4, 12 and 34)	3,244,829	-	3,176,429	1
NOTES DISCOUNTED AND LOANS, NET (Notes 4, 13 and 34)	512,879,230	64	478,441,414	63
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 14)	6,043,163	1	6,064,223	1
OTHER FINANCIAL ASSETS, NET (Notes 4 and 15)	271,035	-	437,502	-
PROPERTIES AND EQUIPMENT, NET (Notes 4 and 16)	16,215,697	2	13,707,859	2
RIGHT-OF-USE ASSETS, NET (Notes 4 and 17)	692,932	-	685,706	-
INTANGIBLE ASSETS, NET (Notes 4 and 18)	175,196	-	161,518	-
DEFERRED TAX ASSETS (Notes 4 and 31)	597,026	-	766,162	-
OTHER ASSETS (Notes 19 and 35)	<u>2,188,999</u>	<u>-</u>	<u>2,049,377</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$ 796,605,148</u></b>	<b><u>100</u></b>	<b><u>\$ 762,337,799</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND EQUITY</b>				
DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 20)	\$ 8,703,740	1	\$ 3,953,700	1
FUNDS BORROWED FROM THE CENTRAL BANK AND OTHER BANKS (Notes 21 and 35)	-	-	3,489,540	1
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	1,630,985	-	492,678	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4 and 22)	-	-	1,205,559	-
PAYABLES (Notes 23 and 34)	7,865,915	1	8,178,890	1
CURRENT TAX LIABILITIES (Notes 4 and 31)	476,109	-	335,518	-
DEPOSITS AND REMITTANCES (Notes 24 and 34)	685,334,994	86	661,383,489	87
BANK DEBENTURES (Notes 25 and 34)	16,500,000	2	16,500,000	2
OTHER FINANCIAL LIABILITIES (Note 26)	3,989,488	1	584,493	-
PROVISIONS (Notes 4 and 27)	1,237,517	-	1,355,169	-
LEASE LIABILITIES (Notes 4 and 17)	725,609	-	713,902	-
DEFERRED TAX LIABILITIES (Notes 4 and 31)	109,486	-	109,486	-
OTHER LIABILITIES (Notes 28 and 34)	<u>801,679</u>	<u>-</u>	<u>575,390</u>	<u>-</u>
Total liabilities	<u>727,375,522</u>	<u>91</u>	<u>698,877,814</u>	<u>92</u>
EQUITY (Note 29)				
Ordinary shares	50,154,465	7	45,385,205	6
Capital surplus	1,528,256	-	1,054,006	-
Retained earnings				
Legal reserve	12,141,002	1	10,677,008	1
Special reserve	149,077	-	149,678	-
Unappropriated earnings	5,416,510	1	4,886,043	1
Other equity	<u>(159,684)</u>	<u>-</u>	<u>1,308,045</u>	<u>-</u>
Total equity	<u>69,229,626</u>	<u>9</u>	<u>63,459,985</u>	<u>8</u>
<b>TOTAL</b>	<b><u>\$ 796,605,148</u></b>	<b><u>100</u></b>	<b><u>\$ 762,337,799</u></b>	<b><u>100</u></b>

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

	2022		2021		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUE (Notes 4, 30 and 34)	\$ 14,789,509	106	\$ 11,471,305	91	29
INTEREST EXPENSE (Notes 30 and 34)	<u>(4,568,011)</u>	<u>(33)</u>	<u>(2,775,768)</u>	<u>(22)</u>	65
NET INTEREST	10,221,498	73	8,695,537	69	18
NET INCOME AND LOSS OTHER THAN INTEREST					
Service fee income, net (Notes 4, 30 and 34)	2,494,507	18	2,481,588	20	1
Gains (losses) on financial assets and liabilities at fair value through profit or loss (Note 30)	1,011,654	7	334,653	3	202
Realized gains on financial assets at fair value through other comprehensive income (Notes 4 and 30)	234,842	2	142,458	1	65
Foreign exchange gains, net (Note 4)	(301,894)	(2)	144,226	1	(309)
Impairment losses on assets (Notes 4, 9, 10 and 30)	(11,032)	-	(5,960)	-	85
Share of profit of subsidiaries and associates for using the equity method (Notes 4 and 14)	321,144	2	779,557	6	(59)
Other non-interest gains, net (Notes 4, 27 and 30)	<u>36,547</u>	<u>-</u>	<u>30,470</u>	<u>-</u>	20
TOTAL NET REVENUE	<u>14,007,266</u>	<u>100</u>	<u>12,602,529</u>	<u>100</u>	11
PROVISION FOR BAD DEBTS EXPENSE, COMMITMENTS AND GUARANTEES (Notes 4, 12, 13, 27 and 30)	<u>(1,144,972)</u>	<u>(8)</u>	<u>(1,203,947)</u>	<u>(10)</u>	(5)

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# TAICHUNG COMMERCIAL BANK CO., LTD.

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

	2022		2021		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
<b>OPERATING EXPENSES</b>					
Employee benefits expenses (Notes 4, 27 and 30)	\$ (3,976,434)	(28)	\$ (3,692,498)	(29)	8
Depreciation and amortization expenses (Notes 4 and 30)	(373,792)	(3)	(437,950)	(4)	(15)
Other selling and administrative expenses (Notes 30 and 34)	<u>(2,039,703)</u>	<u>(15)</u>	<u>(1,814,425)</u>	<u>(14)</u>	12
Total operating expenses	<u>(6,389,929)</u>	<u>(46)</u>	<u>(5,944,873)</u>	<u>(47)</u>	7
<b>PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS</b>					
	6,472,365	46	5,453,709	43	19
<b>INCOME TAX EXPENSE (Notes 4 and 31)</b>					
	<u>(1,128,160)</u>	<u>(8)</u>	<u>(657,435)</u>	<u>(5)</u>	72
<b>NET PROFIT FOR THE YEAR</b>					
	<u>5,344,205</u>	<u>38</u>	<u>4,796,274</u>	<u>38</u>	11
<b>OTHER COMPREHENSIVE INCOME</b>					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Notes 4 and 27)	62,887	1	14,745	-	326
Unrealized (losses) gains on investments in equity instruments at fair value through other comprehensive income (Note 4)	(147,339)	(1)	206,546	2	(171)
Share of the other comprehensive income of subsidiaries and associates accounted for using the equity method	29,365	-	78,096	1	(62)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 31)	<u>(15,836)</u>	<u>-</u>	<u>(2,512)</u>	<u>-</u>	530
Items that will not be reclassified subsequently to profit or loss, net of income tax	<u>(70,923)</u>	<u>-</u>	<u>296,875</u>	<u>3</u>	(124)

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# TAICHUNG COMMERCIAL BANK CO., LTD.

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

	2022		2021		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)	\$ 30,925	-	\$ 31,960	-	(3)
Share of the other comprehensive income of subsidiaries and associates accounted for using the equity method	16,287	-	4,063	-	301
Unrealized losses on investments in debt instruments designated as at fair value through other comprehensive income	<u>(1,390,473)</u>	<u>(10)</u>	<u>(244,933)</u>	<u>(2)</u>	468
Items that may be reclassified subsequently to profit or (loss), net of income tax	<u>(1,343,261)</u>	<u>(10)</u>	<u>(208,910)</u>	<u>(2)</u>	543
Other comprehensive income for the year, net of income tax	<u>(1,414,184)</u>	<u>(10)</u>	<u>87,965</u>	<u>1</u>	(1,708)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 3,930,021</u>	<u>28</u>	<u>\$ 4,884,239</u>	<u>39</u>	(20)
<b>EARNINGS PER SHARE (Note 32)</b>					
Basic	<u>\$1.12</u>		<u>\$1.05</u>		
Diluted	<u>\$1.12</u>		<u>\$1.05</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, 2022 AND 2021  
(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 Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2021	\$ 41,516,943	\$ 803,606	\$ 9,469,859	\$ 150,243	\$ 4,077,345	\$ (121,110)	\$ 1,424,867	\$ 57,321,753
Appropriation of 2020 earnings								
Legal reserve	-	-	1,207,149	-	(1,207,149)	-	-	-
Special reserve	-	-	-	(565)	565	-	-	-
Cash dividends	-	-	-	-	(996,407)	-	-	(996,407)
Share dividends	1,868,262	-	-	-	(1,868,262)	-	-	-
Net profit for the year ended December 31, 2021	-	-	-	-	4,796,274	-	-	4,796,274
Other comprehensive income for the year ended December 31, 2021, net of income tax	-	-	-	-	12,021	36,023	39,921	87,965
Total comprehensive income for the year ended December 31, 2021	-	-	-	-	4,808,295	36,023	39,921	4,884,239
Issuance of ordinary shares for cash (Note 29)	2,000,000	230,000	-	-	-	-	-	2,230,000
Issuance of ordinary shares under employee share options (Note 33)	-	20,400	-	-	-	-	-	20,400
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	71,656	-	(71,656)	-
BALANCE AT DECEMBER 31, 2021	45,385,205	1,054,006	10,677,008	149,678	4,886,043	(85,087)	1,393,132	63,459,985
Appropriation of 2021 earnings								
Legal reserve	-	-	1,463,994	-	(1,463,994)	-	-	-
Special reserve	-	-	-	(601)	601	-	-	-
Cash dividends	-	-	-	-	(1,134,630)	-	-	(1,134,630)
Share dividends	2,269,260	-	-	-	(2,269,260)	-	-	-
Net profit for the year ended December 31, 2022	-	-	-	-	5,344,205	-	-	5,344,205
Other comprehensive (loss) income for the year ended December 31, 2022, net of income tax	-	-	-	-	51,126	47,212	(1,512,522)	(1,414,184)
Total comprehensive income (loss) for the year ended December 31, 2022	-	-	-	-	5,395,331	47,212	(1,512,522)	3,930,021
Issuance of ordinary shares for cash (Note 29)	2,500,000	437,500	-	-	-	-	-	2,937,500
Issuance of ordinary shares under employee share options (Note 33)	-	36,750	-	-	-	-	-	36,750
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	2,419	-	(2,419)	-
BALANCE AT DECEMBER 31, 2022	\$ 50,154,465	\$ 1,528,256	\$ 12,141,002	\$ 149,077	\$ 5,416,510	\$ (37,875)	\$ (121,809)	\$ 69,229,626

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

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 6,472,365	\$ 5,453,709
Adjustments for:		
Depreciation expense	312,309	381,300
Amortization expense	61,483	56,650
Provision for bad debts expense, commitments and guarantees liabilities	1,144,972	1,203,947
Gains on financial assets and liabilities at fair value through profit or loss	(1,011,654)	(334,653)
Losses (gains) on disposal of properties and equipment	169	(10,517)
Interest expense	4,568,011	2,775,768
Interest revenue	(14,789,509)	(11,471,305)
Dividend income	(234,775)	(137,745)
Compensation costs of employee share options	36,750	20,400
Share of profit of subsidiaries and associates	(321,144)	(779,557)
Gains on disposal of investments in debt instruments at fair value through other comprehensive income	(67)	(4,713)
Impairment losses on financial assets	11,032	5,960
Unrealized (gains) losses on foreign currency exchange	(1,517,313)	433,009
Gain on lease suspension	(3,152)	(5,797)
Total adjustment	<u>(11,742,888)</u>	<u>(7,867,253)</u>
Net changes in operating assets and liabilities		
Due from the Central Bank and call loans to other banks	(2,378,335)	(1,445,572)
Financial assets at fair value through profit or loss	8,531,460	(1,228,543)
Receivables	366,654	393,659
Notes discounted and loans	(35,487,893)	(24,027,273)
Other financial assets	150,956	(534,176)
Other assets	(46,415)	(7,692)
Due to the Central Bank and other banks	4,750,040	(3,083,638)
Financial liabilities at fair value through profit or loss	(1,718,325)	(1,205,292)
Securities sold under repurchase agreements	(1,205,559)	(1,094,518)
Payables	(625,434)	2,994,115
Deposits and remittances	23,951,505	23,109,651
Other financial liabilities	3,404,995	477,247
Provision for employee benefits	(70,975)	(114,423)
Other liabilities	226,289	85,215
Changes in operating assets and liabilities	<u>(151,037)</u>	<u>(5,681,240)</u>
Cash used in operations	(5,421,560)	(8,094,784)
Interest received	14,292,198	11,602,460
Dividend received	619,356	375,207
Interest paid	(4,250,552)	(2,814,699)
Income tax paid	<u>(834,269)</u>	<u>(501,166)</u>
Net cash generated from operating activities	<u>4,405,173</u>	<u>567,018</u>

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# TAICHUNG COMMERCIAL BANK CO., LTD.

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

	2022	2021
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through other comprehensive income	\$ (2,738,723)	\$ (11,284,192)
Proceeds from disposal of financial assets at fair value through other comprehensive income	4,656,255	3,317,086
Purchase of financial assets at amortized cost	(783,723,829)	(907,585,588)
Proceeds from repayments sale of financial assets at amortized cost	789,824,504	910,515,784
Payments for properties and equipment	(2,692,192)	(1,602,516)
Proceeds from disposal of properties and equipment	-	15,050
Increase in refundable deposits	(389,107)	(16,502)
Payments for intangible assets	<u>(75,037)</u>	<u>(56,164)</u>
Net cash generated from (used in) investing activities	<u>4,861,871</u>	<u>(6,697,042)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowing from Central Bank and other banks	-	1,322,260
Decrease in due to Central Bank and other banks	(3,489,540)	-
Proceeds from issuance of bank debentures	-	5,000,000
Repayment of the principal portion of lease liabilities	(119,428)	(185,017)
Cash dividends distributed	(1,134,630)	(996,407)
Proceeds from issuance of ordinary shares	<u>2,937,500</u>	<u>2,230,000</u>
Net cash (used in) generated from financing activities	<u>(1,806,098)</u>	<u>7,370,836</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES</b>		
	<u>30,925</u>	<u>31,960</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,491,871	1,272,772
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<u>47,029,147</u>	<u>45,756,375</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<u>\$ 54,521,018</u>	<u>\$ 47,029,147</u>

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# TAICHUNG COMMERCIAL BANK CO., LTD.

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

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	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
RECONCILIATIONS OF THE AMOUNTS IN THE STATEMENTS OF CASH FLOWS WITH THE EQUIVALENT ITEMS REPORTED IN THE BALANCE SHEETS AT DECEMBER 31, 2022 AND 2021		
Cash and cash equivalents in the balance sheets	\$ 24,384,724	\$ 17,627,033
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”	18,492,954	18,143,675
Securities purchased under resale agreements in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	<u>11,643,340</u>	<u>11,258,439</u>
Cash and cash equivalents at the end of the year	<u>\$ 54,521,018</u>	<u>\$ 47,029,147</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, 2022 AND 2021

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

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### 1. GENERAL INFORMATION

Taichung Commercial Bank Co., Ltd. (the “Bank”), formerly known as Taichung District Association Saving Co., Ltd. It was established in April 1953 and started operations in August of the same year. In July 1975, the Banking Act of the Republic of China was revised and implemented. On January 1, 1978, the Taichung District Association Saving Co., Ltd. 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, 2022, the Bank had a business department, a trust department, a foreign exchange transaction department, 82 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 line with the government decree, 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, 2022, the Bank’s capital amount was \$50,154,465 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 23, 2023.

### 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)

The initial application of the amendments to the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Bank’s accounting policies:

- b. The IFRSs endorsed by the FSC for application starting from 2023

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

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

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

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

#### 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 has assessed that the application of above standards and interpretations will not have a material impact on the Bank’s financial position and financial performance.

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an investor and its Associate or Joint Venture”	To be determined by IASB
Amendments to IFRS 16 “Leases Liability in a Sale and Leaseback”	January 1, 2024 (Note 2)
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 “Initial Application of IFRS 9 and IFRS 17 - Comparative Information”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2024
Amendments to IAS 1 “Non-current Liabilities with Covenants”	January 1, 2024

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

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

As of the date the financial statements were authorized for issue, the Bank is continuously assessing the possible impact of the application of other standards and interpretations 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 that are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, 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 the asset or liability.

- 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 entities included in the report are 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 resale/notes issued under repurchase agreements

A bond purchased under resale/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. 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.

k. 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, investment properties 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 Bank 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.

1. 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 are 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 host 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.

#### 5) Modification of financial instruments

For the changes in the basis for determining contractual cash flows of financial assets or financial liabilities resulting from the interest rate benchmark reform, the Bank elects to apply the practical expedient in which the changes are accounted for by updating the effective interest rate at the time the basis is changed, provided the changes are necessary as a direct consequence of the reform and the new basis is economically equivalent to the previous basis. When multiple changes are made to a financial asset or a financial liability, the Bank first applies the practical expedient to those changes required by interest rate benchmark reform, and then applies the requirements of modification of financial instruments to the other changes that cannot apply the practical expedient.

#### m. 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.

#### n. 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.

## o. 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, 2022, 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.

p. 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.

q. 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.

r. Taxation

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

1) Current tax

According to the Income Tax Act, 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect 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 probability of default and loss given default. 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>2022</u>	<u>2021</u>
Cash on hand	\$ 7,586,140	\$ 4,365,877
Checks for clearing	4,276,016	4,589,463
Due from banks	<u>12,522,568</u>	<u>8,671,693</u>
	<u>\$ 24,384,724</u>	<u>\$ 17,627,033</u>

- a. The loss allowance is 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, 2022 and 2021.
- b. Reconciliations of cash and cash equivalents between the statements of cash flows and the balance sheets as of December 31, 2022 and 2021 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>2022</u>	<u>2021</u>
Deposit reserves		
Deposit reserves for checking accounts	\$ 12,018,774	\$ 11,580,438
Deposit reserves for demand accounts	22,270,486	19,903,431
Inter-bank clearing account	4,515,145	5,015,409
Deposit reserves for foreign currency deposits	95,201	74,739
Due from banks	1,951,994	1,559,969
Deposit reserves for trust compensation	<u>70,000</u>	<u>60,000</u>
	<u>\$ 40,921,600</u>	<u>\$ 38,193,986</u>

- a. The loss allowance is 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, 2022 and 2021.
- 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, 2021. Refer to Note 35.
- c. The Bank deposited the reserves for trust compensation on government bonds measured at amortized cost on December 31, 2022 and 2021, with a nominal amount of \$70,000 thousand and \$60,000 thousand, respectively. Refer to Note 35.

## 8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<u>Financial assets at FVTPL</u>		
Commercial papers	\$ 18,158,908	\$ 26,680,732
Domestic listed shares	318,732	347,919
Corporate bonds	34,419	64,053
PEM Group policy assets	875,684	806,522
Beneficiary certificates	290,350	757,683
Asset swap contracts	6,609,438	3,555,430
Cross-currency swap contracts	617,521	44,915
Foreign exchange forward contracts	101,124	96,335
Cross-currency option contracts	544,909	266,875
Interest rate-linked structured instruments	<u>449,633</u>	<u>43,428</u>
	<u>\$ 28,000,718</u>	<u>\$ 32,663,892</u>

### Financial liabilities at FVTPL

Cross-currency swap contracts	\$ 564,281	\$ 166,970
Foreign exchange forward contracts	67,728	13,119
Cross-currency option contracts	549,343	269,161
Interest rate-linked structured instruments	<u>449,633</u>	<u>43,428</u>
	<u>\$ 1,630,985</u>	<u>\$ 492,678</u>

- a. The Bank engages in exchange rate related derivative financial contracts, mainly to provide customers and the Bank with hedging instruments for foreign exchange positions from transactions such as import/export and currency exchange, to avoid the risks from the business and to flatten the demand for foreign exchange funds from non-transactional operations.
- b. The nominal principal amounts of outstanding derivative contracts as of December 31, 2022 and 2021 were as follows:

	<b>December 31</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Contract Amount</b>	<b>Interest Rate Range</b>	<b>Contract Amount</b>	<b>Interest Rate Range</b>
Asset swap contracts	\$ 6,577,200	0.80%-5.00%	\$ 3,549,800	0.80%-4.25%
Cross-currency swap contracts	44,882,911	-	11,403,926	-
Foreign exchange forward contracts	4,243,518	-	9,435,158	-
Cross-currency option contracts	43,191,197	-	34,792,260	-
Interest rate-linked structured instrument contracts	3,989,488	1.50%-10.20%	584,493	4.50%-7.00%

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
Investments in equity instruments at FVTOCI	\$ 4,512,710	\$ 3,629,936
Investments in debt instruments at FVTOCI	<u>40,075,983</u>	<u>44,292,515</u>
	<u>\$ 44,588,693</u>	<u>\$ 47,922,451</u>

### a. Investments in equity instruments at FVTOCI

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
Domestic listed shares	\$ 3,286,450	\$ 2,510,919
Domestic unlisted shares	898,032	810,234
Foreign listed shares	<u>328,228</u>	<u>308,783</u>
	<u>\$ 4,512,710</u>	<u>\$ 3,629,936</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.

The ordinary shares sold had a fair value of \$69,751 thousand and \$258,575 thousand and the accumulated unrealized valuation gains of \$2,404 thousand and \$67,849 thousand were transferred from other equity to retained earnings in 2022 and 2021, respectively.

Dividend income of \$234,775 thousand and \$137,745 thousand was recognized in profit or loss for the years ended December 31, 2022 and 2021, respectively.

### b. Investments in debt instruments at FVTOCI

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
Corporate bonds	\$ 29,822,548	\$ 34,101,503
Government bonds	5,228,275	4,865,736
Foreign bonds	3,362,115	3,121,222
Bank debentures	<u>1,663,045</u>	<u>2,204,054</u>
	<u>\$ 40,075,983</u>	<u>\$ 44,292,515</u>

Foreign bonds denominated in foreign currency details were as follows:

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
USD	\$ 55,300	\$ 39,000
CNY	380,000	445,000
AUD	6,000	6,000

- 1) The Bank recognized the gain on reversal of impairment (loss) of \$2,868 thousand and \$(9,198) thousand in 2022 and 2021, 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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Foreign bonds	\$ 28,442,213	\$ 24,252,423
Government bonds	11,070,175	11,580,851
NCDs issued by the CBC	49,350,000	63,790,000
Corporate bonds	16,314,020	10,505,597
Bank debentures	100,000	-
Treasury bills	<u>148,280</u>	<u>-</u>
	105,424,688	110,128,871
Less: Allowance for impairment loss	(46,222)	(30,663)
Less: Withdrawal of reserves for trust compensation and refundable deposits	<u>(620,500)</u>	<u>(916,400)</u>
	<u>\$ 104,757,966</u>	<u>\$ 109,181,808</u>

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
USD	\$ 725,297	\$ 683,197
CNY	920,000	740,000
AUD	68,500	67,000
ZAR	480,000	450,000

- b. As of December 31, 2021, the government bonds and the foreign bonds at amortized cost amounted to \$1,200,000 thousand 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 \$13,900 thousand and gain on reversal of impairment loss of \$3,238 thousand in 2022 and 2021, 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 \$11,643,340 thousand and \$11,258,439 thousand as of December 31, 2022 and 2021 would be subsequently resold for \$11,646,960 thousand and \$11,259,518 thousand, respectively, with interest rate 1.28% and 0.32%, respectively.



## 12. RECEIVABLES, NET

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Receivables on credit cards	\$ 791,791	\$ 738,121
Accounts receivable factored without recourse	148,925	271,434
Acceptances	544,239	975,287
Interest receivables	1,647,227	1,063,508
Receivables on foreign currency settlement	4,094	1,559
Other receivables	<u>216,429</u>	<u>256,289</u>
	3,352,705	3,306,198
Less: Allowance for doubtful accounts	<u>(107,876)</u>	<u>(129,769)</u>
	<u>\$ 3,244,829</u>	<u>\$ 3,176,429</u>

- a. Movements in the total carrying amount of receivables for the years ended December 31, 2022 and 2021 were as follows:

### 2022

	<b>12-month ECLs</b>	<b>Lifetime ECL</b>	<b>Credit- impaired Financial Assets</b>	<b>Total</b>
Balance at January 1, 2022	\$ 63,211,684	\$ 29,370	\$ 651,112	\$ 63,892,166
Transfers to lifetime ECL	(10,251)	10,329	(78)	-
Transfers to credit-impaired financial assets	(3,131)	(2,882)	6,013	-
Transfers to 12-month ECLs	8,410	(7,752)	(658)	-
New receivables purchased or originated	8,843,302	28,143	53,066	8,924,511
Write-offs	-	-	(189,822)	(189,822)
Derecognition	(1,938,900)	(8,092)	(9,973)	(1,956,965)
Foreign exchange differences and other changes	<u>135,025</u>	<u>16,441</u>	<u>20,423</u>	<u>171,889</u>
Balance at December 31, 2022	<u>\$ 70,246,139</u>	<u>\$ 65,557</u>	<u>\$ 530,083</u>	<u>\$ 70,841,779</u>

### 2021

	<b>12-month ECLs</b>	<b>Lifetime ECL</b>	<b>Credit- impaired Financial Assets</b>	<b>Total</b>
Balance at January 1, 2021	\$ 63,063,605	\$ 29,421	\$ 108,127	\$ 63,201,153
Transfers to lifetime ECL	(9,537)	9,834	(297)	-
Transfers to credit-impaired financial assets	(541,557)	(3,704)	545,261	-
Transfers to 12-month ECLs	7,662	(7,451)	(211)	-
New receivables purchased or originated	5,026,408	5,566	17,082	5,049,056
Write-offs	-	-	(19,563)	(19,563)
Derecognition	(4,170,919)	(7,871)	(17,960)	(4,196,750)
Foreign exchange differences and other changes	<u>(163,978)</u>	<u>3,575</u>	<u>18,673</u>	<u>(141,730)</u>
Balance at December 31, 2021	<u>\$ 63,211,684</u>	<u>\$ 29,370</u>	<u>\$ 651,112</u>	<u>\$ 63,892,166</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, other financial assets (including delinquent receivables not from loans) and refundable deposits.

- b. Movements in the allowance for doubtful accounts of receivables for the years ended December 31, 2022 and 2021 were as follows:

2022

	<b>12-month ECLs</b>	<b>Lifetime ECL</b>	<b>Credit- impaired Financial Assets</b>	<b>Impairment Loss Assessed under IFRS 9</b>	<b>Difference of Impairment Loss under Regulations</b>	<b>Total</b>
Balance at January 1, 2022	\$ 18,882	\$ 2,972	\$ 151,696	\$ 173,550	\$ 56,659	\$ 230,209
Reconciliation from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(29)	74	(45)	-	-	-
Transfers to credit-impaired financial assets	(17)	(144)	161	-	-	-
Transfers to 12-month ECLs	1,741	(1,239)	(502)	-	-	-
Derecognition of financial assets in current period	(15,256)	(919)	(2,454)	(18,629)	-	(18,629)
New financial assets purchased or originated	13,293	2,116	3,064	18,473	-	18,473
Difference of impairment loss under regulations	-	-	-	-	158,596	158,596
Write-offs	-	-	(49,612)	(49,612)	(140,210)	(189,822)
Recovery of written-offs	-	-	-	-	15,989	15,989
Foreign exchange differences and other changes	(140)	2,461	6,690	9,011	-	9,011
Balance at December 31, 2022	\$ 18,474	\$ 5,321	\$ 108,998	\$ 132,793	\$ 91,034	\$ 223,827

2021

	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, 2021	\$ 13,377	\$ 3,555	\$ 78,734	\$ 95,666	\$ 29,990	\$ 125,656
Reconciliation from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(28)	117	(89)	-	-	-
Transfers to credit-impaired financial assets	(62,589)	(347)	62,936	-	-	-
Transfers to 12-month ECLs	1,327	(1,209)	(118)	-	-	-
Derecognition of financial assets in current period	(9,702)	(865)	(7,013)	(17,580)	-	(17,580)
New financial assets purchased or originated	78,198	778	16,193	95,169	-	95,169
Difference of impairment loss under regulations	-	-	-	-	16,601	16,601
Write-offs	(8,086)	(1,900)	(4,224)	(14,210)	(5,353)	(19,563)
Recovery of written-offs	-	-	-	-	15,421	15,421
Foreign exchange differences and other changes	6,385	2,843	5,277	14,505	-	14,505
Balance at December 31, 2021	\$ 18,882	\$ 2,972	\$ 151,696	\$ 173,550	\$ 56,659	\$ 230,209

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

**13. NOTES DISCOUNTED AND LOANS, NET**

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Bills negotiated	\$ 163,189	\$ 704,340
Overdrafts	-	1,559
Secured overdrafts	7,220	11,066
Accounts receivable financing	63,668	78,137
Short-term unsecured loans	45,405,871	42,802,949
Short-term secured loans	100,085,561	98,958,147
Medium-term unsecured loans	77,330,088	60,207,188
Medium-term secured loans	123,575,879	119,015,102
Long-term unsecured loans	11,048,117	9,202,678
Long-term secured loans	161,228,409	153,535,754
Delinquent loans	<u>601,847</u>	<u>574,674</u>
	519,509,849	485,091,594
Add: Adjustment of premium or discount	23,690	30,683
Less: Allowance for doubtful accounts	<u>(6,654,309)</u>	<u>(6,680,863)</u>
	<u>\$ 512,879,230</u>	<u>\$ 478,441,414</u>

- a. As of December 31, 2022 and 2021, the delinquent loans on which interest ceased to accrue amounted to \$601,847 thousand and \$574,674 thousand, respectively. The unrecognized interest revenues on these loans were \$14,619 thousand and \$13,887 thousand for the years ended December 31, 2022 and 2021, respectively.
- b. There was no credit loan written off without a lawsuit in 2022 and 2021.
- c. Movements in the total carrying amount of notes discounted and loans for the years ended December 31, 2022 and 2021 were as follows:

2022

	<b>12-month ECLs</b>	<b>Lifetime ECL</b>	<b>Credit-impaired Financial Assets</b>	<b>Total</b>
Balance at January 1, 2022	\$ 464,179,761	\$ 12,243,822	\$ 8,698,694	\$ 485,122,277
Transfers to lifetime ECL	(4,683,712)	4,711,081	(27,369)	-
Transfers to credit-impaired financial assets	(767,134)	(618,324)	1,385,458	-
Transfers to 12-month ECLs	2,514,847	(2,470,294)	(44,553)	-
New notes discounted and loans purchased or originated	262,169,573	3,926,130	98,131	266,193,834
Write-offs	-	-	(2,303,517)	(2,303,517)
Derecognition	(203,659,024)	(3,074,377)	(538,339)	(207,271,740)
Foreign exchange differences and other changes	<u>(21,452,739)</u>	<u>(673,989)</u>	<u>(80,587)</u>	<u>(22,207,315)</u>
Balance at December 31, 2022	<u>\$ 498,301,572</u>	<u>\$ 14,044,049</u>	<u>\$ 7,187,918</u>	<u>\$ 519,533,539</u>

2021

	<b>12-month ECLs</b>	<b>Lifetime ECL</b>	<b>Credit-impaired Financial Assets</b>	<b>Total</b>
Balance at January 1, 2021	\$ 438,509,262	\$ 14,857,468	\$ 8,410,617	\$ 461,777,347
Transfers to lifetime ECL	(4,982,303)	5,027,179	(44,876)	-
Transfers to credit-impaired financial assets	(1,689,406)	(1,752,054)	3,441,460	-
Transfers to 12-month ECLs	2,691,249	(2,667,827)	(23,422)	-
New notes discounted and loans purchased or originated	245,661,528	1,426,322	207,855	247,295,705
Write-offs	-	-	(1,392,778)	(1,392,778)
Derecognition	(194,237,690)	(3,886,855)	(1,471,421)	(199,595,966)
Foreign exchange differences and other changes	<u>(21,772,879)</u>	<u>(760,411)</u>	<u>(428,741)</u>	<u>(22,962,031)</u>
Balance at December 31, 2021	<u>\$ 464,179,761</u>	<u>\$ 12,243,822</u>	<u>\$ 8,698,694</u>	<u>\$ 485,122,277</u>

- d. Movements in the allowance for doubtful accounts of notes discounted and loans for the years ended December 31, 2022 and 2021 were as follows:

2022

	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, 2022	\$ 1,464,704	\$ 608,655	\$ 1,857,339	\$ 3,930,698	\$ 2,750,165	\$ 6,680,863
Reconciliation from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(7,906)	10,493	(2,587)	-	-	-
Transfers to credit-impaired financial assets	(4,945)	(32,486)	37,431	-	-	-
Transfers to 12-month ECLs	87,883	(82,908)	(4,975)	-	-	-
Derecognition of financial assets in current period	(777,648)	(117,874)	(72,084)	(967,606)	-	(967,606)
New financial assets purchased or originated	1,285,136	428,742	42,936	1,756,814	-	1,756,814
Difference of impairment loss under regulations	-	-	-	-	(268,609)	(268,609)
Write-offs	-	-	(421,822)	(421,822)	(1,881,695)	(2,303,517)
Recovery of written-offs	-	-	-	-	1,208,787	1,208,787
Foreign exchange differences and other changes	8,155	341,534	197,888	547,577	-	547,577
Balance at December 31, 2022	\$ 2,055,379	\$ 1,156,156	\$ 1,634,126	\$ 4,845,661	\$ 1,808,648	\$ 6,654,309

2021

	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, 2021	\$ 1,724,907	\$ 925,826	\$ 1,856,155	\$ 4,506,888	\$ 1,828,105	\$ 6,334,993
Reconciliation from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(8,771)	12,448	(3,677)	-	-	-
Transfers to credit-impaired financial assets	(6,230)	(189,407)	195,637	-	-	-
Transfers to 12-month ECLs	110,495	(108,205)	(2,290)	-	-	-
Derecognition of financial assets in current period	(971,123)	(160,890)	(281,228)	(1,413,241)	-	(1,413,241)
New financial assets purchased or originated	959,632	55,188	51,057	1,065,877	-	1,065,877
Difference of impairment loss under regulations	-	-	-	-	1,289,596	1,289,596
Write-offs	-	-	(314,807)	(314,807)	(1,077,971)	(1,392,778)
Recovery of written-offs	-	-	-	-	710,435	710,435
Foreign exchange differences and other changes	(344,206)	73,695	356,492	85,981	-	85,981
Balance at December 31, 2021	\$ 1,464,704	\$ 608,655	\$ 1,857,339	\$ 3,930,698	\$ 2,750,165	\$ 6,680,863

#### 14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Investments in subsidiaries	\$ 5,870,862	\$ 5,899,099
Investments in associates	<u>172,301</u>	<u>165,124</u>
	<u>\$ 6,043,163</u>	<u>\$ 6,064,223</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>2022</u>		<u>2021</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.	\$ 2,192,053	100.00	\$ 2,035,325	100.00
Taichung Bank Insurance Brokers Co., Ltd.	1,977,256	100.00	1,901,022	100.00
Taichung Bank Securities Co., Ltd.	<u>1,701,553</u>	100.00	<u>1,962,752</u>	100.00
	<u>\$ 5,870,862</u>		<u>\$ 5,899,099</u>	

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

<b>Investee Company</b>	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Taichung Bank Leasing Co., Ltd.	\$ 140,441	\$ 100,258
Taichung Bank Insurance Brokers Co., Ltd.	282,793	217,094
Taichung Bank Securities Co., Ltd.	<u>(95,374)</u>	<u>462,797</u>
	<u>\$ 327,860</u>	<u>\$ 780,149</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:

	<b>December 31</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Amount</b>	<b>Proportion of Ownership (%)</b>	<b>Amount</b>	<b>Proportion of Ownership (%)</b>
Associates that are not individually material				
Taichung Bank Securities Investment Trust Co., Ltd.	<u>\$ 172,301</u>	38.46	<u>\$ 165,124</u>	38.46

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

<b>Investee Company</b>	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Taichung Bank Securities Investment Trust Co., Ltd.	<u>\$ (6,716)</u>	<u>\$ (592)</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**

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Other delinquent receivables, net	<u>\$ 271,035</u>	<u>\$ 437,502</u>

Other delinquent receivables, net were as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Delinquent receivables not from loans	\$ 386,986	\$ 537,942
Less: Allowance for doubtful accounts (Note 12)	<u>(115,951)</u>	<u>(100,440)</u>
	<u>\$ 271,035</u>	<u>\$ 437,502</u>

## 16. PROPERTIES AND EQUIPMENT, NET

	2022						
	Land	Building and Structures	Transportation Equipment	Miscellaneous Equipment	Lease Improvements	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2022	\$ 7,859,148	\$ 2,110,482	\$ 52,960	\$ 1,927,678	\$ 13,787	\$ 4,687,091	\$ 16,651,146
Additions	-	76,819	4,258	95,124	13,674	2,502,317	2,692,192
Disposals	-	-	(401)	(78,581)	-	-	(78,982)
Reclassifications	-	-	-	1,372	-	(1,372)	-
Exchange differences, net	-	-	38	923	215	-	1,176
Balance at December 31, 2022	<u>7,859,148</u>	<u>2,187,301</u>	<u>56,855</u>	<u>1,946,516</u>	<u>27,676</u>	<u>7,188,036</u>	<u>19,265,532</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2022	-	1,267,495	35,475	1,562,313	1,004	-	2,866,287
Additions	-	44,552	6,617	128,856	4,839	-	184,864
Disposals	-	-	(392)	(78,421)	-	-	(78,813)
Exchange differences, net	-	-	14	477	6	-	497
Balance at December 31, 2022	-	<u>1,312,047</u>	<u>41,714</u>	<u>1,613,225</u>	<u>5,849</u>	-	<u>2,972,835</u>
<u>Impairment</u>							
Balance at January 1, 2022	<u>77,000</u>	-	-	-	-	-	<u>77,000</u>
Balance at December 31, 2022	<u>77,000</u>	-	-	-	-	-	<u>77,000</u>
Balance at December 31, 2022	<u>\$ 7,782,148</u>	<u>\$ 875,254</u>	<u>\$ 15,141</u>	<u>\$ 333,291</u>	<u>\$ 21,827</u>	<u>\$ 7,188,036</u>	<u>\$ 16,215,697</u>
	2021						
	Land	Building and Structures	Transportation Equipment	Miscellaneous Equipment	Lease Improvements	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2021	\$ 7,847,588	\$ 2,101,530	\$ 51,913	\$ 1,816,921	\$ -	\$ 3,244,666	\$ 15,062,618
Additions	227	9,583	1,653	134,798	13,787	1,442,468	1,602,516
Disposals	(4,468)	(6,603)	(602)	(23,972)	-	-	(35,645)
Reclassifications	15,801	5,972	-	43	-	(43)	21,773
Exchange differences, net	-	-	(4)	(112)	-	-	(116)
Balance at December 31, 2021	<u>7,859,148</u>	<u>2,110,482</u>	<u>52,960</u>	<u>1,927,678</u>	<u>13,787</u>	<u>4,687,091</u>	<u>16,651,146</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2021	-	1,231,486	29,964	1,447,462	-	-	2,708,912
Additions	-	38,780	6,116	138,802	1,004	-	184,702
Disposals	-	(6,603)	(602)	(23,907)	-	-	(31,112)
Reclassifications	-	3,832	-	-	-	-	3,832
Exchange differences, net	-	-	(3)	(44)	-	-	(47)
Balance at December 31, 2021	-	<u>1,267,495</u>	<u>35,475</u>	<u>1,562,313</u>	<u>1,004</u>	-	<u>2,866,287</u>
<u>Impairment</u>							
Balance at January 1, 2021	<u>77,000</u>	-	-	-	-	-	<u>77,000</u>
Balance at December 31, 2021	<u>77,000</u>	-	-	-	-	-	<u>77,000</u>
Balance at December 31, 2021	<u>\$ 7,782,148</u>	<u>\$ 842,987</u>	<u>\$ 17,485</u>	<u>\$ 365,365</u>	<u>\$ 12,783</u>	<u>\$ 4,687,091</u>	<u>\$ 13,707,859</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
Lease improvements	3 to 5 years



## 17. LEASE ARRANGEMENTS

### a. Right-of-use assets, net

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<u>Carrying amount</u>		
Land and buildings	\$ 663,989	\$ 672,134
Transportation equipment	<u>28,943</u>	<u>13,572</u>
	<u>\$ 692,932</u>	<u>\$ 685,706</u>
	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Additions to right-of-use assets	<u>\$ 192,727</u>	<u>\$ 240,222</u>
Depreciation charge for right-of-use assets		
Land and buildings	\$ 114,648	\$ 110,060
Transportation equipment	<u>12,797</u>	<u>86,465</u>
	<u>\$ 127,445</u>	<u>\$ 196,525</u>
Income from the subleasing of right-of-use assets (presented in other income)	<u>\$ 1,282</u>	<u>\$ 1,224</u>

The Bank suspended the leases of some land and buildings and transportation equipment before the leases expired. The amount of right-of-use assets derecognized was \$59,921 thousand and \$188,946 thousand for the years ended December 31, 2022 and 2021, respectively. The disposal gain of \$3,152 thousand and \$5,797 thousand was recognized for the years ended December 31, 2022 and 2021.

Except for the aforementioned suspension and addition and recognized depreciation, the Bank did not have significant sublease or impairment of right-of-use assets for the years ended December 31, 2022 and 2021.

### b. Lease liabilities

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Carrying amount	<u>\$ 725,609</u>	<u>\$ 713,902</u>

Range of discount rates for lease liabilities was as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Land	1.20%-4.14%	3.89%-4.14%
Buildings	1.20%-4.14%	3.89%-4.14%
Transportation equipment	1.20%-4.14%	3.89%-4.14%

c. Material lease-in activities and terms

The Bank leases domestic offices, ATM sites and transportation equipment 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

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Expenses relating to short-term leases	<u>\$ 2,568</u>	<u>\$ 1,393</u>
Expenses relating to low-value asset leases	<u>\$ 9,757</u>	<u>\$ 7,611</u>
Total cash outflow for leases	<u>\$ (158,336)</u>	<u>\$ (227,572)</u>

The Bank leases certain office equipment under leases which qualify as short-term leases and certain computer equipment under leases 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. INTANGIBLE ASSETS, NET**

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Balance at January 1, 2022	\$ 161,518	\$ 162,028
Additions	75,037	56,164
Amortization	(61,483)	(56,650)
Exchange influence	<u>124</u>	<u>(24)</u>
Balance at December 31, 2022	<u>\$ 175,196</u>	<u>\$ 161,518</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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**19. OTHER ASSETS, NET**

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Refundable deposits	\$ 2,018,674	\$ 1,925,467
Prepayments	147,724	123,294
Others	<u>22,601</u>	<u>616</u>
	<u>\$ 2,188,999</u>	<u>\$ 2,049,377</u>

As of December 31, 2022 and 2021, the government bonds at amortized cost which amounted to \$550,500 thousand and \$856,400 thousand, respectively, were pledged as collateral to the district court for litigation related to the overdraft of the U.S. dollar clearing account. These amounts were stated classified under refundable deposits. Refer to Note 35.

## 20. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2022	2021
Call loans from banks	\$ 8,650,000	\$ 3,900,000
Due to Chunghwa Post Co., Ltd.	53,687	53,687
Due to banks	<u>53</u>	<u>13</u>
	<u>\$ 8,703,740</u>	<u>\$ 3,953,700</u>

## 21. FUNDS BORROWED FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2022	2021
Funds borrowed from the Central Bank	<u>\$ -</u>	<u>\$ 3,489,540</u>
Funds borrowed from the Central Bank (%)	-	0.10

Refer to Note 35 for information relating to collaterals provided for funds borrowed from the Central Bank and other banks.

## 22. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	December 31	
	2022	2021
Government bonds	<u>\$ -</u>	<u>\$ 1,205,559</u>

The detail of repurchase price and interest rate at the end of year were as follows:

	December 31	
	2022	2021
Government bonds	<u>\$ -</u>	<u>\$ 1,205,924</u>
Government bonds	-	0.19%-0.21%

## 23. PAYABLES

	December 31	
	2022	2021
Notes and checks in clearing	\$ 4,276,016	\$ 4,589,463
Accrued expenses	1,827,990	1,680,830
Interest payable	582,083	269,624
Acceptances	544,899	975,865
Collections payable	43,570	42,733
Factored accounts payable	14,994	34,642
Foreign currency settlement payable	5,227	1,210
Other payables	<u>571,136</u>	<u>584,523</u>
	<u>\$ 7,865,915</u>	<u>\$ 8,178,890</u>

## 24. DEPOSITS AND REMITTANCES

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Demand	\$ 197,643,159	\$ 194,760,576
Demand savings	162,103,208	160,450,666
Time	135,813,254	140,790,464
Time savings	178,202,610	153,899,040
Checking	11,528,762	11,427,355
Remittances	<u>44,001</u>	<u>55,388</u>
	<u>\$ 685,334,994</u>	<u>\$ 661,383,489</u>

## 25. BANK DEBENTURES

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Subordinated financial debenture	<u>\$ 16,500,000</u>	<u>\$ 16,500,000</u>

a. 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. Details of the subordinated financial debenture's issuance are 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 interest rate of one-year time savings deposit 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.

b. 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's issuance are summarized as follows:

- 1) Total approved principal: \$3,500,000 thousand.
- 2) Principal issued:
  - a) Debenture I in 2016: \$1,500,000 thousand.
  - b) Debenture I in 2017: \$1,000,000 thousand.
  - c) Debenture II in 2017: \$500,000 thousand.
  - d) Debenture III in 2017: \$500,000 thousand.

- 3) Denomination:
    - a) Debenture I in 2016: \$10,000 thousand, issued at par.
    - b) Debenture I in 2017: \$10,000 thousand, issued at par.
    - c) Debenture II in 2017: \$10,000 thousand, issued at par.
    - d) Debenture III in 2017: \$10,000 thousand, issued at par.
  - 4) Period: No due date.
  - 5) Nominal interest rate: According to the interest rate of one-year time savings deposit 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.
- c. 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's issuance are summarized as follows:
- 1) Total approved principal: \$5,000,000 thousand.
  - 2) Principal issued:
    - a) Debenture IV in 2017: \$1,350,000 thousand.
    - b) Debenture V in 2017: \$2,650,000 thousand.
    - c) Debenture I in 2018: \$1,000,000 thousand.
  - 3) Denomination:
    - a) Debenture IV in 2017: \$10,000 thousand, issued at par.
    - b) Debenture V in 2017: \$10,000 thousand, issued at par.
    - c) Debenture I in 2018: \$10,000 thousand, issued at par.
  - 4) Period: No due date.
  - 5) Nominal interest rate: According to the interest rate of one-year time savings deposit 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 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. Details 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 interest rate of one-year time savings deposit 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 subordinated financial debenture on December 27, 2021, which was approved under ruling reference No. 1100226929 issued by the Banking Bureau of the FSC on October 12, 2021. Detail of the subordinated financial debenture issuance is summarized as follows:
- 1) Total approved principal: \$5,000,000 thousand.
  - 2) Principal issued: \$5,000,000 thousand.
  - 3) Denomination: \$10,000 thousand, issued at par.
  - 4) Period: 7 years with maturities on December 27, 2028.
  - 5) Nominal interest rate: Fixed interest, 1.2%.
  - 6) Repayment: The subordinated financial debenture will be paid on the maturity date.
  - 7) The interest will be paid annually from the issuance date.

## 26. OTHER FINANCIAL LIABILITIES

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Structured commodity principal	<u>\$ 3,989,488</u>	<u>\$ 584,493</u>

## 27. PROVISIONS

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Provision for employee benefits	\$ 826,252	\$ 960,114
Provision for losses on guarantees	275,963	297,963
Provision for loan commitments	93,388	65,147
Provision for outstanding loss	24,090	19,090
Other provision	<u>17,824</u>	<u>12,855</u>
	<u>\$ 1,237,517</u>	<u>\$ 1,355,169</u>

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Benefit plans	\$ 631,542	\$ 775,848
Preferential interest on employees' deposits	154,244	147,633
Other long-term employee benefit liabilities	<u>40,466</u>	<u>36,633</u>
	<u>\$ 826,252</u>	<u>\$ 960,114</u>

1) Defined contribution plans

The Bank adopted a pension plan under the Labor Pension Act (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 2022 and 2021 in accordance with the defined contribution plan and recognized in the statements of comprehensive income were \$105,683 thousand and \$92,787 thousand for the years ended December 31, 2022 and 2021, respectively.

2) Defined benefit plans

The defined benefit plan adopted of the Bank in accordance with the Labor Standards Act 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:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Present value of defined benefit obligation	\$ 1,576,488	\$ 1,676,309
Fair value of plan assets	<u>(944,946)</u>	<u>(900,461)</u>
Deficit	<u>631,542</u>	<u>775,848</u>
Net defined benefit liabilities	<u>\$ 631,542</u>	<u>\$ 775,848</u>

Movements in net defined benefit liabilities were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2021	<u>\$ 1,763,272</u>	<u>\$ (849,418)</u>	<u>\$ 913,854</u>
Service cost			
Current service cost	8,058	-	8,058
Net interest expense (income)	<u>8,816</u>	<u>(4,410)</u>	<u>4,406</u>
Recognized in profit or loss	<u>16,874</u>	<u>(4,410)</u>	<u>12,464</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(10,734)	(10,734)
Actuarial loss - changes in demographic assumptions	853	-	853
Actuarial gain - changes in financial assumptions	(20,675)	-	(20,675)
Actuarial gain - experience adjustments	<u>(6,313)</u>	<u>-</u>	<u>(6,313)</u>
Recognized in other comprehensive income	<u>(26,135)</u>	<u>(10,734)</u>	<u>(36,869)</u>
Contributions from the employer	-	(93,760)	(93,760)
Benefits paid	(57,861)	57,861	-
Company paid	<u>(19,841)</u>	<u>-</u>	<u>(19,841)</u>
Balance at December 31, 2021	<u>1,676,309</u>	<u>(900,461)</u>	<u>775,848</u>
Service cost			
Current service cost	6,191	-	6,191
Net interest expense (income)	<u>10,477</u>	<u>(5,724)</u>	<u>4,753</u>
Recognized in profit or loss	<u>16,668</u>	<u>(5,724)</u>	<u>10,944</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(67,225)	(67,225)
Actuarial gain - changes in financial assumptions	(129,359)	-	(129,359)
Actuarial loss - experience adjustments	<u>111,189</u>	<u>-</u>	<u>111,189</u>
Recognized in other comprehensive income	<u>(18,170)</u>	<u>(67,225)</u>	<u>(85,395)</u>
Contributions from the employer	-	(57,691)	(57,691)
Benefits paid	(86,155)	86,155	-
Company paid	<u>(12,164)</u>	<u>-</u>	<u>(12,164)</u>
Balance at December 31, 2022	<u>\$ 1,576,488</u>	<u>\$ (944,946)</u>	<u>\$ 631,542</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Operating expenses	<u>\$ 10,944</u>	<u>\$ 12,464</u>



Through the defined benefit plans under the Labor Standards Act, 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:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Discount rate(s)	1.50%	0.63%
Expected rate(s) of salary increase	1.50%	1.50%

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Discount rate(s)		
0.25% increase	<u>\$ (34,495)</u>	<u>\$ (40,354)</u>
0.25% decrease	<u>\$ 35,557</u>	<u>\$ 41,694</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 34,914</u>	<u>\$ 40,603</u>
0.25% decrease	<u>\$ (34,037)</u>	<u>\$ (39,503)</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.

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Expected contributions to the plan for the next year	<u>\$ 58,557</u>	<u>\$ 30,676</u>
Average duration of the defined benefit obligation	8.9 years	9.7 years

3) Preferential interest on employees' deposits plan

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:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Present value of the preferential interest on deposits	\$ 154,244	\$ 147,633
Fair value of plan assets	<u>-</u>	<u>-</u>
Deficit	<u>154,244</u>	<u>147,633</u>
Provision for preferential interest on deposits	<u>\$ 154,244</u>	<u>\$ 147,633</u>

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

	<b>Present Value of the Preferential Interest on Employees' Deposits Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Preferential Interest on Employees' Deposits Liabilities</b>
Balance at January 1, 2021	<u>\$ 139,406</u>	<u>\$ -</u>	<u>\$ 139,406</u>
Service cost			
Past service cost	11,077	-	11,077
Net interest expense	<u>4,995</u>	<u>-</u>	<u>4,995</u>
Recognized in profit or loss	<u>16,072</u>	<u>-</u>	<u>16,072</u>
Remeasurement			
Actuarial loss - experience adjustments	<u>22,124</u>	<u>-</u>	<u>22,124</u>
Recognized in other comprehensive income	<u>22,124</u>	<u>-</u>	<u>22,124</u>
Company paid	<u>(29,969)</u>	<u>-</u>	<u>(29,969)</u>
Balance at December 31, 2021	<u>147,633</u>	<u>-</u>	<u>147,633</u>
Service cost			
Past service cost	11,114	-	11,114
Net interest expense	<u>5,306</u>	<u>-</u>	<u>5,306</u>
Recognized in profit or loss	<u>16,420</u>	<u>-</u>	<u>16,420</u>
Remeasurement			
Actuarial loss - experience adjustments	<u>22,508</u>	<u>-</u>	<u>22,508</u>
Recognized in other comprehensive income	<u>22,508</u>	<u>-</u>	<u>22,508</u>
Company paid	<u>(32,317)</u>	<u>-</u>	<u>(32,317)</u>
Balance at December 31, 2022	<u>\$ 154,244</u>	<u>\$ -</u>	<u>\$ 154,244</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:

	<b>For The Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Operating expenses	<u>\$ 16,420</u>	<u>\$ 16,072</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:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
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 occurs and all other assumptions remain constant, the present value of preferential interest on employees' deposits obligation will increase (decrease) as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Discount rate(s)		
0.25% increase	<u>\$ (3,720)</u>	<u>\$ (3,573)</u>
0.25% decrease	<u>\$ 3,882</u>	<u>\$ 3,729</u>
Preferential deposit withdrawal rate		
0.25% increase	<u>\$ 4,013</u>	<u>\$ 3,855</u>
0.25% decrease	<u>\$ (4,179)</u>	<u>\$ (4,015)</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.

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Expected contributions to the plan for the next year	<u>\$ -</u>	<u>\$ -</u>
Average duration of preferential interest on employees' deposits obligation	10.2 years	10.3 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 total expense recognized by the Bank in the statements of comprehensive income for long-term employee benefits in 2022 and 2021 were \$4,851 thousand and \$1,632 thousand, respectively. As of December 31, 2022 and 2021, other long-term employee benefit liabilities were \$40,466 thousand and \$36,633 thousand, respectively.

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

2022

	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, 2022	\$ 171,880	\$ 7,782	\$ 33,375	\$ 213,037	\$ 84,926	\$ 297,963
Reconciliation from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(40)	40	-	-	-	-
Transfers to credit-impaired financial assets	-	-	-	-	-	-
Transfers to 12-month ECLs	495	(495)	-	-	-	-
Derecognition of financial assets in current period	(115,154)	(3,631)	-	(118,785)	-	(118,785)
New financial assets purchased or originated	134,724	16,140	-	150,864	-	150,864
Difference of impairment loss under regulations	-	-	-	-	(58,335)	(58,335)
Foreign exchange differences and other changes	1,883	752	1,621	4,256	-	4,256
Balance at December 31, 2022	\$ 193,788	\$ 20,588	\$ 34,996	\$ 249,372	\$ 26,591	\$ 275,963

2021

	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, 2021	\$ 168,958	\$ 4,799	\$ 36,355	\$ 210,112	\$ 25,851	\$ 235,963
Reconciliation from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(447)	447	-	-	-	-
Transfers to credit-impaired financial assets	(5)	-	5	-	-	-
Transfers to 12-month ECLs	117	(117)	-	-	-	-
Derecognition of financial assets in current period	(112,752)	(4,176)	(269)	(117,197)	-	(117,197)
New financial assets purchased or originated	131,253	3,047	-	134,300	-	134,300
Difference of impairment loss under regulations	-	-	-	-	59,075	59,075
Foreign exchange differences and other changes	(15,244)	3,782	(2,716)	(14,178)	-	(14,178)
Balance at December 31, 2021	\$ 171,880	\$ 7,782	\$ 33,375	\$ 213,037	\$ 84,926	\$ 297,963

In 2022 and 2021, a provision was recognized for bad debts expense, commitments and guarantees.

c. Movements of the other provision were as follows:

2022

	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, 2022	\$ 8,629	\$ -	\$ -	\$ 8,629	\$ 4,226	\$ 12,855
Reconciliation 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	(8,552)	-	-	(8,552)	-	(8,552)
New financial assets purchased or originated	8,261	9,214	-	17,475	-	17,475
Difference of impairment loss under regulations	-	-	-	-	(3,883)	(3,883)
Foreign exchange differences and other changes	<u>(71)</u>	<u>-</u>	<u>-</u>	<u>(71)</u>	<u>-</u>	<u>(71)</u>
Balance at December 31, 2022	<u>\$ 8,267</u>	<u>\$ 9,214</u>	<u>\$ -</u>	<u>\$ 17,481</u>	<u>\$ 343</u>	<u>\$ 17,824</u>

2021

	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, 2021	\$ 9,157	\$ 3,263	\$ -	\$ 12,420	\$ 677	\$ 13,097
Reconciliation 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	(9,113)	(3,263)	-	(12,376)	-	(12,376)
New financial assets purchased or originated	8,629	-	-	8,629	-	8,629
Difference of impairment loss under regulations	-	-	-	-	3,549	3,549
Foreign exchange differences and other changes	<u>(44)</u>	<u>-</u>	<u>-</u>	<u>(44)</u>	<u>-</u>	<u>(44)</u>
Balance at December 31, 2021	<u>\$ 8,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,629</u>	<u>\$ 4,226</u>	<u>\$ 12,855</u>

In 2022 and 2021, a provision was recognized for bad debts expense, commitments and guarantees.

d. Movements of the loan commitments were as follows:

2022

	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, 2022	\$ 45,923	\$ 2,576	\$ 12,005	\$ 60,504	\$ 4,643	\$ 65,147
Reconciliation from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(6)	6	-	-	-	-
Transfers to credit-impaired financial assets	(1)	(18)	19	-	-	-
Transfers to 12-month ECLs	1,797	(1,797)	-	-	-	-
Derecognition of financial assets in current period	(9,148)	(702)	(108)	(9,958)	-	(9,958)
New financial assets purchased or originated	41,260	773	-	42,033	-	42,033
Difference of impairment loss under regulations	-	-	-	-	(2,587)	(2,587)
Foreign exchange differences and other changes	<u>(2,038)</u>	<u>810</u>	<u>(19)</u>	<u>(1,247)</u>	<u>-</u>	<u>(1,247)</u>
Balance at December 31, 2022	<u>\$ 77,787</u>	<u>\$ 1,648</u>	<u>\$ 11,897</u>	<u>\$ 91,332</u>	<u>\$ 2,056</u>	<u>\$ 93,388</u>

2021

	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, 2021	\$ 58,968	\$ 7,205	\$ 2,555	\$ 68,728	\$ 3,332	\$ 72,060
Reconciliation from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(6)	6	-	-	-	-
Transfers to credit-impaired financial assets	(646)	630	16	-	-	-
Transfers to 12-month ECLs	1,769	(1,769)	-	-	-	-
Derecognition of financial assets in current period	(33,456)	(5,398)	(692)	(39,546)	-	(39,546)
New financial assets purchased or originated	20,436	1,488	10,142	32,066	-	32,066
Difference of impairment loss under regulations	-	-	-	-	1,311	1,311
Foreign exchange differences and other changes	<u>(1,142)</u>	<u>414</u>	<u>(16)</u>	<u>(744)</u>	<u>-</u>	<u>(744)</u>
Balance at December 31, 2021	<u>\$ 45,923</u>	<u>\$ 2,576</u>	<u>\$ 12,005</u>	<u>\$ 60,504</u>	<u>\$ 4,643</u>	<u>\$ 65,147</u>

In 2022 and 2021, a provision was recognized for bad debts expense, commitments and guarantees.

e. Please refer to Note 36 for the amount of \$24,090 thousand and \$19,090 thousand for the outstanding compensation provision of the Bank in 2022 and 2021, respectively.

## 28. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Guarantee deposit received	\$ 430,222	\$ 306,027
Advance receipts	370,030	267,918
Others	<u>1,427</u>	<u>1,445</u>
	<u>\$ 801,679</u>	<u>\$ 575,390</u>

## 29. EQUITY

### a. Share capital

#### Ordinary shares

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Number of shares authorized (in thousands)	<u>7,770,000</u>	<u>6,150,000</u>
Shares authorized	<u>\$ 77,700,000</u>	<u>\$ 61,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>5,015,447</u>	<u>4,538,521</u>
Shares issued	<u>\$ 50,154,465</u>	<u>\$ 45,385,205</u>

Ordinary shares issued at par value of \$10. Each share has one voting right and the right to receive dividends.

As of January 1, 2021, the Bank had issued ordinary shares totaling \$41,516,943 thousand, divided into 4,151,694 thousand ordinary shares at par value of \$10 per share. In September 2021, the Bank transferred \$1,868,262 thousand of unappropriated earnings to ordinary shares, consisting of 186,826 thousand ordinary shares at par value of \$10 per share. In July 2021, the board of directors of the Bank resolved to issue 200,000 thousand ordinary shares with a par value of \$10, for a consideration of \$11.15 per share issued at premium. On October 18, 2021, the above transaction was approved under ruling reference No. 1100359824 issued by the Banking Bureau of the FSC and the subscription base date was determined as at December 22, 2021. As of December 31, 2021, the Bank had increased the number of ordinary shares to \$45,385,205 thousand, consisting of 4,538,521 thousand ordinary shares at par value of \$10 per share.

In July 2022, the Bank transferred \$2,269,260 thousand of unappropriated earnings to ordinary shares, consisting of 226,926 thousand ordinary shares at par value of \$10 per share. In June 2022, 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 \$11.75 per share issued at premium. On September 22, 2022, the above transaction was approved under ruling reference No. 1110356507 issued by the Banking Bureau of the FSC and the subscription base date was determined as at December 16, 2022. As of December 31, 2022, the Bank had increased ordinary shares to \$50,154,465 thousand, divided into 5,015,447 thousand ordinary shares at \$10 par value per share.

b. Capital surplus

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
May be used to offset a deficit, distributed as <u>cash dividends, or transferred to share capital*</u>		
Issuance of ordinary shares	\$ 1,381,133	\$ 943,633
Issuance of ordinary shares - employee share options	115,707	79,040
Expired employee share options	6,874	6,791
<u>May be used to offset a deficit only</u>		
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>\$ 1,528,256</u>	<u>\$ 1,054,006</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, however, provided that the legal reserve amounts to the total paid-in capital, the legal reserve need not be set aside, 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 (repealed at December 31, 2021), Order No. 1010047490 issued by the FSC (repealed at March 31, 2021), Order No. 1090150022 issued by the FSC, Order No. 10901500221 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 appropriate 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 uses 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 from financial technology development within the amount of the abovementioned special reserve from 2016 to 2018.

The appropriations of earnings for 2021 and 2020 were approved in the shareholders’ meetings of the Bank on May 17, 2022 and July 1, 2021, respectively, as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Legal reserve	\$ 1,463,994	\$ 1,207,149	\$ -	\$ -
Reverse a special reserve	(601)	(565)	-	-
Cash dividends	1,134,630	996,407	0.25	0.24
Share dividends	2,269,260	1,868,262	0.50	0.45

The appropriations of earnings for 2022 which had been proposed by the Bank’s board of directors on February 23, 2023 were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 1,619,325	\$ -
Set aside special reserves	159,684	-
Reverse a special reserve	(565)	-
Cash dividends	1,504,634	0.30
Share dividends	2,106,488	0.42

The appropriations of earnings for 2022 are subject to the resolution of the shareholders’ meeting to be held on May 15, 2023.

d. Other equity items

	<b>Exchange Differences on Translation of the Financial Statements of Foreign Operations</b>	<b>Unrealized (Losses) Gains on Financial Assets at FVTOCI</b>	<b>Total</b>
Balance at January 1, 2022	\$ (85,087)	\$ 1,393,132	\$ 1,308,045
Recognized for the year			
Unrealized losses			
Equity instruments	-	(147,339)	(147,339)
Debt instruments	-	(1,387,605)	(1,387,605)
Net remeasurement of loss allowance - debt instruments	-	(2,868)	(2,868)
Share from subsidiaries and associates accounted for using the equity method	16,287	28,548	44,835
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	-	(2,419)	(2,419)
Cumulative translation adjustment			
Exchange differences for current period	30,925	-	30,925
Income tax related to other comprehensive income	<u>-</u>	<u>(3,258)</u>	<u>(3,258)</u>
Balance at December 31, 2022	<u>\$ (37,875)</u>	<u>\$ (121,809)</u>	<u>\$ (159,684)</u>
Balance at January 1, 2021	\$ (121,110)	\$ 1,424,867	\$ 1,303,757
Recognized for the year			
Unrealized gains (losses)			
Equity instruments	-	206,546	206,546
Debt instruments	-	(254,131)	(254,131)
Net remeasurement of loss allowance - debt instruments	-	9,198	9,198
Share from subsidiaries and associates accounted for using the equity method	4,063	77,871	81,934
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	-	(71,656)	(71,656)
Cumulative translation adjustment			
Exchange differences for current period	31,960	-	31,960
Income tax related to other comprehensive income	<u>-</u>	<u>437</u>	<u>437</u>
Balance at December 31, 2021	<u>\$ (85,087)</u>	<u>\$ 1,393,132</u>	<u>\$ 1,308,045</u>

### 30. NET PROFIT FROM CONTINUING OPERATIONS

Net profit from continuing operations was attributable to:

a. Net interest

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
<u>Interest revenue</u>		
Notes discounted and loans	\$ 12,457,368	\$ 9,862,494
Due from banks and call loans to the other banks	330,017	73,886
Investment in securities	1,883,608	1,467,015
Revolving interests of credit cards	32,326	34,230
Accounts receivable factoring without recourse	14,312	8,281
Securities purchased under resale agreements	71,148	25,008
Others	<u>730</u>	<u>391</u>
	<u>14,789,509</u>	<u>11,471,305</u>
<u>Interest expense</u>		
Deposits	(3,879,969)	(2,253,078)
Due to the Central Bank and other banks	(1,008)	(2,332)
Funds borrowed from the Central Bank and other banks	(42,917)	(17,792)
Securities sold under repurchase agreements	(4,806)	(8,191)
Financial debentures	(513,943)	(448,172)
Structured instruments	(93,708)	(7,597)
Lease liabilities	(26,583)	(33,551)
Others	<u>(5,077)</u>	<u>(5,055)</u>
	<u>(4,568,011)</u>	<u>(2,775,768)</u>
	<u>\$ 10,221,498</u>	<u>\$ 8,695,537</u>

b. Service fee income, net

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
<u>Service fee income</u>		
Loans	\$ 935,503	\$ 695,138
Trust business	939,018	1,219,221
Guarantee	244,788	212,100
Others	<u>548,878</u>	<u>519,898</u>
	<u>2,668,187</u>	<u>2,646,357</u>
<u>Service fee expense</u>		
Cross-bank transactions	(37,164)	(38,015)
Others	<u>(136,516)</u>	<u>(126,754)</u>
	<u>(173,680)</u>	<u>(164,769)</u>
	<u>\$ 2,494,507</u>	<u>\$ 2,481,588</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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
<b><u>Realized profit and loss</u></b>		
Commercial papers	\$ 181,327	\$ 65,813
Shares	14,482	(29,115)
Beneficiary certificates	(33,100)	32,849
Derivative financial instruments	898,485	21,101
Corporate bonds	945	2,356
Others	7,897	-
	<u>1,070,036</u>	<u>93,004</u>
<b><u>Valuation</u></b>		
Commercial papers	14,098	5,640
Shares	(29,188)	15,617
Beneficiary certificates	(184,699)	106,005
Derivative financial instruments	164,664	91,837
Corporate bonds	(3,145)	3,416
PEM Group policy assets	(20,112)	19,134
	<u>(58,382)</u>	<u>241,649</u>
	<u>\$ 1,011,654</u>	<u>\$ 334,653</u>

- 1) Realized profit and loss of gain on financial assets and liabilities at fair value through profit or loss include disposal (loss) profit in 2022 and 2021 amounted to \$753,783 thousand and \$(54,701) thousand, dividend revenue amounted to \$14,482 thousand and \$15,806 thousand and interest revenue amounted to \$301,771 thousand and \$131,899 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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Dividend income	\$ 234,775	\$ 137,745
Gain on disposal of bonds	<u>67</u>	<u>4,713</u>
	<u>\$ 234,842</u>	<u>\$ 142,458</u>

e. Reversal of (impairment losses) on financial assets

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Reversal of (Impairment losses) on financial assets		
Gain (loss) investments in debt instruments at FVTOCI	\$ 2,868	\$ (9,198)
(Loss) gain financial assets at amortized cost	<u>(13,900)</u>	<u>3,238</u>
	<u>\$ (11,032)</u>	<u>\$ (5,960)</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
(Losses) gains on disposal of properties and equipment	\$ (169)	\$ 10,517
Others	<u>36,716</u>	<u>19,953</u>
	<u>\$ 36,547</u>	<u>\$ 30,470</u>

g. Provision for bad debts expense, commitments and guarantees

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Bad debts on receivables	\$ 166,326	\$ 108,845
Bad debts on notes discounted and loans	969,901	1,039,941
(Reversal of) losses on guarantees	(22,000)	62,000
Loan (reversal of) commitments	25,938	(6,616)
Others	<u>4,807</u>	<u>(223)</u>
	<u>\$ 1,144,972</u>	<u>\$ 1,203,947</u>

h. Employee benefits expenses

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Salaries	\$ 3,242,009	\$ 3,044,630
Labor and health insurance	225,794	199,954
Pension expense	116,627	105,251
Remuneration of directors	197,607	170,670
Other employee expenses	<u>194,397</u>	<u>171,993</u>
	<u>\$ 3,976,434</u>	<u>\$ 3,692,498</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, 2022 and 2021 which were approved by the Bank's board of directors on February 23, 2023 and February 24, 2022, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Employees' compensation	0.75%	0.75%
Remuneration of directors	2.50%	2.50%

Amount

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Employees' compensation	<u>\$ 50,173</u>	<u>\$ 42,277</u>
Remuneration of directors	<u>\$ 167,245</u>	<u>\$ 140,922</u>

If there is a change in the amounts after the financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the years ended December 31, 2021 and 2020.

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2023 and 2022 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>	
	<u>2022</u>	<u>2021</u>
Properties and equipment	\$ 184,864	\$ 184,702
Investment properties	-	73
Right-of-use assets	127,445	196,525
Intangible assets	<u>61,483</u>	<u>56,650</u>
	<u>\$ 373,792</u>	<u>\$ 437,950</u>

k. Other selling and administrative expenses

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Taxes	\$ 788,672	\$ 649,062
Professional service	245,487	210,013
Advertisement	50,176	20,507
Insurance	180,423	172,765
Entertainment	90,412	80,541
Donation	90,239	87,607
Postage	70,408	69,204
Others	<u>523,886</u>	<u>524,726</u>
	<u>\$ 2,039,703</u>	<u>\$ 1,814,425</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:

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Current tax		
In respect of the current year	\$ 973,006	\$ 734,395
Income tax on unappropriated earnings	633	-
Land value increment tax	-	1,187
Adjustments for prior year	1,221	(20,327)
Deferred tax		
In respect of the current year	<u>153,300</u>	<u>(57,820)</u>
Income tax expense recognized in profit or loss	<u>\$ 1,128,160</u>	<u>\$ 657,435</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Profit before tax from continuing operations	<u>\$ 6,472,365</u>	<u>\$ 5,453,709</u>
Income tax expense calculated at the statutory rate	\$ 1,294,473	\$ 1,090,741
Non-deductible expenses in determining taxable income	162	62
Tax-exempt income	(169,405)	(411,106)
Unrecognized temporary differences	1,076	(3,122)
Land value increment tax	-	1,187
Income tax on unappropriated earnings	633	-
Adjustments for prior years' tax	<u>1,221</u>	<u>(20,327)</u>
Income tax expense recognized in profit or loss	<u>\$ 1,128,160</u>	<u>\$ 657,435</u>

b. Income tax recognized in other comprehensive income

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
<u>Deferred tax</u>		
In respect of the current year		
Fair value changes of financial assets at FVTOCI	\$ (3,258)	\$ 437
Remeasurement of defined benefit plans	<u>(12,578)</u>	<u>(2,949)</u>
Total income tax expense recognized in other comprehensive income	<u>\$ (15,836)</u>	<u>\$ (2,512)</u>

c. Current tax liabilities

	<b><u>December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Current tax liabilities		
Income tax payable	<u>\$ 476,109</u>	<u>\$ 335,518</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, 2022

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Property, plant and equipment	\$ 3,644	\$ -	\$ -	\$ 3,644
Unrealized losses on structure notes payment	250,140	4,023	-	254,163
Defined benefit obligations	192,024	(14,196)	(12,578)	165,250
Allowance for doubtful accounts	310,079	(98,520)	-	211,559
Others	<u>10,275</u>	<u>(44,607)</u>	<u>(3,258)</u>	<u>(37,590)</u>
	<u>\$ 766,162</u>	<u>\$ (153,300)</u>	<u>\$ (15,836)</u>	<u>\$ 597,026</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Provision for land value increment tax	<u>\$ 109,486</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,486</u>



For the year ended December 31, 2021

	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	253,967	(3,827)	-	250,140
Defined benefit obligations	217,857	(22,884)	(2,949)	192,024
Allowance for doubtful accounts	258,062	52,017	-	310,079
Others	<u>(21,141)</u>	<u>30,979</u>	<u>437</u>	<u>10,275</u>
	<u>\$ 712,389</u>	<u>\$ 56,285</u>	<u>\$ (2,512)</u>	<u>\$ 766,162</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Provision for land value increment tax	<u>\$ 111,021</u>	<u>\$ (1,535)</u>	<u>\$ -</u>	<u>\$ 109,486</u>

e. Income tax assessments

The income tax returns of the Bank through 2020 have been assessed by the tax authority.

**32. EARNINGS PER SHARE**

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	2022	2021
Basic earnings per share	<u>\$ 1.12</u>	<u>\$ 1.05</u>
Diluted earnings per share	<u>\$ 1.12</u>	<u>\$ 1.05</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 retroactively for the year ended December 31, 2021 were as follows:

Unit: NT\$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 1.10</u>	<u>\$ 1.05</u>
Diluted earnings per share	<u>\$ 1.10</u>	<u>\$ 1.05</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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Earnings used in the computation of basic earnings per share	<u>\$ 5,344,205</u>	<u>\$ 4,796,274</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 5,344,205</u>	<u>\$ 4,796,274</u>

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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Weighted average number of ordinary shares used in the computation of basic earnings per share	4,776,405	4,561,200
Effect of potentially dilutive ordinary shares		
Employees' compensation or bonuses issued to employees	<u>4,381</u>	<u>4,180</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>4,780,786</u>	<u>4,565,380</u>

The Bank may settle the compensation or bonuses paid to employees in cash or shares; therefore, the Bank assumes that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares will be 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 17, 2022 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 \$11.75.

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 20, 2021 qualified employees were granted 30,000 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 \$11.15.

Information on employee share options was as follows:

	<b>For the Year Ended December 31</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	-	\$ -	-	\$ -
Options granted	37,500	11.75	30,000	11.15
Options exercised	(37,415)	11.75	(29,966)	11.15
Options expired	<u>(85)</u>	11.75	<u>(34)</u>	11.15
Balance at December 31	<u>-</u>		<u>-</u>	
Options exercisable, end of the year	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ 0.98</u>		<u>\$ 0.68</u>	

Options granted by Taichung Commercial Bank Co., Ltd. in October 2022 and 2021 are priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

	<b>2022</b>	<b>2021</b>
Grant-date share price	\$12.65	\$11.80
Exercise price	\$11.75	\$11.15
Volatility	17.76%	11.67%
Duration	57 days	58 days
Dividend yield	0%	0%
Risk-free interest rate	1.01%	0.06%

Compensation costs recognized were \$36,750 thousand and \$20,400 thousand for the years ended December 31, 2022 and 2021, respectively.

### 34. RELATED-PARTY TRANSACTIONS

<b>Related Party</b>	<b>Relationship with the Bank</b>
China Man-Made Fiber Corporation	Parent company of the Bank
Hsu Tian Investment Co., Ltd.	Legal director of the Bank
Kuei-Fong Wang	Natural director of the Bank
Te-Wei Chia	General manager and legal representatives of the Bank's director
Hsin-Chang Tsai, Li-Woon Lim, Pi-Ta Chen, Chien-An Shin	Independent directors of the Bank
Hsin-Ching Chang, Wei-Liang Lin, Ming-Hsiung Huang, Siou-Huei Ye, Shih-Yi Chiang, Li-Tzu Lai	Legal representatives of the Bank's director
23 persons including the Chairman and general manager's spouse	The spouses and second-degree relatives, etc. of the Bank's chairman and general managers
33 persons including the director of the Board's spouse	The spouses and children of the Bank's directors

(Continued)

<b>Related Party</b>	<b>Relationship with the Bank</b>
7 persons including Yi-Yuan Tung	Key management personnel
19 persons including associate general manager's spouse	The spouses and children of the Bank's associate general managers
108 persons including Hung-Lung Tsai	Managers of the Bank
12 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
Pan Asia Chemical Co., Ltd.	Related party in substance
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
Greenworld Food Co., Ltd.	Related party in substance
Nan Chung Petrochemical Corporation	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
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
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

(Continued)

<u>Related Party</u>	<u>Relationship with the Bank</u>
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
General Pride Enterprise Co., Ltd.	Related party in substance
Fengqi Investment Co., Ltd.	Related party in substance
Reliance Kuan Chun Venture Capital Co., Ltd.	Related party in substance
Reliance Securities Investment Consultant Co., Ltd.	Related party in substance
Reliance Kuan Chun Venture Management Consulting Co., Ltd.	Related party in substance
Shen Ching Investment Co., Ltd.	Related party in substance
Lei Fu Life Business Co., Ltd.	Related party in substance
Chi Da Investment Co., Ltd.	Related party in substance
Syu Yi Investment Co., Ltd.	Related party in substance
Yao Shang Investment Co., Ltd.	Related party in substance
China Man-Made Fiber Entertainment Co., Ltd.	Related party in substance
Dr. Brain Lab Technology Co., Ltd.	Related party in substance

(Concluded)

Significant transactions between the Bank and its related parties:

a. Receivables

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Taichung Bank Insurance Brokers Co., Ltd.	<u>\$ 16,663</u>	<u>\$ 16,663</u>

As of December 31, 2022 and 2021, the receivables from Taichung Bank Insurance Brokers Co., Ltd. were receivables on service fee income.

b. Loans

For the year ended December 31, 2022

	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	\$ 5,272	\$ 3,652	\$ 3,652	\$ -	\$ 65	Credit loans	None
Loans on mortgage	40	264,509	195,517	195,517	-	2,348	Real estate	None
Other loans	Zeng OO	101	62	62	-	2	Real estate	None
	Lee OO	2,273	2,133	2,133	-	34	Real estate	None
	Zeng OO	4,140	-	-	-	63	Real estate	None
	Liu OO	322	-	-	-	-	Real estate	None
	Tsai OO	5,000	-	-	-	2	Real estate	None
	Lin OO	321	229	229	-	-	Real estate	None
	Wang OO	6,000	3,000	3,000	-	60	Real estate	None
	Chen OO	80,000	40,000	40,000	-	678	Real estate	None
	Fang OO	35,132	11,716	11,716	-	190	Real estate	None
	Lin OO	16,400	15,200	15,200	-	281	Real estate	None
	Chang OO	1,750	1,726	1,726	-	12	Real estate	None
	Tsai OO	114	-	-	-	1	Real estate	None
	Liang OO	646	525	525	-	8	Real estate	None
	Ye OO	22,000	11,000	11,000	-	165	Real estate	None
	Huang OO	1,298	1,159	1,159	-	18	Real estate	None
	Wang OO	6,120	-	-	-	28	Real estate	None
	Chiu OO	2,627	2,317	2,317	-	34	Real estate	None
	Hsu OO	2,200	2,200	2,200	-	38	Real estate	None
	Huang OO	15,000	2,224	2,224	-	108	Real estate	None
	Chang OO	2,500	2,500	2,500	-	44	Real estate	None

For the year ended December 31, 2021

	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	\$ 6,917	\$ 4,644	\$ 4,644	\$ -	\$ 65	Credit loans	None
Loans on mortgage	44	275,841	178,214	178,214	-	1,864	Real estate	None
Other loans	Zeng OO	138	101	101	-	2	Real estate	None
	Lee OO	2,414	2,273	2,273	-	30	Real estate	None
	Zeng OO	4,150	4,140	4,140	-	5	Real estate	None
	Chang OO	4,500	-	-	-	4	Real estate	None
	Liu OO	1,774	322	322	-	9	Real estate	None
	Tsai OO	5,000	-	-	-	8	Real estate	None
	Lin OO	412	321	321	-	-	Real estate	None
	Chiu OO	1,500	-	-	-	13	Real estate	None
	Chen OO	70,000	40,000	40,000	-	540	Real estate	None
	Fang OO	31,032	9,416	9,416	-	187	Real estate	None
	Wang OO	3,000	3,000	3,000	-	43	Real estate	None
	Lin OO	25,600	16,400	16,400	-	300	Real estate	None
	Tsai OO	248	114	114	-	3	Real estate	None
	Liang OO	767	646	646	-	8	Real estate	None
	Ye OO	22,000	11,000	11,000	-	135	Real estate	None
	Huang OO	1,435	1,298	1,298	-	18	Real estate	None
	Wang OO	6,345	6,120	6,120	-	155	Real estate	None
	Zhuang OO	1,314	-	-	-	7	Real estate	None
	Chiu OO	2,935	2,627	2,627	-	33	Real estate	None
	Hsu OO	2,200	2,200	2,200	-	32	Real estate	None
	Huang OO	15,000	15,000	15,000	-	44	Real estate	None

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

	<u>For the Year Ended December 31, 2022</u>		
	Ending Balance	Interest Ratio	Interest Expense
Taichung Bank Insurance Brokers Co., Ltd.	\$ 1,499,512	0.00-1.44	\$ 3,505
Taichung Bank Securities Investment Trust Co., Ltd.	98,124	0.00-1.09	634
Taichung Commercial Bank Workers' Welfare Commission	149,903	0.01-5.38	7,523
Taichung Bank Leasing Co., Ltd.	511,012	0.00-1.05	1,225
China Man-Made Fiber Corporation	126,235	0.01-1.05	104
Reliance Securities Co., Ltd.	10,135	0.46-0.97	78
Taichung Commercial Bank Cultural and Educational Foundation	8,209	0.01-1.47	91
Formosa Imperial Wineseller Corp.	181	0.46	-
Greenworld Food Co., Ltd.	3,772	0.46	5
Pan Asia Chemical Co., Ltd.	34,408	0.01-0.46	46
Chou Chin Industrial Co., Ltd.	10,038	0.01-0.46	9
Chou Chang Co., Ltd.	-	0.01	-
Taichung Bank Securities Co., Ltd.	110,098	0.00-1.05	97
Pan Hsu Investment Co., Ltd.	8	0.01	-
TCCBL Co., Ltd.	1	0.17-0.90	1
Yu Hui Limited	4	0.01	-
Hsu Tian Investment Co., Ltd.	14,438	0.01-1.05	4
Shuo-Jung Co., Ltd.	5,488	0.01	2

(Continued)

**For the Year Ended December 31, 2022**

	<b>Ending Balance</b>	<b>Interest Ratio</b>	<b>Interest Expense</b>
Deh Hsing Investment Co., Ltd.	\$ 8,237	0.17-1.05	\$ 93
Pan Asia Investment Co., Ltd.	7	0.01	-
Taichung Bank Venture Capital Co., Ltd.	110,223	0.00-1.04	663
Syu Yi Investment Co., Ltd.	4,178	0.46	5
Yao Shang Investment Co., Ltd.	4,178	0.46	5
Chi Da Investment Co., Ltd.	4,178	0.46	5
Fengqi Investment Co., Ltd.	5	0.46	-
Lei Fu Life Business Co., Ltd.	1,561	0.46	3
China Man-Made Fiber Entertainment Co., Ltd.	1	0.46	1
Others	<u>360,005</u>	0.00-5.38	<u>4,483</u>
	<u>\$ 3,074,139</u>		<u>\$ 18,582</u> (Concluded)

**For the Year Ended December 31, 2021**

	<b>Ending Balance</b>	<b>Interest Ratio</b>	<b>Interest Expense</b>
Taichung Bank Insurance Brokers Co., Ltd.	\$ 1,397,479	0.01-0.81	\$ 1,548
Taichung Bank Securities Investment Trust Co., Ltd.	114,944	0.00-0.79	625
Taichung Commercial Bank Workers' Welfare Commission	141,508	0.01-4.80	6,889
Taichung Bank Leasing Co., Ltd.	174,719	0.00-0.28	227
China Man-Made Fiber Corporation	79,817	0.01-0.05	23
Reliance Securities Co., Ltd.	10,057	0.00-0.55	67
Taichung Commercial Bank Cultural and Educational Foundation	8,194	0.01-0.84	67
Formosa Imperial Wineseller Corp.	311	0.04	-
Greenworld Food Co., Ltd.	3,250	0.04	1
Pan Asia Chemical Co., Ltd.	54,587	0.01-0.04	10
Chou Chin Industrial Co., Ltd.	14,870	0.01-0.04	1
Chou Chang Co., Ltd.	4,369	0.01	-
Taichung Bank Securities Co., Ltd.	574,319	0.00-0.13	42
Pan Hsu Investment Co., Ltd.	6	0.01	-
TCCBL Co., Ltd.	782	0.05	-
Je Mi Fang Corporation	21,492	0.00-0.04	110
Yu Hui Limited	4	0.01	-
Hsu Tian Investment Co., Ltd.	57,479	0.01-0.05	1
Shuo-Jung Co., Ltd.	36,717	0.01	1
Deh Hsing Investment Co., Ltd.	1	0.04	1
Pan Asia Investment Co., Ltd.	7	0.01	-
Taichung Bank Venture Capital Co., Ltd.	119,955	0.01-0.41	159
Syu Yi Investment Co., Ltd.	3,201	0.04	1
Yao Shang Investment Co., Ltd.	3,201	0.04	1
Chi Da Investment Co., Ltd.	3,201	0.04	1
Fengqi Investment Co., Ltd.	6	0.04	-
Others	<u>373,339</u>	0.00-4.80	<u>3,664</u>
	<u>\$ 3,197,815</u>		<u>\$ 13,439</u>

The interest rates did not significantly differ from those with ordinary customers except for the interest rates on the Bank's employee deposits at 5.38% and 4.80% as of December 31, 2022 and 2021, respectively.

d. Financial debenture

The Bank issued, first no due date non-cumulative subordinated financial debenture in 2015, first no due date non-cumulative subordinated financial debenture in 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 in 2017, first no due date non-cumulative subordinated financial debenture and second no due date non-cumulative subordinated financial debenture in 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, 2022, the related parties subscribed for the financial debenture issued by the Bank through underwriting brokers as follows:

<b>Counterparty</b>	<b>Subscription</b>	<b>Period</b>
Hsu Tian Investment Co., Ltd.	\$ 4,000,000	First no due date non-cumulative subordinated financial debenture in 2015, first no due date non-cumulative subordinated financial debenture in 2016, first no due date non-cumulative subordinated financial debenture and fifth no due date non-cumulative subordinated financial debenture in 2017, first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture in 2018
Others	3,750,000	First no due date non-cumulative subordinated financial debenture in 2015, first no due date non-cumulative subordinated financial debenture in 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 in 2017, first no due date non-cumulative subordinated financial debenture and second no due date non-cumulative subordinated financial debenture in 2018

The interest payables on the financial debentures of the above-mentioned related parties were \$51,852 thousand and \$47,108 thousand on December 31, 2022 and 2021, respectively. The interest expenses were \$306,218 thousand and \$301,474 thousand in 2022 and 2021, respectively.



e. Guarantee deposit received

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Taichung Bank Insurance Brokers Co., Ltd.	\$ 220	\$ 220
Taichung Bank Leasing Co., Ltd.	274	230
Taichung Bank Securities Co., Ltd.	<u>573</u>	<u>539</u>
	<u>\$ 1,067</u>	<u>\$ 989</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, 2022 and 2021, the gross lease payments to be received were \$23,552 thousand and \$10,128 thousand, respectively. Lease income recognized for the years ended December 31, 2022 and 2021 were \$5,993 thousand and \$5,897 thousand, respectively.

g. Service fee income, net

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Service fee income		
Taichung Bank Insurance Brokers Co., Ltd.	\$ 200,000	\$ 200,000
Taichung Bank Securities Investment Trust Co., Ltd.	2,473	969
Taichung Bank Leasing Co., Ltd.	45	8
Taichung Bank Securities Co., Ltd.	<u>595</u>	<u>334</u>
	203,113	201,311
Service fee expense		
Taichung Bank Securities Co., Ltd.	<u>(1,648)</u>	<u>(2,768)</u>
	<u>\$ 201,465</u>	<u>\$ 198,543</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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Taichung Bank Securities Co., Ltd.	<u>\$ 2,684</u>	<u>\$ 5,927</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

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Taichung Bank Securities Co., Ltd.	\$ -	\$ 37,531
Greenworld Food Co., Ltd.	1,326	846
Je Mi Fang Corporation	<u>-</u>	<u>18</u>
	<u>\$ 1,326</u>	<u>\$ 38,395</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, 2022 and 2021, the amounts of compensation of directors and key management personnel were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Short-term benefits	\$ 261,456	\$ 228,404
Post-employment benefits	605	560
Other long-term employee benefits	<u>4</u>	<u>3</u>
	<u>\$ 262,065</u>	<u>\$ 228,967</u>

### 35. PLEDGED ASSETS

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Investments in debt instrument at amortized cost - government bonds	\$ 620,500	\$ 916,400
Deposit reserves for demand accounts	<u>-</u>	<u>5,000,000</u>
	<u>\$ 620,500</u>	<u>\$ 5,916,400</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:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Guarantee to district courts for litigation	\$ 50,500	\$ 356,400
Reserve of trust compensation	70,000	60,000
Collateral for overdraft of clearing account	<u>500,000</u>	<u>500,000</u>
	<u>\$ 620,500</u>	<u>\$ 916,400</u>

### 36. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in Notes 8, 11 and 22, significant commitments and contingencies of the Bank as of December 31, 2022 and 2021 were as follows:

a. Significant commitments

	<u>December 31</u>	
	2022	2021
Loan commitments (excluding credit cards)	\$ 171,409,708	\$ 146,654,164
Loan commitments - credit cards	14,958,648	13,909,975
Guarantee receivables	27,269,501	27,150,584
Trust liabilities	84,321,674	77,982,280
Letters of credit	3,350,494	3,870,866

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, 2022

Trust Asset	Amount	Trust Liability	Amount
Cash in banks	\$ 6,123,483	Securities under custody	
Debentures	11,201,507	payable	\$ 3,972,065
Shares	4,873,628	Trust capital	80,349,609
Funds	46,912,839	Net income	1,468,359
Structured finance instruments	1,679,542	Deferred carryover amounts	<u>(1,468,359)</u>
Real estate			
Land	9,428,737		
Buildings	129,873		
Securities under custody	<u>3,972,065</u>		
Trust assets	<u>\$ 84,321,674</u>	Trust liabilities	<u>\$ 84,321,674</u>

Note: On December 31, 2022, the bank's Offshore Banking Unit invested in foreign securities under specific purpose trust accounts amounting to \$2,672,714 thousand.

#### Trust Account Asset Items December 31, 2022

Item	Amount
Cash in banks	\$ 6,123,483
Debentures	11,201,507
Shares	4,873,628
Funds	46,912,839
Structured finance instruments	1,679,542
Real estate	
Land	9,428,737
Buildings	129,873
Securities under custody	<u>3,972,065</u>
	<u>\$ 84,321,674</u>

**Trust Account Income Statement**  
**Year Ended December 31, 2022**

	<b>Amount</b>
Trust income	
Interest revenue	\$ 2,405,773
Trust expense	
Management fee	(937,253)
Tax	<u>(161)</u>
Income before income tax	1,468,359
Income tax expense	<u>-</u>
Net income	<u><u>\$ 1,468,359</u></u>

**Trust Account Balance Sheet**  
**December 31, 2021**

<b>Trust Asset</b>	<b>Amount</b>	<b>Trust Liability</b>	<b>Amount</b>
Cash in banks	\$ 6,399,616	Securities under custody	
Debentures	7,238,414	payable	\$ 6,646,778
Shares	3,455,339	Trust capital	71,335,502
Funds	47,078,055	Net income	1,210,606
Structured finance instruments	1,643,837	Deferred carryover amounts	<u>(1,210,606)</u>
Real estate			
Land	5,386,698		
Buildings	132,100		
Securities under custody	6,646,778		
Securities trust services	<u>1,443</u>		
Trust assets	<u><u>\$ 77,982,280</u></u>	Trust liabilities	<u><u>\$ 77,982,280</u></u>

Note: On December 31, 2021, the bank's Offshore Banking Unit invested in foreign securities under specific purpose trust accounts amounting to \$2,248,226 thousand.

**Trust Account Asset Items**  
**December 31, 2021**

<b>Item</b>	<b>Amount</b>
Cash in banks	\$ 6,399,616
Debentures	7,238,414
Shares	3,455,339
Funds	47,078,055
Structured finance instruments	1,643,837
Real estate	
Land	5,386,698
Buildings	132,100
Securities under custody	6,646,778
Securities trust services	<u>1,443</u>
	<u><u>\$ 77,982,280</u></u>

**Trust Account Income Statement**  
**Year Ended December 31, 2021**

	<b>Amount</b>
Trust income	
Interest revenue	\$ 2,428,466
Trust expense	
Management fee	(1,217,830)
Tax	<u>(30)</u>
Income before income tax	1,210,606
Income tax expense	<u>-</u>
Net income	<u><u>\$ 1,210,606</u></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 order to improve construction safety, both parties agreed to change the “reverse drilling steel column well type foundation alternative construction method” and the “raft foundation beam structure optimization alternative plan”. The first supplementary agreement was made on January 8, 2021, and the total contract price after the change is \$11,155,943 thousand, in addition, the second supplementary agreement was processed on May 9, 2022, and the total contract price after the change was \$11,154,971 thousand. The Group entered into a contract of planning, design and supervision with YSL Architects & Associates, and the contract price was worth \$480,492 thousand. The Group entered into a contract of planning, design and supervision with Rich Honour Design Group, and the estimated contract price was \$195,000 thousand.

Maturity analysis of capital expenditures was summarized as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Year 1	\$ 3,026,937	\$ 4,670,691
Year 2	2,176,974	2,532,019
Year 3	<u>32,464</u>	<u>14,394</u>
	<u><u>\$ 5,236,375</u></u>	<u><u>\$ 7,217,104</u></u>

- d. The Bank and Pihsiang Energy Technology Co., Ltd. are parties in a consumer consignment litigation. The Taichung District Court of first instance issued a civil judgment on the 2018 case No. 598 that the Bank lost the case on February 4, 2020. The claim of Pihsiang Energy Technology Co., Ltd. against the Bank is \$100 million, and the interest shall be calculated at 5% per annum from April 10, 2018 to the settlement date. The litigation costs shall be borne by the defendant (i.e., the Bank). The appointed lawyer of the Bank assessed that the content of the original judgment is contradictory and unprovoked. Therefore, the Bank filed an appeal on February 27, 2020, and was in the High Court Taichung Branch as 2020 renewed trial No. 78. After the second instance, the High Court Taichung Branch reappealed to trial No. 78 of 2020 on March 29, 2022, ruling that the Bank won the case. However, the plaintiff refused to accept the judgment of the second instance and filed an appeal, which was still pending in the Supreme Court as of December 31, 2022. According to the civil judgment on the 2018 case No. 598 on February 4, 2020, the Bank has prepared in advance the outstanding indemnities (statutory fruits and litigation costs) of the open litigation. Movements of the outstanding loss provision were as follows:

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Balance at January 1	\$ 19,090	\$ 14,090
Loss provision	<u>5,000</u>	<u>5,000</u>
Balance at December 31	<u>\$ 24,090</u>	<u>\$ 19,090</u>

In 2022 and 2021, the loss provision of \$5,000 thousand was recognized interest expense.

### 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, 2022

	Carrying Amount	<u>Fair Value</u>			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Investments in debt instrument at amortized cost	\$ 105,378,466	\$ 76,715,095	\$ 27,222,061	\$ -	\$ 103,937,156
<u>Financial liabilities</u>					
Financial liabilities at amortized cost Bank debentures	16,500,000	-	16,643,094	-	16,643,094

December 31, 2021

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Investments in debt instrument at amortized cost	\$ 110,098,208	\$ 86,270,904	\$ 24,405,895	\$ -	\$ 110,676,799
<u>Financial liabilities</u>					
Financial liabilities at amortized cost					
Bank debentures	16,500,000	-	16,636,344	-	16,636,344

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

<b>Financial Instruments</b>	<b>Valuation Techniques and Inputs</b>
----------------------------------	--

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, 2022			
	Total	Level 1	Level 2	Level 3
<u>Financial assets at FVTPL</u>				
Derivative financial assets	\$ 8,322,625	\$ -	\$ 8,322,625	\$ -
Commercial papers	18,158,908	18,158,908	-	-
Domestic listed shares	318,732	318,732	-	-
Beneficiary certificates	290,350	290,350	-	-
Domestic corporate bonds	34,419	34,419	-	-
Others	875,684	-	875,684	-
	<u>\$ 28,000,718</u>	<u>\$ 18,802,409</u>	<u>\$ 9,198,309</u>	<u>\$ -</u>
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
Domestic unlisted shares	\$ 898,032	\$ -	\$ -	\$ 898,032
Domestic listed shares	3,286,450	3,286,450	-	-
Foreign listed shares	328,228	328,228	-	-
Investments in debt instruments				
Domestic corporate bonds	29,822,548	29,822,548	-	-
Domestic government bonds	5,228,275	5,228,275	-	-
Foreign bonds	3,362,115	-	3,362,115	-
Bank debentures	1,663,045	1,663,045	-	-
	<u>\$ 44,588,693</u>	<u>\$ 40,328,546</u>	<u>\$ 3,362,115</u>	<u>\$ 898,032</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities	<u>\$ 1,630,985</u>	<u>\$ -</u>	<u>\$ 1,630,985</u>	<u>\$ -</u>

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	\$ 810,234	\$ 87,798	\$ -	\$ -	\$ -	\$ -	\$ 898,032

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
<u>Financial assets at FVTPL</u>				
Derivative financial assets	\$ 4,006,983	\$ -	\$ 4,006,983	\$ -
Commercial papers	26,680,732	26,680,732	-	-
Domestic listed shares	347,919	347,919	-	-
Beneficiary certificates	757,683	757,683	-	-
Domestic corporate bonds	64,053	64,053	-	-
Others	806,522	-	806,522	-
	<u>\$ 32,663,892</u>	<u>\$ 27,850,387</u>	<u>\$ 4,813,505</u>	<u>\$ -</u>
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
Domestic unlisted shares	\$ 810,234	\$ -	\$ -	\$ 810,234
Domestic listed shares	2,510,919	2,510,919	-	-
Foreign listed shares	308,783	308,783	-	-
Investments in debt instruments				
Domestic corporate bonds	34,101,503	34,101,503	-	-
Domestic government bonds	4,865,736	4,865,736	-	-
Foreign bonds	3,121,222	-	3,121,222	-
Bank debentures	2,204,054	2,204,054	-	-
	<u>\$ 47,922,451</u>	<u>\$ 43,990,995</u>	<u>\$ 3,121,222</u>	<u>\$ 810,234</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities	\$ 492,678	\$ -	\$ 492,678	\$ -

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	\$ 751,556	\$ 58,678	\$ -	\$ -	\$ -	\$ -	\$ 810,234

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

<b>Financial Instruments</b>	<b>Valuation Techniques and Inputs</b>
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, foreign	Discounted cash flow:
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 rate-linked 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, 2022 and 2021, were as follows:

Items	Fair Value on December 31, 2022	Fair Value on December 31, 2021	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	\$ 898,032	\$ 810,234	Seller's quote (Monte Carlo Simulation Method)	Volatility rate	21.92%-24.39%	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 adopts multiple approaches to estimate the volatility rate of quantitative information on significant unobservable input. The sensitivity analysis based on assets category is as follows:

December 31, 2022

<b>Significant Unobservable Input</b>	<b>Sensitivity Rate</b>	<b>Impact</b>
Liquidity discount ratio	Increase 10%	\$ (20,088)
	Decrease 10%	20,088

December 31, 2021

<b>Significant Unobservable Input</b>	<b>Sensitivity Rate</b>	<b>Impact</b>
Liquidity discount ratio	Increase 10%	\$ (18,497)
	Decrease 10%	18,497

- c. Categories of financial instruments

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 28,000,718	\$ 32,663,892
Financial assets at amortized cost (Note 1)	700,121,398	660,242,078
Financial assets at FVTOCI		
Equity instruments	4,512,710	3,629,936
Debt instruments	40,075,983	44,292,515
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	1,630,985	492,678
Financial liabilities at amortized cost (Note 2)	722,824,359	695,601,698

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 resale agreements, receivables, notes discounted and loans, refundable deposits, and other financial assets.

Note 2: The balances include financial liabilities at amortized cost, which comprise due to the Central Bank and other banks, funds borrowed from the 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 objective 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 program.
- 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 Bank 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 surplus liquidity. The main sources of risk include deposits and interest rate-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 has a parallel shift of 100 basis points, the degree of impact on earnings and equity is used to control the interest rate risk.

iii. The effect of interest rate benchmark reform

For the financial instruments of the Bank affected by changes in interest rate benchmark, the linked indicator interest rates include USD LIBOR. It is expected that the US Secured Overnight Financing Rate (SOFR) will replace the USD LIBOR. However, there is a fundamental difference between the replacement interest rate and LIBOR. LIBOR is a forward-looking interest rate indicator that implies market expectations for future interest rate trends, and includes inter-bank credit discounts. Each alternative interest rate is a retrospective interest rate indicator calculated with reference to actual transaction data, and does not include a credit discount. Therefore, when an existing contract is modified from a linked LIBOR to a linked alternative interest rate, additional adjustments must be made to the aforementioned differences to ensure that the interest rate basis before and after the modification is economically equivalent.

The Bank has formulated a LIBOR conversion plan to deal with risk management policy adjustments, internal process adjustments, information system updates, financial instrument evaluation model adjustments, and related accounting or tax issues that are required to meet the changes in interest rate benchmark. On December 31, 2022, the Bank has identified all the information systems and internal processes that need to be updated, and completed some of the updates.

As of December 31, 2022, the financial instruments of the Bank that have been affected by the change in interest rate benchmark and have not yet converted (do not have the conversion clause) to alternative interest rate benchmark are summarized as follows:

	<u>Amount</u>		
	<b>Financial Assets</b>	<b>Financial Liabilities</b>	
<b>Non-derivative Financial</b>			
<u>Notes discounted and loans, net</u>			
USD LIBOR	\$ 5,394,000	\$ -	
<u>Financial assets at amortized cost</u>			
USD LIBOR	<u>6,296,000</u>	<u>-</u>	
	<u>\$ 11,690,000</u>	<u>\$ -</u>	
	<b>Nominal Amount</b>	<u>Amount</u>	
		<b>Financial Assets</b>	<b>Financial Liabilities</b>
<b>Derivative Financial</b>			
<u>Interest rate-linked structured instrument contracts</u>			
USD LIBOR	<u>\$ 1,035,541</u>	<u>\$ 154,347</u>	<u>\$ 154,347</u>

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 changes in 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 JPY/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 listed 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, 2022 and 2021 would have increased/decreased by \$709,181 thousand and \$935,165 thousand, respectively, and other equity would have decreased/increased by \$1,621,370 thousand and \$1,520,250 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 JPY/NTD appreciated/depreciated by 3%, the income before income tax as of December 31, 2022 and 2021 would have increased/decreased \$98,313 thousand and decreased/increased \$10,994 thousand, respectively, and other equity would have increased/decreased by \$106,833 thousand and \$90,963 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, 2022 and 2021 would have increased/decreased by \$91,362 thousand and \$165,840 thousand, respectively, and other equity would have increased/decreased by \$676,907 thousand and \$544,490 thousand, respectively.

The summary of sensitivity analysis was as follows:

<b>December 31, 2022</b>			
<b>Main Risk</b>	<b>Range of Change</b>	<b>Influence Amount</b>	
		<b>Other Equity</b>	<b>Income</b>
Interest risk	Interest rate curve rises 100BPS	\$ (1,621,370)	\$ 709,181
	Interest rate curve falls 100BPS	1,621,370	(709,181)
Exchange rate risk	USD/NTD, CNY/NTD, JPY/NTD increase by 3% respectively	106,833	98,313
	USD/NTD, CNY/NTD, JPY/NTD decrease by 3% respectively	(106,833)	(98,313)
Equity securities price risk	Equity securities prices rise by 15%	676,907	91,362
	Equity securities prices fall by 15%	(676,907)	(91,362)

<b>December 31, 2021</b>			
<b>Main Risk</b>	<b>Range of Change</b>	<b>Influence Amount</b>	
		<b>Other Equity</b>	<b>Income</b>
Interest risk	Interest rate curve rises 100BPS	\$ (1,520,250)	\$ 935,165
	Interest rate curve falls 100BPS	1,520,250	(935,165)
Exchange rate risk	USD/NTD, CNY/NTD, JPY/NTD increase by 3% respectively	90,963	(10,994)
	USD/NTD, CNY/NTD, JPY/NTD decrease by 3% respectively	(90,963)	10,994
Equity securities price risk	Equity securities prices rise by 15%	544,490	165,840
	Equity securities prices fall by 15%	(544,490)	(165,840)

## 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, 2022, the ratio of loans with collateral to the total amount of loans was approximately 74%. The ratio of financing guarantees to commercial letters of collateral holdings was approximately 27%, 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 becomes 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 Bank 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 Bank 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.

<b>Product Portfolio</b>	
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 defaults. 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 using 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 estimating 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 months 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 months or lifetime of financing commitment. The credit quality of the Bank's judgment securities was as follows:

#### i) The determination that the credit risk has increased significantly since the initial recognition

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 Bank'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 based 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, 2022

	<b>Total Carrying Amount</b>	<b>Allowance for Impairment Loss</b>	<b>Total Value of Exposure</b>	<b>Fair Value of Collateral</b>
Financial assets that were impaired				
Notes discounted and loans	\$ 7,187,918	\$ (1,634,126)	\$ 5,553,792	\$ 5,553,792
Receivables	530,083	(108,998)	421,085	418,272
Guarantees and letters of credit	90,196	(34,996)	55,200	37,864
Debt instrument	8,380	(8,380)	-	-
Others	<u>79,019</u>	<u>(11,897)</u>	<u>67,122</u>	<u>-</u>
Total financial assets that were impaired	<u>\$ 7,895,596</u>	<u>\$ (1,798,397)</u>	<u>\$ 6,097,199</u>	<u>\$ 6,009,928</u>

December 31, 2021

	<b>Total Carrying Amount</b>	<b>Allowance for Impairment Loss</b>	<b>Total Value of Exposure</b>	<b>Fair Value of Collateral</b>
Financial assets that were impaired				
Notes discounted and loans	\$ 8,698,694	\$ (1,857,339)	\$ 6,841,355	\$ 6,841,355
Receivables	651,112	(151,696)	499,416	499,416
Guarantees and letters of credit	88,571	(33,375)	55,196	37,864
Debt instrument	7,554	(7,554)	-	-
Others	<u>85,019</u>	<u>(12,005)</u>	<u>73,014</u>	<u>-</u>
Total financial assets that were impaired	<u>\$ 9,530,950</u>	<u>\$ (2,061,969)</u>	<u>\$ 7,468,981</u>	<u>\$ 7,378,635</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 (Bank) 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 Bank.

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, Banks, 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:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Irrevocable loan commitments	\$ 11,709,253	\$ 8,946,143
Credit card commitments	14,958,648	13,909,975
Guarantee receivables	27,269,501	27,150,584
Letters of credit	3,350,494	3,870,866

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 counterparty of financial product transactions is concentrated on one person, or when there are several counterparties but they are mostly engaged in similar economic activities and have similar economic characteristics, causing their abilities to fulfill contract obligations to be similarly affected by economic or other situations, credit risk concentration is deemed to have occurred. The characteristics of significant credit risk concentration include the nature of the debtor's activities. The Bank's transactions are not concentrated on a single customer or counterparty but spread among counterparties with similar industry types and operating regions. The contract amounts of significant credit risk concentration were as follows:

<b>Object</b>	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Private enterprise	\$ 274,998,423	\$ 262,446,700
Natural person	269,785,201	250,124,154
Government agencies	1,262,000	-
Others	<u>2,605,667</u>	<u>2,194,108</u>
	<u>\$ 548,651,291</u>	<u>\$ 514,764,962</u>

<b>Credit Risk Profile by Bank or Industry</b>	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Natural person	\$ 269,785,201	\$ 250,124,154
Manufacturing	78,116,549	78,216,446
Commercial	51,134,648	54,319,182
Real estate and leasing	71,796,188	66,547,332
Construction industry	25,125,501	20,966,895
Servicing	10,369,423	8,618,633
Finance and insurance	23,778,072	20,342,092
Transportation warehousing and information communication	8,579,916	8,908,570
Others	<u>9,965,793</u>	<u>6,721,658</u>
	<u>\$ 548,651,291</u>	<u>\$ 514,764,962</u>

<b>Credit Risk Profile by Region</b>	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Domestic	\$ 517,474,408	\$ 486,960,216
Asia	19,080,562	15,305,653
North America	9,297,320	9,615,136
Others	<u>2,799,001</u>	<u>2,883,957</u>
	<u>\$ 548,651,291</u>	<u>\$ 514,764,962</u>

<b>Credit Risk Profile by Collateral</b>	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Unsecured	\$ 91,415,488	\$ 82,630,116
Secured		
Real estate	405,658,238	384,785,370
Letter of bank guarantee	17,280,784	18,341,803
Debenture	18,955,531	16,708,301
Chattel	3,389,279	2,864,886
Notes receivable	1,661,919	1,886,139
Shares	5,932,129	3,967,526
Others	<u>4,357,923</u>	<u>3,580,821</u>
	<u>\$ 548,651,291</u>	<u>\$ 514,764,962</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, 2022

<b>Notes Discounted and Loans</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Corporation loans	\$ 241,988,675	\$ 3,782,198	\$ 4,754,053	\$ -	\$ 250,524,926
Consumer loans	256,289,860	10,261,353	2,433,710	-	268,984,923
Others	<u>23,037</u>	<u>498</u>	<u>155</u>	<u>-</u>	<u>23,690</u>
Total carrying amount	498,301,572	14,044,049	7,187,918	-	519,533,539
Allowance for doubtful accounts	(2,055,379)	(1,156,156)	(1,634,126)	-	(4,845,661)
Difference of impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,808,648)</u>	<u>(1,808,648)</u>
	<u>\$ 496,246,193</u>	<u>\$ 12,887,893</u>	<u>\$ 5,553,792</u>	<u>\$ (1,808,648)</u>	<u>\$ 512,879,230</u>
<b>Receivables</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Corporation loans	\$ 1,161,296	\$ 36,027	\$ 462,625	\$ -	\$ 1,659,948
Consumer loans	995,326	29,526	39,680	-	1,064,532
Others	<u>68,089,517</u>	<u>4</u>	<u>27,778</u>	<u>-</u>	<u>68,117,299</u>
Total carrying amount	70,246,139	65,557	530,083	-	70,841,779
Allowance for doubtful accounts	(18,474)	(5,321)	(108,998)	-	(132,793)
Difference of impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91,034)</u>	<u>(91,034)</u>
	<u>\$ 70,227,665</u>	<u>\$ 60,236</u>	<u>\$ 421,085</u>	<u>\$ (91,034)</u>	<u>\$ 70,617,952</u>
<b>Irrevocable Loan Commitments</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Corporation loans	\$ 10,318,566	\$ -	\$ 79,019	\$ -	\$ 10,397,585
Consumer loans	<u>1,311,668</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,311,668</u>
Total carrying amount	11,630,234	-	79,019	-	11,709,253
Allowance for doubtful accounts	(72,492)	-	(11,897)	-	(84,389)
Difference of impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,617)</u>	<u>(1,617)</u>
	<u>\$ 11,557,742</u>	<u>\$ -</u>	<u>\$ 67,122</u>	<u>\$ (1,617)</u>	<u>\$ 11,623,247</u>



<b>Credit Card Commitments</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Consumer loans	\$ 14,888,343	\$ 70,305	\$ -	\$ -	\$ 14,958,648
Total carrying amount	14,888,343	70,305	-	-	14,958,648
Allowance for doubtful accounts	(5,295)	(1,648)	-	-	(6,943)
Difference of impairment loss under regulations	-	-	-	(439)	(439)
	<u>\$ 14,883,048</u>	<u>\$ 68,657</u>	<u>\$ -</u>	<u>\$ (439)</u>	<u>\$ 14,951,266</u>

<b>Guarantee Receivables</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Corporation loans	\$ 27,052,806	\$ 126,499	\$ 90,196	\$ -	\$ 27,269,501
Total carrying amount	27,052,806	126,499	90,196	-	27,269,501
Allowance for doubtful accounts	(193,788)	(20,588)	(34,996)	-	(249,372)
Difference of impairment loss under regulations	-	-	-	(26,591)	(26,591)
	<u>\$ 26,859,018</u>	<u>\$ 105,911</u>	<u>\$ 55,200</u>	<u>\$ (26,591)</u>	<u>\$ 26,993,538</u>

<b>Letters of Credit</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Corporation loans	\$ 3,150,494	\$ 200,000	\$ -	\$ -	\$ 3,350,494
Total carrying amount	3,150,494	200,000	-	-	3,350,494
Allowance for doubtful accounts	(8,267)	(9,214)	-	-	(17,481)
Difference of impairment loss under regulations	-	-	-	(343)	(343)
	<u>\$ 3,142,227</u>	<u>\$ 190,786</u>	<u>\$ -</u>	<u>\$ (343)</u>	<u>\$ 3,332,670</u>

December 31, 2021

<b>Notes Discounted and Loans</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of Impairment Loss under Regulations</b>	<b>Total</b>
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>		
Product category					
Corporation loans	\$ 227,264,785	\$ 2,322,566	\$ 6,118,651	\$ -	\$ 235,706,002
Consumer loans	236,885,430	9,920,228	2,579,934	-	249,385,592
Others	<u>29,546</u>	<u>1,028</u>	<u>109</u>	-	<u>30,683</u>
Total carrying amount	464,179,761	12,243,822	8,698,694	-	485,122,277
Allowance for doubtful accounts	(1,464,704)	(608,655)	(1,857,339)	-	(3,930,698)
Difference of impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,750,165)</u>	<u>(2,750,165)</u>
	<u>\$ 462,715,057</u>	<u>\$ 11,635,167</u>	<u>\$ 6,841,355</u>	<u>\$ (2,750,165)</u>	<u>\$ 478,441,414</u>
<b>Receivables</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of Impairment Loss under Regulations</b>	<b>Total</b>
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>		
Product category					
Corporation loans	\$ 1,519,251	\$ 6,606	\$ 565,921	\$ -	\$ 2,091,778
Consumer loans	838,547	22,751	32,799	-	894,097
Others	<u>60,853,886</u>	<u>13</u>	<u>52,392</u>	-	<u>60,906,291</u>
Total carrying amount	63,211,684	29,370	651,112	-	63,892,166
Allowance for doubtful accounts	(18,882)	(2,972)	(151,696)	-	(173,550)
Difference of impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,659)</u>	<u>(56,659)</u>
	<u>\$ 63,192,802</u>	<u>\$ 26,398</u>	<u>\$ 499,416</u>	<u>\$ (56,659)</u>	<u>\$ 63,661,957</u>
<b>Irrevocable Loan Commitments</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of Impairment Loss under Regulations</b>	<b>Total</b>
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>		
Product category					
Corporation loans	\$ 7,175,795	\$ 33,250	\$ 85,019	\$ -	\$ 7,294,064
Consumer loans	<u>1,652,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652,079</u>
Total carrying amount	8,827,874	33,250	85,019	-	8,946,143
Allowance for doubtful accounts	(40,877)	(661)	(12,005)	-	(53,543)
Difference of impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,221)</u>	<u>(4,221)</u>
	<u>\$ 8,786,997</u>	<u>\$ 32,589</u>	<u>\$ 73,014</u>	<u>\$ (4,221)</u>	<u>\$ 8,888,379</u>

<b>Credit Card Commitments</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Consumer loans	\$ 13,827,884	\$ 82,091	\$ -	\$ -	\$ 13,909,975
Total carrying amount	13,827,884	82,091	-	-	13,909,975
Allowance for doubtful accounts	(5,046)	(1,915)	-	-	(6,961)
Difference of impairment loss under regulations	-	-	-	(422)	(422)
	<u>\$ 13,822,838</u>	<u>\$ 80,176</u>	<u>\$ -</u>	<u>\$ (422)</u>	<u>\$ 13,902,592</u>

<b>Guarantee Receivables</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Corporation loans	\$ 26,971,681	\$ 90,332	\$ 88,571	\$ -	\$ 27,150,584
Total carrying amount	26,971,681	90,332	88,571	-	27,150,584
Allowance for doubtful accounts	(171,880)	(7,782)	(33,375)	-	(213,037)
Difference of impairment loss under regulations	-	-	-	(84,926)	(84,926)
	<u>\$ 26,799,801</u>	<u>\$ 82,550</u>	<u>\$ 55,196</u>	<u>\$ (84,926)</u>	<u>\$ 26,852,621</u>

<b>Letters of Credit</b>					
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Difference of</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Impairment Loss</b>	<b>Total</b>
				<b>under</b>	
				<b>Regulations</b>	
Product category					
Corporation loans	\$ 3,870,866	\$ -	\$ -	\$ -	\$ 3,870,866
Total carrying amount	3,870,866	-	-	-	3,870,866
Allowance for doubtful accounts	(8,629)	-	-	-	(8,629)
Difference of impairment loss under regulations	-	-	-	(4,226)	(4,226)
	<u>\$ 3,862,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,226)</u>	<u>\$ 3,858,011</u>

ii. Debt instrument investments

December 31, 2022

<b>Financial Assets at FVTOCI</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Total</b>
Product category (Note)				
Investment grade bond	\$ 40,103,103	\$ -	\$ -	\$ 40,103,103
Non-investment grade bond	-	-	-	-
Total carrying amount	40,103,103	-	-	40,103,103
Allowance for impairment	(27,120)	-	-	(27,120)
Difference of impairment loss under regulations	-	-	-	-
	<u>\$ 40,075,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,075,983</u>

<b>Investments in Debt Instruments at Amortized Cost</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	
Product category (Note)				
Investment grade bond	\$ 54,515,788	\$ 1,402,240	\$ -	\$ 55,918,028
Non-investment grade bond	-	-	8,380	8,380
Others (NCDs issued by the CBC)	<u>49,498,280</u>	<u>-</u>	<u>-</u>	<u>49,498,280</u>
Total carrying amount	104,014,068	1,402,240	8,380	105,424,688
Allowance for impairment	(22,742)	(15,100)	(8,380)	(46,222)
Difference of impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 103,991,326</u>	<u>\$ 1,387,140</u>	<u>\$ -</u>	<u>\$ 105,378,466</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, 2022

	<b>Financial Assets at FVTOCI</b>	<b>Financial Assets at Amortized Cost</b>
Total carrying amount	\$ 41,327,887	\$ 105,424,688
Loss allowance	<u>(27,120)</u>	<u>(46,222)</u>
Amortized cost	41,300,767	105,378,466
Fair value adjustment	<u>(1,224,784)</u>	<u>-</u>
	<u>\$ 40,075,983</u>	<u>\$ 105,378,466</u>

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

<b>Credit Rating</b>	<b>Definition</b>	<b>Recognition Basis</b>	<b>Expected Credit Loss</b>	<b>Total Carrying Amount At December 31, 2022</b>	
				<b>Financial Assets at FVTOCI</b>	<b>Financial Assets at Amortized Cost</b>
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%-0.06%	\$ 41,327,887	\$ 104,014,068
Abnormal (Stage 2)	Credit risk has increased significantly since the initial recognition.	Lifetime expected credit losses (no credit impaired)	0.83%-1.32%	-	1,402,240
Default (Stage 3)	There is evidence that the credit is impaired.	Lifetime expected credit losses (credit impaired)	100%	-	8,380
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:

	<b>Credit Rating</b>		
	<b>Normal (12-Month Expected credit Losses)</b>	<b>Abnormal (Lifetime ECL and not Credit Impaired)</b>	<b>Default (Lifetime ECL and Credit Impaired)</b>
<u>Financial assets at FVTOCI</u>			
Balance at January 1, 2022	\$ 29,891	\$ -	\$ -
Change in credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase of new debt instruments	639	-	-
Disposal	(1,657)	-	-
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>(1,753)</u>	<u>-</u>	<u>-</u>
Loss allowance at December 31, 2022	<u>\$ 27,120</u>	<u>\$ -</u>	<u>\$ -</u>

Financial assets at amortized cost

Balance at January 1, 2022	\$ 23,109	\$ -	\$ 7,554
Change in credit rating			
Normal turned to abnormal	(15,100)	15,100	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase of new debt instruments	7,336	-	-
Disposal	(7,078)	-	-
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>14,475</u>	<u>-</u>	<u>826</u>
Loss allowance at December 31, 2022	<u>\$ 22,742</u>	<u>\$ 15,100</u>	<u>\$ 8,380</u>

December 31, 2021

	<b>Financial Assets at FVTOCI</b>			<b>Total</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	
Product category (Note)				
Investment grade bond	\$ 44,322,406	\$ -	\$ -	\$ 44,322,406
Non-investment grade bond	-	-	-	-
Total carrying amount	44,322,406	-	-	44,322,406
Allowance for impairment	(29,891)	-	-	(29,891)
Difference of impairment loss under regulations	-	-	-	-
	<u>\$ 44,292,515</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,292,515</u>

<b>Investments in Debt Instruments at Amortized Cost</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Total</b>
Product category (Note)				
Investment grade bond	\$ 46,331,317	\$ -	\$ -	\$ 46,331,317
Non-investment grade bond	-	-	7,554	7,554
Others (NCDs issued by the CBC)	<u>63,790,000</u>	<u>-</u>	<u>-</u>	<u>63,790,000</u>
Total carrying amount	110,121,317	-	7,554	110,128,871
Allowance for impairment	(23,109)	-	(7,554)	(30,663)
Difference of impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 110,098,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,098,208</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, 2021

	<b>Financial Assets at FVTOCI</b>	<b>Financial Assets at Amortized Cost</b>
Total carrying amount	\$ 44,159,489	\$ 110,128,871
Loss allowance	<u>(29,891)</u>	<u>(30,663)</u>
Amortized cost	44,129,598	110,098,208
Fair value adjustment	<u>162,917</u>	<u>-</u>
	<u>\$ 44,292,515</u>	<u>\$ 110,098,208</u>

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

Credit Rating	Definition	Recognition Basis	Expected Credit Loss	Total Carrying Amount At December 31, 2021	
				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%-0.42%	\$ 44,159,489	\$ 110,121,317
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%	-	7,554
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:

	<b>Credit Rating</b>		
	<b>Normal (12-Month Expected credit Losses)</b>	<b>Abnormal (Lifetime ECL and not Credit Impaired)</b>	<b>Default (Lifetime ECL and Credit Impaired)</b>
<u>Financial assets at FVTOCI</u>			
Balance at January 1, 2021	\$ 20,708	\$ -	\$ -
Change in credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase of new debt instruments	11,833	-	-
Disposal	(1,341)	-	-
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>(1,309)</u>	<u>-</u>	<u>-</u>
Loss allowance at December 31, 2021	<u>\$ 29,891</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Financial assets at amortized cost</u>			
Balance at January 1, 2021	\$ 26,472	\$ -	\$ 7,668
Change in credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase of new debt instruments	1,523	-	-
Disposal	(3,819)	-	-
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>(1,067)</u>	<u>-</u>	<u>(114)</u>
Loss allowance at December 31, 2021	<u>\$ 23,109</u>	<u>\$ -</u>	<u>\$ 7,554</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 enough cash buffer in shares 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, 2022	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	\$ 8,702,273	\$ -	\$ 730	\$ 737	\$ -	\$ 8,703,740
Payables	7,994,187	528,686	517,087	204,253	249,877	9,494,090
Deposits and remittances	59,293,151	93,958,189	122,852,717	124,174,789	285,517,592	685,796,438
Bank debentures	-	-	-	71,967	16,500,000	16,571,967
Lease liabilities	12,458	25,012	35,033	68,869	666,457	807,829
Other items of cash outflow on maturity	18,722	43,214	784,029	124,773	3,448,972	4,419,710

December 31, 2021	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	\$ 3,900,014	\$ -	\$ 730	\$ 52,956	\$ -	\$ 3,953,700
Fund borrowed from the Central Bank and other banks	471,150	3,000	27,700	98,600	2,889,090	3,489,540
Securities sold under repurchase agreements	401,059	804,865	-	-	-	1,205,924
Payables	7,273,619	690,503	490,724	234,170	208,678	8,897,694
Deposits and remittances	46,482,665	77,871,118	76,675,295	150,414,578	310,138,163	661,581,819
Bank debentures	-	-	-	65,375	16,500,000	16,565,375
Lease liabilities	11,964	23,915	35,084	67,840	681,676	820,479
Other items of cash outflow on maturity	17,034	35,525	12,880	108,890	716,191	890,520

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, 2022	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	\$ 58,272	\$ 125,454	\$ 116,544	\$ 85,040	\$ -	\$ 385,310
Total	\$ 58,272	\$ 125,454	\$ 116,544	\$ 85,040	\$ -	\$ 385,310

December 31, 2021	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	\$ 20,678	\$ 47,183	\$ 61,514	\$ 66,128	\$ -	\$ 195,503
Total	\$ 20,678	\$ 47,183	\$ 61,514	\$ 66,128	\$ -	\$ 195,503

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 to be settled at gross amount was as follows:

December 31, 2022	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	\$ 17,935,625	\$ 7,870,492	\$ 2,694,326	\$ 910,033	\$ -	\$ 29,410,476
Inflows	17,720,731	7,598,820	2,595,045	863,855	-	28,778,451
Total outflows	17,935,625	7,870,492	2,694,326	910,033	-	29,410,476
Total inflows	17,720,731	7,598,820	2,595,045	863,855	-	28,778,451
Net flows	\$ (214,894)	\$ (271,672)	\$ (99,281)	\$ (46,178)	\$ -	\$ (632,025)

December 31, 2021	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	\$ 1,860,409	\$ 8,130,465	\$ 847,551	\$ 3,691,713	\$ -	\$ 14,530,138
Inflows	1,845,858	8,057,050	831,979	3,615,157	-	14,350,044
Total outflows	1,860,409	8,130,465	847,551	3,691,713	-	14,530,138
Total inflows	1,845,858	8,057,050	831,979	3,615,157	-	14,350,044
Net flows	\$ (14,551)	\$ (73,415)	\$ (15,572)	\$ (76,556)	\$ -	\$ (180,094)

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, 2022	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Loan commitment	\$ 9,837,095	\$ 19,810,438	\$ 31,619,264	\$ 70,681,639	\$ 54,419,920	\$ 186,368,356
Letters of credit	966,386	2,083,566	288,243	12,299	-	3,350,494
Guarantee receivables	4,810,563	6,111,423	1,167,508	3,306,319	11,873,688	27,269,501
Total	\$ 15,614,044	\$ 28,005,427	\$ 33,075,015	\$ 74,000,257	\$ 66,293,608	\$ 216,988,351

December 31, 2021	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Loan commitment	\$ 10,420,397	\$ 16,346,728	\$ 27,465,124	\$ 61,833,906	\$ 44,497,984	\$ 160,564,139
Letters of credit	1,149,591	2,504,565	195,332	21,378	-	3,870,866
Guarantee receivables	6,880,119	6,232,979	1,557,578	3,017,885	9,462,023	27,150,584
Total	\$ 18,450,107	\$ 25,084,272	\$ 29,218,034	\$ 64,873,169	\$ 53,960,007	\$ 191,585,589

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, 2021					
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	\$ 1,211,468	\$ 1,205,559	\$ 1,241,778	\$ 1,205,559	\$ 36,219

### 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, 2022

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	\$ 11,643,340	\$ -	\$ 11,643,340	\$ 11,643,340	\$ -	\$ -

December 31, 2021

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	\$ 11,258,439	\$ -	\$ 11,258,439	\$ 11,258,439	\$ -	\$ -

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	\$ 1,205,559	\$ -	\$ 1,205,559	\$ 1,205,559	\$ -	\$ -

#### 41. INFORMATION ABOUT THE BANK

##### a. Asset quality

Items		December 31, 2022					December 31, 2021				
		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	\$ 356,934	\$ 151,757,965	0.24%	\$ 1,742,917	488.30%	\$ 306,832	\$ 152,601,348	0.20%	\$ 1,829,338	596.20%
	Unsecured	26,809	98,766,960	0.03%	1,618,539	6,037.30%	117,494	83,104,653	0.14%	1,705,878	1,451.89%
Consumer loans	Mortgage (Note 4)	135,497	72,455,523	0.19%	1,086,696	802.01%	32,377	64,795,172	0.05%	968,109	2,990.11%
	Cash card	-	-	-	-	-	-	2	-	1	-
	Microcredit (Note 5)	2,086	928,828	0.22%	12,337	591.42%	1,018	957,115	0.11%	13,211	1,297.74%
	Other (Note 6)										
	Secured	229,450	161,245,185	0.14%	1,706,989	743.95%	257,503	154,572,466	0.17%	1,642,831	637.99%
	Unsecured	31,468	34,355,388	0.09%	486,831	1,547.07%	28,535	29,060,838	0.10%	521,495	1,827.56%
Loans		782,244	519,509,849	0.15%	6,654,309	850.67%	743,759	485,091,594	0.15%	6,680,863	898.26%

Items		December 31, 2022					December 31, 2021				
		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		\$ 1,196	\$ 792,342	0.15%	\$ 27,284	2,281.27%	\$ 1,736	\$ 738,561	0.24%	\$ 27,274	1,571.08%
Accounts receivable without recourse (Note 7)		-	148,925	-	7,906	-	-	271,434	-	4,645	-

Non-reportable overdue loans and receivables

	December 31, 2022		December 31, 2021	
	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)	\$ 682	\$ 502	\$ 1,157	\$ 627
Amount received from performance of debt negotiation program (Note 9)	9,284	13,990	10,515	16,019
<b>Total</b>	<b>9,966</b>	<b>14,492</b>	<b>11,672</b>	<b>16,646</b>

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), the FSC pronouncement dated September 20, 2016 (Ref No. 10500134790).

b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

Year	December 31, 2022		
Top 10 Rank (Note 1)	Bank (Note 2)	Total Credit (Note 3)	Percentage of Net Worth (%)
1	Bank A 016700 real estate development activities	\$ 5,021,523	7.25
2	Bank B 016700 real estate development activities	3,790,746	5.48
3	Bank C 016700 real estate development activities	2,619,968	3.78
4	Bank D 014290 civil engineering constructions	2,145,417	3.10
5	Bank E 012411 smelting and refining of iron and steel	1,935,822	2.80
6	Bank F 016700 real estate development activities	1,828,917	2.64
7	Bank G 010892 manufacture of macaroni, noodles, couscous and similar farinaceous products	1,806,030	2.61
8	Bank H 014100 construction industry	1,800,380	2.60
9	Bank I 016499 manufacture of other electronic parts and components not elsewhere classified	1,694,364	2.45
10	Bank J 012630 printed circuit board manufacturing	1,677,686	2.42

<b>Year</b>	<b>December 31, 2021</b>		
<b>Top 10 Rank (Note 1)</b>	<b>Bank (Note 2)</b>	<b>Total Credit (Note 3)</b>	<b>Percentage of Net Worth (%)</b>
1	Bank A 016700 real estate development activities	\$ 4,547,089	7.17
2	Bank B 016700 real estate development activities	2,920,143	4.60
3	Bank K 016700 real estate development activities	2,604,314	4.10
4	Bank L 016700 real estate development activities	2,171,767	3.42
5	Bank E 012411 smelting and refining of iron and steel	2,114,558	3.33
6	Bank G 010892 manufacture of macaroni, noodles, couscous and similar farinaceous products	1,919,501	3.02
7	Bank D 014290 civil engineering constructions	1,791,518	2.82
8	Bank M 015510 short-term accommodation activities	1,716,097	2.70
9	Bank N 012699 manufacture of other electronic parts and components not elsewhere classified	1,692,553	2.67
10	Bank O 015010 ocean transportation	1,607,055	2.53

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 Bank, then the disclosed amount will be the total granted loan amount for that entire Bank. (i.e., Bank 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”, Bank 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, 2022**

(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	\$ 533,316,870	\$ 13,603,764	\$ 13,332,755	\$ 97,341,828	\$ 657,595,217
Interest-sensitive liabilities	186,729,333	354,942,588	68,228,832	8,934,801	618,835,554
Interest sensitivity gap	346,587,537	(341,338,824)	(54,896,077)	88,407,027	38,759,663
Net equity					69,229,626
Ratio of interest-sensitive assets to liabilities					106.26%
Ratio of interest sensitivity gap to net equity					55.99%

**December 31, 2021**

(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	\$ 517,659,733	\$ 9,375,584	\$ 10,814,138	\$ 99,617,497	\$ 637,466,952
Interest-sensitive liabilities	138,013,894	358,827,497	95,835,145	12,243,899	604,920,435
Interest sensitivity gap	379,645,839	(349,451,913)	(85,021,007)	87,373,598	32,546,517
Net equity					63,459,985
Ratio of interest-sensitive assets to liabilities					105.38%
Ratio of interest sensitivity gap to net equity					51.29%

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, 2022**

(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	\$ 1,580,836	\$ 119,596	\$ 29,367	\$ 430,111	\$ 2,159,910
Interest-sensitive liabilities	994,087	1,111,779	290,778	9,590	2,406,234
Interest sensitivity gap	586,749	(992,183)	(261,411)	420,521	(246,324)
Net equity					2,254,302
Ratio of interest-sensitive assets to liabilities					89.76%
Ratio of interest sensitivity gap to net equity					(10.93%)



December 31, 2021

(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	\$ 1,508,953	\$ 263,646	\$ 124,857	\$ 266,753	\$ 2,164,209
Interest-sensitive liabilities	658,739	1,373,881	184,159	40	2,216,819
Interest sensitivity gap	850,214	(1,110,235)	(59,302)	266,713	(52,610)
Net equity					2,292,547
Ratio of interest-sensitive assets to liabilities					97.63%
Ratio of interest sensitivity gap to net equity					(2.29%)

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, 2022	December 31, 2021
Return on total assets	Pretax	0.83	0.73
	After tax	0.69	0.64
Return on net equity	Pretax	9.76	9.03
	After tax	8.06	7.94
Profit margin		38.15	38.06

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, 2022 and 2021.

e. Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities  
December 31, 2022

(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	\$ 719,581,681	\$ 87,869,117	\$ 46,318,450	\$ 39,703,466	\$ 67,850,512	\$ 119,682,541	\$ 358,157,595
Major capital outflow on maturity	869,931,286	35,110,040	41,863,762	102,458,862	163,273,569	162,255,702	364,969,351
Gap	(150,349,605)	52,759,077	4,454,688	(62,755,396)	(95,423,057)	(42,573,161)	(6,811,756)

December 31, 2021

(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	\$ 690,862,419	\$ 79,528,105	\$ 64,951,354	\$ 35,311,526	\$ 55,348,265	\$ 107,707,741	\$ 348,015,428
Major capital outflow on maturity	821,876,223	29,606,148	31,996,179	85,726,703	106,179,429	183,229,351	385,138,413
Gap	(131,013,804)	49,921,957	32,955,175	(50,415,177)	(50,831,164)	(75,521,610)	(37,122,985)

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, 2022**

(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	\$ 3,331,509	\$ 930,995	\$ 647,289	\$ 313,817	\$ 190,396	\$ 1,249,012
Major capital outflow on maturity	3,952,581	1,007,088	1,124,128	547,858	907,992	365,515
Gap	(621,072)	(76,093)	(476,839)	(234,041)	(717,596)	883,497

December 31, 2021

(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	\$ 2,789,842	\$ 602,590	\$ 472,159	\$ 278,131	\$ 385,425	\$ 1,051,537
Major capital outflow on maturity	3,345,308	525,117	1,021,530	533,336	885,719	379,606
Gap	(555,466)	77,473	(549,371)	(255,205)	(500,294)	671,931

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 carrying amount 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, 2022	December 31, 2021
Eligible capital	Common equity		\$ 68,534,211	\$ 60,993,647
	Other Tier 1 capital		11,500,000	9,983,944
	Tier 2 capital		10,939,123	7,812,640
	Eligible capital		90,973,334	78,790,231
Risk-weighted assets	Credit risk	Standardized approach	536,222,128	468,317,590
		Internal ratings-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	23,273,750	21,461,925
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	10,992,988	8,725,800
		Internal model approach	-	-
	Risk-weighted assets		570,488,866	498,505,315
Capital adequacy ratio (%)			15.95%	15.81%
Ratio of common equity to risk-weighted assets (%)			12.01%	12.24%
Ratio of Tier 1 capital to risk-weighted assets (%)			14.03%	14.24%
Leverage ratio (%)			9.53%	8.87%

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, 2022						Total
	USD	CNY	JPY	AUD	EUR	Others	
<u>Financial assets in foreign currencies</u>							
Cash and cash equivalents	\$ 9,482,126	\$ 453,968	\$ 803,424	\$ 197,957	\$ 486,569	\$ 546,629	\$ 11,970,673
Due from the Central Bank and call loans to other banks	832,241	88,160	-	-	-	1,126,794	2,047,195
Financial assets at fair value through profit or loss	1,792,730	-	-	-	-	138,956	1,931,686
Financial assets at fair value through other comprehensive income	1,927,861	1,648,980	-	113,502	-	-	3,690,343
Notes discounted and loans receivables	30,917,527	1,024,811	1,474,882	78,487	1,234,882	599,686	35,330,275
Receivables	815,095	108,825	241,772	17,466	10,231	103,348	1,296,737
Financial assets at amortized cost	22,068,806	4,053,954	-	1,419,170	-	868,909	28,410,839
Other assets	967,647	-	-	-	-	-	967,647
<u>Financial liabilities in foreign currencies</u>							
Deposits and remittances	71,104,311	3,121,409	1,775,063	1,784,323	681,192	1,708,120	80,174,418
Financial liabilities at fair value through profit or loss	828,637	-	-	-	-	138,956	967,593
Other financial liabilities	2,844,053	-	-	-	-	1,145,435	3,989,488
Payables	469,660	7,258	239,674	1,014	3,756	21,489	742,851
Lease liabilities	-	-	-	-	-	7,039	7,039
Provisions	27,730	-	-	-	-	-	27,730
Other liabilities	135,641	238	2,439	-	55,379	-	193,697
New Taiwan dollars exchange rate	30.71	4.41	0.23	20.82	32.71	-	-

	December 31, 2021						
	USD	CNY	JPY	AUD	EUR	Others	Total
<u>Financial assets in foreign currencies</u>							
Cash and cash equivalents	\$ 5,179,609	\$ 326,777	\$ 342,361	\$ 178,519	\$ 89,885	\$ 1,120,421	\$ 7,237,572
Due from the Central Bank and call loans to other banks	1,181,979	86,880	-	140,560	-	225,289	1,634,708
Financial assets at fair value through profit or loss	1,203,661	-	-	-	1,098	5,439	1,210,198
Financial assets at fair value through other comprehensive income	1,373,965	1,938,370	-	117,670	-	-	3,430,005
Notes discounted and loans Receivables	32,874,107	874,568	1,234,805	75,300	1,215,774	615,252	36,889,806
Financial assets at amortized cost	982,877	88,763	109,965	10,772	11,751	33,762	1,237,890
Other assets	18,899,657	3,213,098	-	1,344,923	-	779,584	24,237,262
	297,334	-	-	-	-	-	297,334
<u>Financial liabilities in foreign currencies</u>							
Deposits and remittances	60,957,473	3,721,585	901,944	1,980,233	703,348	1,919,914	70,184,497
Financial liabilities at fair value through profit or loss	280,123	-	-	-	1,162	5,438	286,723
Other financial liabilities	467,255	-	-	-	-	117,238	584,493
Payables	742,228	12,194	106,541	1,314	7,629	3,529	873,435
Lease liabilities	-	-	-	-	-	4,524	4,524
Provisions	22,520	-	-	-	-	-	22,520
Other liabilities	156,307	489	2,524	-	16,918	-	176,238
New Taiwan dollars exchange rate	27.68	4.34	0.24	20.08	31.32		

#### 44. CASH FLOW INFORMATION

##### Changes in Liabilities Arising from Financing Activities

For the year ended December 31, 2022

	Opening Balance	Cash Inflows (Outflows)	Non-cash Changes		Closing Balance
			New Leases	End of Lease Term	
Funds borrowed from the Central Bank and other banks	\$ 3,489,540	\$ (3,489,540)	\$ -	\$ -	\$ -
Bank debentures	16,500,000	-	-	-	16,500,000
Lease liabilities	713,902	(119,428)	192,727	(61,592)	725,609
	<u>\$ 20,703,442</u>	<u>\$ (3,608,968)</u>	<u>\$ 192,727</u>	<u>\$ (61,592)</u>	<u>\$ 17,225,609</u>

For the year ended December 31, 2021

	Opening Balance	Cash Inflows (Outflows)	Non-cash Changes		Closing Balance
			New Leases	End of Lease Term	
Funds borrowed from the Central Bank and other banks	\$ 2,167,280	\$ 1,322,260	\$ -	\$ -	\$ 3,489,540
Bank debentures	11,500,000	5,000,000	-	-	16,500,000
Lease liabilities	853,806	(185,017)	240,222	(195,109)	713,902
	<u>\$ 14,521,086</u>	<u>\$ 6,137,243</u>	<u>\$ 240,222</u>	<u>\$ (195,109)</u>	<u>\$ 20,703,442</u>

#### 45. OTHER SIGNIFICANT EVENT

Due to the impact of the COVID-19 pandemic, future economic and financial developments 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.

In order to obtain a platform for the development of banking business in the western United States and improve international competitiveness to enhance the economic benefits of the overall scale, on October 1, 2022, the Bank's board of directors resolved to acquire American Continental Bancorp, headquartered in Industrial City, California, for an estimated consideration of \$41.4834 per share. The amount of consolidated net value of American Continental Bancorp on the settlement date, after verification by an accountant, is based on the multiplier of 1.83 to determine the purchase price. The case is subject for approval by the competent authorities of both parties before the subsequent transactions can be completed. Upon completion of the transaction, American Continental Bancorp will become a 100% owned subsidiary of the Bank.

#### 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.	Table 1
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 2
2	Financing provided.	Table 3
3	Endorsement/guarantee provided.	Table 4
4	Marketable securities held.	Table 5
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 6 (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 7).

## TAICHUNG COMMERCIAL BANK CO., LTD.

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

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Taichung Bank Leasing Corporation Limited	Land and buildings	July 11, 2022	\$ 560,000	All paid	Shang Zan Co., Ltd.	-	-	-	-	\$ -	According to market review and valuation report	For rent	According to contract

Note 1: If the acquired assets should be valued in accordance with the regulations, the valuation results should be indicated in the reference column for price determination.

Note 2: The paid-in capital refers to the paid-in capital of the parent. If the issuer's shares have no par value or each share has a non-NT\$10 nominal value, the transaction rate of 10% of the paid-in capital is calculated based on 10% of the equity attributable to the owners of the parent company on the balance sheet.

Note 3: The date of occurrence of the fact refers to the date of signing the transaction, the date of payment, the date of entrustment transaction, the date of transfer, the date of the resolution of the board of directors or other dates on which the transaction item and transaction amount are fully determined.



## TAICHUNG COMMERCIAL BANK CO., LTD.

THE RELATED INFORMATION AND PROPORTIONATE SHARE IN INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(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	\$ 1,977,256	\$ 282,793	128,600	-	128,600	100.00	
	Taichung Bank Securities Investment Trust Co., Ltd.	Taipei City	Securities investment trust industry	38.46	172,301	(6,716)	19,783	-	19,783	63.41	
	Taichung Commercial Bank Securities Co., Ltd.	Taichung City	Securities industry	100.00	1,701,553	(95,374)	162,450	-	162,450	100.00	
	Taichung Bank Leasing Corporation Limited	Taipei City	Leasing business	100.00	2,192,053	140,441	207,983	-	207,983	100.00	
Taichung Bank Leasing Corporation Limited	TCCBL Co., Ltd. (B.V.I.)	British Virgin Islands	Financial leasing and investment business	100.00	902,507	59,926	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	851,568	58,611	-	-	-	100.00	
Taichung Commercial Bank Securities Co., Ltd.	Taichung Bank Venture Capital Co., Ltd.	Taipei City	Venture capital business	100.00	203,070	(5,524)	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, 2022  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Lender	Borrower	Financial Statement Account (Note 2)	Related Party	Highest Balance for the Period (Note 3)	Ending Balance (Note 8)	Actual Amount Borrowed	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	Wan Ku Fu Co., Ltd.	Other receivables	Not related	\$ 51,018	\$ -	\$ -	4-10	Necessary for short-term financing	\$ -	Business turnover	\$ -	Real estate	\$ 86,610	\$ 219,205	\$ 876,821	Note 9
		Da Fang Skill Color Marketing Consultant Co., Ltd.	Other receivables	Not related	176,294	-	-	4-10	Necessary for short-term financing	-	Business turnover	-	Real estate	180,000	219,205	876,821	Note 9
		Qiyi Intergrated Marketing Co., Ltd.	Other receivables	Not related	174,424	117,528	117,528	4-10	Necessary for short-term financing	-	Business turnover	1,175	Real estate	357,451	219,205	876,821	Note 9
		TCCBL Co., Ltd. (B.V.L)	Other receivables - related party	Related	10,766	10,263	10,263	-	Necessary for short-term financing	-	Business turnover	103	None	-	219,205	876,821	Note 9

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

- a. Issuer: 0.
- b. 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.

## TAICHUNG COMMERCIAL BANK CO., LTD.

ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(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	\$ 13,152,318	\$ 546,488	\$ 92,130	\$ -	\$ -	4.20	\$ 21,920,530	-	-	-
		Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Indirect shareholding of 100% of subsidiary	13,152,318	4,616,046	4,493,150	2,565,208	-	204.97	21,920,530	-	-	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.

Note 4: The balance of Taichung Bank Leasing Corporation Limited's endorsement guarantee for a single enterprise (Taichung Bank Financial Leasing (Suzhou) Co., Ltd.) has reached the amount based on the announcement standard of the parent company China Man-Made Fiber Corporation mainly due to exchange rate changes.

## TAICHUNG COMMERCIAL BANK CO., LTD.

MARKETABLE SECURITIES HELD  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(In Thousands of New Taiwan Dollars or Shares)

Name of Holding Company	Type and Name of Marketable Securities	Relationship	Financial Statements Account	December 31, 2022				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	207,983	\$ 2,192,053	100	\$ 2,192,053	
	Taichung Bank Insurance Brokers Co., Ltd.	Subsidiary	Investment accounted for using the equity method	128,600	1,977,256	100	1,977,256	
	Taichung Bank Securities Co., Ltd.	Subsidiary	Investment accounted for using the equity method	162,450	1,701,553	100	1,701,553	
	Taichung Bank Securities Investment Trust Co., Ltd.	Association	Investment accounted for using the equity method	12,000	172,301	38	172,301	
Taichung Bank Leasing Corporation Limited	<u>Foreign unlisted shares</u> TCCBL Co., Ltd. (B.V.I.)	Sub-sub-sidiary	Investment accounted for using the equity method	30,000	902,507	100	902,507	
TCCBL Co., Ltd. (B.V.I.)	<u>Foreign unlisted shares</u> Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Sub-sub-sidiary	Investment accounted for using the equity method	-	851,568	100	851,568	
Taichung Bank Securities Co., Ltd.	<u>Domestic unlisted shares</u> Taichung Bank Venture Capital Co., Ltd.	Sub-sub-sidiary	Investment accounted for using the equity method	21,000	203,070	100	203,070	

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, 2022

(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, 2022	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2022	% Ownership of Direct or Indirect Investment	Investment Gain	Carrying Value as of December 31, 2022	Accumulated Inward Remittance of Earnings as of December 31, 2022
					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	\$ 58,611 (CNY 13,264 thousand)	\$ 851,568 (CNY 193,187 thousand)	\$ -

Accumulated Investment in Mainland China as of December 31, 2022	Investment Amount Approved by the Investment Commission, MOEA	Maximum Investment Allowable (Note 2)
\$893,373	\$893,373	\$1,315,232

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\$4.41, CNY1=NT\$4.42).

**TABLE 7****TAICHUNG COMMERCIAL BANK CO., LTD.****INFORMATION OF MAJOR SHAREHOLDERS  
DECEMBER 31, 2022**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
China Man-Made Fiber Corporation	1,077,785,513	21.49
Pan Asia Chemical Corporation	276,386,634	5.51

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, 2022**

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

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<b>Item</b>	<b>Amount</b>
Cash on hand	\$ 6,603,296
Cash on hand - foreign currencies (Note)	982,844
Checks for clearing	4,276,016
Due from banks	<u>12,522,568</u>
	<u>\$ 24,384,724</u>

Note: The cash on hand - foreign currencies include: US\$12,882 thousand, US\$1=NT\$30.71; EUR1,676 thousand, EUR1=NT\$32.71; JPY942,663 thousand, JPY1=NT\$0.23; HK\$24,969 thousand, HK\$1=NT\$3.94; AUD770 thousand, AUD1=NT\$20.82; CAD354 thousand, CAD1=NT\$22.66; CNY43,333 thousand, CNY1=NT\$4.41.



## TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS  
DECEMBER 31, 2022

(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	20.45	\$ 218,038	
Taiwan Semiconductor Manufacturing Co., Ltd.		195	10	1,950	53,743	448.50	87,458	
Others (Note)		919	10	9,190	6,738		13,236	
				<u>117,760</u>	<u>356,252</u>		<u>318,732</u>	
2. Cross-currency swap contracts	Note 8	-		-	-			<u>617,521</u>
3. Beneficiary certificate								
Allianz Global Investors Taiwan Technology Fund		376		-	23,645	100.33	37,712	
Allianz Global Investors Taiwan Fund		799		-	29,564	51.11	40,832	
Nomura Global Equity Fund		1,543		-	30,000	21.72	33,519	
Cathay MSCI Taiwan ESG Sustainability High Dividend Yield		3,453		-	64,854	16.17	55,835	
Taishin North American Income Trust Fund		770		-	20,000	25.45	19,592	
Capital India Medium And Small Cap Equity Fund		1,476		-	30,000	19.54	28,848	
JPMorgan US Technology Fund (USD)		29		-	61,627	1,686.90	48,591	
Ninety One Global Environment Fund (USD)		31		-	30,166	823.03	25,421	
				-	<u>289,856</u>		<u>290,350</u>	
4. Commercial paper								
Hotai Finance Co., Ltd.		-		5,622,000	5,615,174		5,617,541	
Cathay Financial		-		1,560,000	1,556,939		1,558,548	
Fina Finance & Trading Co., Ltd		-		2,200,000	2,192,213		2,195,639	
Chailease Finance Co., Ltd.		-		2,120,000	2,115,436		2,118,545	
Dragon Steel Corporation		-		1,150,000	1,148,956		1,149,559	
Others (Note)		-		5,526,000	5,510,963		5,519,076	
				<u>18,178,000</u>	<u>18,139,681</u>		<u>18,158,908</u>	
5. Foreign exchange forward contracts	Note 8	-		-	-			<u>101,124</u>

(Continued)

Name	Description	Shares	Amount	Total Amount	Cost	Fair Value	
						Unit Price (NT\$)	Total Amount
6. Asset swap contract							
CSBC 1		3,670	100	\$ 367,000	\$ 367,000	100.10	\$ 367,367
Shin Kong Financial Holding 5		8,490	100	849,000	849,000	100.05	849,437
Chailease Holding 1		3,922	100	392,200	392,200	100.17	392,862
E&R 3		4,966	100	496,600	496,600	101.33	503,184
Others (Note)		44,724	100	<u>4,472,400</u>	<u>4,472,400</u>		<u>4,496,588</u>
				<u>6,577,200</u>	<u>6,577,200</u>		<u>6,609,438</u>
7. Cross-currency option contracts	Note 8	-		-	-		<u>544,909</u>
8. PEM group policy assets		-		<u>875,684</u>	<u>875,684</u>		<u>875,684</u>
9. Corporate bonds							
PTTC 1				2,000	2,020	103.50	2,070
Jentech Precision 3		-		5,200	5,925	127.06	6,607
Chung-Hsin Electric 2		-		8,500	9,874	122.43	10,407
CSBC 1		-		9,000	9,180	108.00	9,720
Marketch 4		-		<u>5,000</u>	<u>5,721</u>	112.31	<u>5,615</u>
				<u>29,700</u>	<u>32,720</u>		<u>34,419</u>
10. Interest rate-linked structured instrument contracts	Note 8	-		-	-		<u>449,633</u>
				<u>\$ 25,778,344</u>	<u>\$ 26,271,393</u>		<u>\$ 28,000,718</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, 2022**

**(In Thousands of New Taiwan Dollars)**

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<b>Type</b>	<b>Period</b>	<b>Carrying Value</b>	<b>Amount</b>	<b>Interest</b>
Commercial paper	2022.12.22-2023.01.12	<u>\$ 11,671,500</u>	<u>\$ 11,643,340</u>	1.28%

**TAICHUNG COMMERCIAL BANK CO., LTD.**

**STATEMENT OF RECEIVABLES, NET**

**DECEMBER 31, 2022**

**(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Receivables on credit cards	\$ 791,791
Accounts receivable factored without recourse	148,925
Acceptances	544,239
Interest receivables	1,647,227
Receivables on foreign currency settlement	4,094
Others receivables	<u>216,429</u>
	3,352,705
Less: Allowance for doubtful accounts	<u>(107,876)</u>
	<u>\$ 3,244,829</u>

**TAICHUNG COMMERCIAL BANK CO., LTD.****STATEMENT OF NOTES DISCOUNTED AND LOANS, NET****DECEMBER 31, 2022****(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Bills negotiated	\$ 163,189
Secured overdrafts	7,220
Accounts receivable financing	63,668
Short-term unsecured loans	45,405,871
Short-term secured loans	100,085,561
Medium-term unsecured loans	77,330,088
Medium-term secured loans	123,575,879
Long-term unsecured loans	11,048,117
Long-term secured loans	161,228,409
Delinquent loans	<u>601,847</u>
	519,509,849
Add: Adjustment of premium or discount	23,690
Less: Allowance for doubtful accounts	<u>(6,654,309)</u>
	<u>\$ 512,879,230</u>

## TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME  
DECEMBER 31, 2022

(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				2,534	\$ -		\$ 52,700	\$ -	\$ 251,680	\$ 304,380
Financial Information Service Co., Ltd.				5,938	-		45,500	-	196,345	241,845
Taiwan Futures Exchange				2,154	-		9,000	-	210,482	219,482
Taiwan Depository & Clearing Corporation				916	-		5,445	-	103,787	109,232
Others (Note)				4,737	-		33,039	-	(9,946)	23,093
					-		145,684	-	752,348	898,032
Domestic listed shares										
Chunghwa Telecom Co., Ltd.				3,527	-		387,430	-	11,121	398,551
Far Eastern New Century Corporation				9,355	-		267,699	-	30,726	298,425
Uni-President Enterprises Corporation				3,593	-		243,235	-	(3,941)	239,294
China Steel Corporation				6,968	-		243,452	-	(35,806)	207,646
Taiwan Mobile Co., Ltd.				2,030	-		208,857	-	(16,616)	192,241
Formosa Plastics Corporation				2,129	-		194,495	-	(9,698)	184,797
Taiwan Cement Corp.				4,919	-		190,630	-	(25,090)	165,540
Others (Note)				23,070	-		1,652,714	-	(52,758)	1,599,956
					-		3,388,512	-	(102,062)	3,286,450
Corporate bonds										
P05 YFH 1C	Par value 4,500,000	2023/05/27	2023/05/27	-	4,500,000	1.00	4,502,818	(2,818)	(5,900)	4,494,100
Others (Note)					26,250,000		26,291,224	(21,602)	(941,174)	25,328,448
					30,750,000		30,794,042	(24,420)	(947,074)	29,822,548
Government bonds										
101 Central government bond A7	Par value 700,000	2023/08/10	2032/08/10	-	700,000	1.50	717,235	(187)	(2,265)	714,783
Central government bond 95-7	Par value 2,300,000	2023/11/10	2026/11/10	-	2,300,000	2.13	2,405,753	(626)	(20,149)	2,384,978
99 Central government bond A7	Par value 500,000	2023/08/12	2030/08/12	-	500,000	1.75	524,476	(137)	(6,298)	518,041
Central government bond 97-5	Par value 300,000	2023/08/14	2028/08/14	-	300,000	2.63	327,295	(85)	(3,791)	323,419
110 Central government bond A7	Par value 300,000	2023/06/23	2031/06/23	-	300,000	0.38	296,769	(77)	(18,269)	278,423
107 Central government bond A9	Par value 550,000	2023/10/17	2028/10/17	-	550,000	0.88	554,143	(144)	(25,340)	528,659
Others (Note)					450,000		495,403	(129)	(15,302)	479,972
					5,100,000		5,321,074	(1,385)	(91,414)	5,228,275
Bank debentures										
P08 SCS 1B	Par value 700,000	2023/09/25	2024/09/25	-	700,000	0.69	700,226	(226)	(10,953)	689,047
P08 SGS 2B	Par value 500,000	2023/11/29	2024/11/29	-	500,000	0.79	500,133	(133)	(6,213)	493,787
P09 HSBC 2	Par value 300,000	2023/03/30	2027/03/30	-	300,000	0.57	300,112	(112)	(12,745)	287,255
P10 Taipei Fubon Bank 1	Par value 200,000	2023/01/28	2026/01/28	-	200,000	0.40	200,053	(53)	(7,044)	192,956
					1,700,000		1,700,524	(524)	(36,955)	1,663,045
Foreign listed shares										
Visa International				29	-		19,004	-	163,685	182,689
Master Card International				14	-		12,944	-	132,595	145,539
					-		31,948	-	296,280	328,228

(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										
HSBC Bank Middle East Limited XS2233205462				-	\$ 307,100		\$ 307,103	\$ (3)	\$ (28,253)	\$ 278,847
First National Bank of Abu Dhabi XS2213043495				-	573,040		573,358	(34)	(14,152)	559,172
Qatar Commercial Bank XS2223675146				-	286,520		286,533	(13)	(8,154)	278,366
Qatar Commercial Bank XS2227817876				-	286,520		286,533	(13)	(8,154)	278,366
China Development Bank XS2263044286				-	264,480		264,888	(22)	2,394	267,260
Qatar National Bank XS2265221155				-	264,480		263,253	(12)	(954)	262,287
U.S. Treasury bill US91282CFV81				-	614,200		634,066	-	(5,662)	628,404
Others (Note)				-	<u>901,883</u>		<u>896,513</u>	<u>(694)</u>	<u>(86,406)</u>	<u>809,413</u>
					<u>3,498,223</u>		<u>3,512,247</u>	<u>(791)</u>	<u>(149,341)</u>	<u>3,362,115</u>
					<u>\$ 41,048,223</u>		<u>\$ 44,894,031</u>	<u>\$ (27,120)</u>	<u>\$ (278,218)</u>	<u>\$ 44,588,693</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, 2022

(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 \$120,500 thousand	2023/08/02	2031/08/02	\$ 600,000	1.875	\$ (164)	\$ 31,488	\$ 631,324
103 Central government bond A6		2023/03/03	2024/03/03	1,000,000	1.500	(262)	4,971	1,004,709
104 Central government bond A12		2023/09/11	2025/09/11	600,000	1.125	(157)	3,337	603,180
106 Central government bond A4		2023/03/01	2027/03/01	1,200,000	1.125	(314)	\$ 4,397	1,204,083
106 Central government bond A9		2023/09/20	2027/09/20	1,650,000	1.000	(429)	(1,980)	1,647,591
98 Central government bond A5		2023/08/13	2030/08/13	525,000	2.125	(145)	32,151	557,006
99 Central government bond A4		2023/02/22	2029/02/22	1,050,000	1.875	(288)	57,465	1,107,177
Others (Note)	Guaranteed par value \$500,000 thousand			4,195,000		(1,123)	118,346	4,312,223
Less: Deposit reserves for trust compensation				(70,000)		-	-	(70,000)
Refundable deposits				(550,500)		-	-	(550,500)
				<u>10,199,500</u>		<u>(2,882)</u>	<u>250,175</u>	<u>10,446,793</u>
2. Foreign bonds (Note)				<u>28,624,612</u>	1.000-6.858	<u>(31,374)</u>	<u>(182,399)</u>	<u>28,410,839</u>
3. Commercial paper								
NCDs				<u>49,350,000</u>	0.240-1.080	<u>-</u>	<u>-</u>	<u>49,350,000</u>
4. Corporate bonds				<u>16,375,000</u>	0.410-2.050	<u>(11,934)</u>	<u>(60,980)</u>	<u>16,302,086</u>
5. Bank debentures				<u>100,000</u>	1.600	<u>(32)</u>	<u>-</u>	<u>99,968</u>
6. Treasury bills				<u>150,000</u>	1.163	<u>-</u>	<u>(1,720)</u>	<u>148,280</u>
				<u>\$ 104,799,112</u>		<u>\$ (46,222)</u>	<u>\$ 5,076</u>	<u>\$ 104,757,966</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, 2022

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

Investees	Balance, January 1, 2022		Additions in Investment		Decrease in Investment		Balance, December 31, 2022			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	\$ 1,901,022	-	\$ 298,265	-	\$ 222,031	128,600	100.00	\$ 1,977,256	\$ 1,977,256
Taichung Bank Securities Investment Trust Co., Ltd. (Note 2)	12,000	165,124	-	13,893	-	6,716	12,000	38.46	172,301	172,301
Taichung Bank Leasing Corporation Limited (Note 3)	198,964	2,035,325	9,019	156,728	-	-	207,983	100.00	2,192,053	2,192,053
Taichung Bank Securities Co., Ltd. (Note 4)	146,748	<u>1,962,752</u>	15,702	<u>-</u>	-	<u>261,199</u>	162,450	100.00	<u>1,701,553</u>	<u>1,701,553</u>
		<u>\$ 6,064,223</u>		<u>\$ 468,886</u>		<u>\$ 489,946</u>			<u>\$ 6,043,163</u>	<u>\$ 6,043,163</u>

Note 1: The increase in the current year was based on investment income recognized under equity method of \$282,793 thousand and the recognition of unrealized gain on financial instruments amounted to \$15,472 thousand. The decrease in the current year was based on cash dividends of \$222,031 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 recognition of unrealized gain on financial instruments amounted to \$13,076 thousand and the defined benefit plans recognized under equity method of \$817 thousand. The decrease in the current year was investment loss of \$6,716 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 \$140,441 thousand, the cumulative translation adjustment of \$16,287 thousand, and the share dividends were 9,019 thousand shares. 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 the share dividends were 15,702 thousand shares. The decrease in the current year was based on cash dividends of \$165,825 thousand and the recognition of loss on investment amounted to \$95,374 thousand. 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, 2022**

**(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Other delinquent receivables, net	
Delinquent receivables not from loans	\$ 386,986
Less: Allowance for doubtful accounts	<u>(115,951)</u>
	<u>\$ 271,035</u>

## TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF CHANGE IN RIGHT-OF-USE ASSETS  
 FOR THE YEAR ENDED DECEMBER 31, 2022  
 (In Thousands of New Taiwan Dollars)

Item	Balance, Beginning of Year	Addition	Less	Balance, End of Year	Remark
Land and buildings	\$ 901,739	\$ 158,450	\$ 83,097	\$ 977,092	
Transportation equipment	<u>24,111</u>	<u>34,277</u>	<u>12,603</u>	<u>45,785</u>	
	<u>\$ 925,850</u>	<u>\$ 192,727</u>	<u>\$ 95,700</u>	<u>\$ 1,022,877</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, 2022  
(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Balance, Beginning of Year</b>	<b>Addition</b>	<b>Less</b>	<b>Balance, End of Year</b>	<b>Remark</b>
Land and buildings	\$ 229,605	\$ 114,648	\$ 31,150	\$ 313,103	
Transportation equipment	<u>10,539</u>	<u>12,797</u>	<u>6,494</u>	<u>16,842</u>	
	<u>\$ 240,144</u>	<u>\$ 127,445</u>	<u>\$ 37,644</u>	<u>\$ 329,945</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, 2022

(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 at FVTPL								
Cross-currency swap contracts	Note 8	-	-	\$ -	-	\$ -	-	\$ 564,281
Foreign exchange forward contracts	Note 8	-	-	-	-	-	-	67,728
Cross-currency option contracts	Note 8	-	-	-	-	385,310	-	549,343
Interest rate-linked structured instrument contracts	Note 8	-	-	-	-	-	-	449,633
						<u>\$ 385,310</u>		<u>\$ 1,630,985</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, 2022**

**(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Notes and checks in clearing	\$ 4,276,016
Accrued expenses	1,827,990
Interest payable	582,083
Acceptances	544,899
Collections payable	43,570
Factored accounts payable	14,994
Foreign currency settlement payable	5,227
Other payables	<u>571,136</u>
	<u>\$ 7,865,915</u>

**TAICHUNG COMMERCIAL BANK CO., LTD.****STATEMENT OF DEPOSITS AND REMITTANCES****DECEMBER 31, 2022****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

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<b>Item</b>	<b>Amount</b>
Checking deposits	
Checking	\$ 9,094,305
Bank checking	2,422,758
Certified check	<u>11,699</u>
	<u>11,528,762</u>
Demand deposits	
Demand	164,446,511
Public treasury	756,929
Foreign exchange demand	<u>32,439,719</u>
	<u>197,643,159</u>
Demand savings deposits	
Demand savings	159,148,054
Staff demand savings	<u>2,955,154</u>
	<u>162,103,208</u>
Time deposits	
Time	88,122,556
Foreign exchange time	<u>47,690,698</u>
	<u>135,813,254</u>
Time savings deposits	
Withdrawals of interest savings	158,304,447
Round-amount savings	19,748,361
Regular deposits	<u>149,802</u>
	<u>178,202,610</u>
Remittances	<u>44,001</u>
	<u>\$ 685,334,994</u>

## TAICHUNG COMMERCIAL BANK CO., LTD.

## STATEMENT OF BANK DEBENTURES

DECEMBER 31, 2022

(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 in 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 in 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 in 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 in 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 in 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 in 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 in 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 in 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 in 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	1,500,000
First subordinated financial debenture in 2021	2021.12.27	2028.12.27	Fixed annual interest rate of 1.2%	Subordinated	10,000	<u>5,000,000</u>
						<u>\$ 16,500,000</u>



**TAICHUNG COMMERCIAL BANK CO., LTD.**

**STATEMENT OF LEASE LIABILITIES**

**DECEMBER 31, 2022**

**(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Description</b>	<b>Lease Terms</b>	<b>Discount Rate</b>	<b>Balance, End of Year</b>	<b>Remark</b>
Land and buildings		1-15 years	1.20%-4.14%	\$ 696,452	
Transportation equipment		1-5 years	1.20%-4.14%	<u>29,157</u>	
				<u>\$ 725,609</u>	

## TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF EMPLOYEE BENEFITS EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(In Thousands of New Taiwan Dollars)

Item	Employee Benefit Expense	Non-interest Gains	Other Selling and Administrative Expenses	Total	Remark
Employee benefits expense					
Salaries	\$ 3,242,009	\$ -	\$ -	\$ 3,242,009	
Labor and health insurance	225,794	-	-	225,794	
Pension expense	116,627	-	-	116,627	
Remuneration of directors	197,607	-	5,517	203,124	
Other employee expenses	<u>194,397</u>	<u>-</u>	<u>4,807</u>	<u>199,204</u>	
	<u>\$ 3,976,434</u>	<u>\$ -</u>	<u>\$ 10,324</u>	<u>\$ 3,986,758</u>	

Note 1: As of December 31, 2022 and 2021, the Bank had 2,775 and 2,704 employees, and there were 11 non-employee directors in both year.

Note 2: The average employee benefits expense amounted to \$1,369 thousand in 2022 and amounted to \$1,309 thousand in 2021.

Note 3: The average employee salaries amounted to \$1,173 thousand in 2022 and amounted to \$1,131 thousand in 2021.

Note 4: The change in average employee salaries rate was 4% in 2022.

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.

(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)