

**MEGA INTERNATIONAL COMMERCIAL
BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED DECEMBER 31, 2020 AND
2019**

For the convenience of readers and for information purpose only, the 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. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

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INDEPENDENT AUDITORS' REPORT TRANSLATED FROM CHINESE

PWCR20000361

To the Board of Directors and Stockholders of Mega International Commercial Bank Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Mega International Commercial Bank Co., Ltd. and subsidiaries (collectively the “Bank and subsidiaries”) as at December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and subsidiaries as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

For the years ended December 31, 2020 and 2019, we conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Jin-Guan-Yin-Fa-Zi Letter No.10802731571 and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountants in 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.

Emphasis of matter-Impact of a merger

We draw attention to Note 16(2) of the consolidated financial statements, which describes the effects of the merger of the Bank and Mega Life Insurance Agency Co., Ltd. The Bank set May 12, 2020 as the effective date of the merger and the merger was a reorganisation of entities under common control. When the Bank and subsidiaries were preparing the financial statements of prior years, they were restated based on the assumption that the business combination occurred at the beginning of the merger based on the regulations. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the

context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The Bank and subsidiaries' key audit matters for the year ended December 31, 2020 are addressed as follows:

Recognition and measurement of expected credit losses on discounts and loans

Description

The recognition and measurement of expected credit losses on discounts and loans complies with the regulations under IFRS 9 "Financial Instruments" and relevant regulations issued by the competent authority. For the accounting policy of recognition and measurement of expected credit losses on discounts and loans, please refer to Note 4(9); for critical accounting judgements, estimates, and assumption uncertainty of the recognition and measurement of expected credit losses on discounts and loans, please refer to Note 5(2). For information on gross discounts and loans and allowance for bad debts, which amounted to NT\$1,919,124,189 thousand and NT\$29,165,967 thousand, respectively, as at December 31, 2020, please refer to Note 6(7); for disclosures of related credit risks, please refer to Note 8(3).

The Bank and subsidiaries assess the impairment of its discounts and loans based on the expected credit loss model. At each financial reporting date, financial instruments are categorized into three stages based on the degree of change in its credit risk since initial recognition. Provision for impairment loss is measured either using 12-month expected credit losses (i.e. stage 1, there has been no significant increase in credit risk since initial recognition) or lifetime expected credit losses (i.e. stage 2, there has been a significant increase in credit risk since initial recognition; or stage 3, the credit has impaired). The measurement of expected credit losses is based on a complex model, which includes various parameters and assumptions and reflects reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. For example, the probability of default and loss given default are estimated using grouping and historical data and subsequently calibrated according to forward-looking information.

The aforementioned recognition and measurement of expected credit losses on discounts and loans use a complex model, which involves various assumptions, estimates, and judgements, as well as predictions and assessments of future economic conditions and credit behavior of debtors. The amounts, recognized in a manner consistent with regulations and interpretations, are directly subject to the measurement results. Thus, we have included recognition and measurement of expected credit losses on discounts and loans as one of the key audit matters in our audit.

How our audit addressed the matter

We performed the following audit procedures on the key audit matter mentioned above:

1. Obtained an understanding and assessed the related written policies and internal control system of discounts and loans, the expected credit loss impairment model and methodology (including various parameters and assumptions, reasonableness of the measurement criteria for the three stages of credit risk, and the relevancy of future economic condition criteria in forward-looking information), and the approval process.



2. Sampled and tested the implementation effectiveness of internal controls related to the recognition and measurement of expected credit losses, including management of collateral and its value assessment, controls for changes in parameters, and approval for provisioning of expected credit losses.
3. Sampled and tested the consistency of measurement criteria for the samples in the three stages of expected credit loss with the judgement results of the system.
4. Sampled and tested probability of default, loss given default, exposure at default, and the discount rate
 - (1) Sampled and tested assumptions for the parameters of the expected credit loss model, including the reasonableness of historical data on probability of default, loss given default, and exposure at default.
 - (2) Sampled and tested whether the calculation method of the discount rate of loss given default is in accordance with existing policy.
5. Sampled and tested forward-looking information
 - (1) Sampled and tested the reliability of data on historical economic conditions (economic growth rate, annual inflation rate, etc.) adopted by management to measure expected credit losses under IFRS 9.
 - (2) Assessed the reasonableness of the forward-looking scenarios and their respective weights adopted by the management.
6. Assessed cases in stage 3 (credit impaired) with material amounts that were previously assessed individually.

Assessed the reasonableness and calculation accuracy of the various assumed parameter values (including the borrower's time of past due, financial and operational conditions, guarantees by external parties and historical data) adopted in the estimation of future cash flows.

Fair value measurement of unlisted stocks without an active market

Description

For the accounting policy for unlisted stocks without an active market (included financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income), please refer to Note 4(7); for critical accounting judgements, estimates, and assumption uncertainty of unlisted stocks without an active market, please refer to Note 5(1); for details on financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, please refer to Notes 6(3) and (4). The fair values of unlisted stocks without an active market were classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income as at December 31, 2020, and amounted to NT\$6,613,193 thousand and NT\$13,336,198 thousand, respectively.

The fair value of unlisted stocks is determined by valuation methods since these financial instruments have no quoted prices from active market. Management uses the market approach and net asset approach to measure the fair value. The market approach is based on the fair value of comparable listed companies in similar industries or recently published price-to-book ratios of industries in which the valuation target operates, and incorporates discounting according to market liquidity or specified risk.

The aforementioned fair value measurement involves various assumptions and significant inputs that are not observable. This leads to estimates that are highly uncertain and rely on the subjective judgement of management. Any changes to the judgements and estimates will affect the final measurement results, and in turn affect the financial condition of the Bank and subsidiaries. Thus, we have included the fair value measurement of unlisted stock without active market as one of the key audit matters in our audit.

How our audit addressed the matter

We performed the following audit procedures on the key audit matter mentioned above:

1. Obtained an understanding and assessed the related written policies, internal control system, fair value measurement models, and approval process of the fair value measurement of stocks of unlisted companies.
2. Ascertained whether the measurement used by the management is commonly utilized by the industry.
3. Assessed the reasonableness of similar and comparable companies used by management.
4. Examined inputs and calculation formulas used in valuation methods and agreed such data to their supporting documents.

Other matter- Parent company only financial report

We have audited and expressed an unqualified opinion on the parent company only financial statements as at and for the years ended December 31, 2020 and 2019, prepared by the Bank.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair representation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Public Banks, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank and subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going



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concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance is responsible for overseeing the Bank and subsidiaries' financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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



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including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 consolidated financial statements as at and for the year ended December 31, 2020 expressed in US dollars were translated from the New Taiwan dollar consolidated financial statements using the exchange rate of US\$1 : NT\$28.095 at December 31, 2020 solely for the convenience of the readers. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

Chi, Shu-Mei

Chi, Shu-Mei

Lai, Chung-Hsi

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 12, 2021

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF DOLLARS)

| Assets | Notes | December 31, 2020 | | (Restatement) |
|---|------------------------|-------------------------|-----------------------|-------------------------|
| | | NT\$ | US\$ | December 31, 2019 |
| | | | (Unaudited - Note 4) | NT\$ |
| Assets | | | | |
| Cash and cash equivalents | 6(1) and 16(2) | \$ 115,110,508 | \$ 4,097,188 | \$ 141,035,485 |
| Due from the Central Bank and call loans to banks | 6(2) and 11(3) | 377,465,228 | 13,435,317 | 493,945,509 |
| Financial assets at fair value through profit or loss | 6(3) | 57,167,861 | 2,034,806 | 63,905,347 |
| Financial assets at fair value through other comprehensive income | 6(4) | 396,955,384 | 14,129,040 | 387,478,611 |
| Investments in debt instruments at amortised cost | 6(5) | 530,083,999 | 18,867,557 | 271,134,095 |
| Securities purchased under resell agreements | 11(3) and 13(2) | 10,357,834 | 368,672 | 7,533,579 |
| Receivables, net | 6(6) and 16(2) | 37,932,862 | 1,350,164 | 60,955,571 |
| Current tax assets | | 62 | 2 | 71,575 |
| Discounts and loans, net | 6(7) and 11(3) | 1,889,958,222 | 67,270,270 | 1,873,677,834 |
| Investments measured by equity method, net | 6(8) | 5,408,950 | 192,524 | 3,011,603 |
| Other financial assets, net | 6(9) | 108,415 | 3,859 | 2,537,684 |
| Property and equipment, net | 6(10) and 16(2) | 14,835,044 | 528,031 | 14,962,513 |
| Right-of-use assets, net | 6(11), 11(3) and 16(2) | 1,880,844 | 66,946 | 1,918,253 |
| Investment property, net | 6(13) | 583,624 | 20,773 | 583,973 |
| Deferred income tax assets | 6(36) | 5,197,218 | 184,987 | 5,407,003 |
| Other assets, net | 6(14) and 16(2) | 8,632,165 | 307,249 | 6,181,657 |
| Total assets | | \$ 3,451,678,220 | \$ 122,857,385 | \$ 3,334,340,292 |
| | | | | |
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Deposits from the Central Bank and banks | 6(15) and 11(3) | \$ 390,283,923 | \$ 13,891,579 | \$ 413,193,185 |
| Due to the Central Bank and banks | 6(16) and 11(3) | 20,363,979 | 724,826 | 21,161,321 |
| Financial liabilities at fair value through profit or loss | 6(17) (20) | 20,354,623 | 724,493 | 21,372,746 |
| Securities sold under repurchase agreements | 6(3)(4) and 13(2) | 12,271,411 | 436,783 | 32,011,462 |
| Payables | 6(18) and 16(2) | 37,447,244 | 1,332,879 | 35,849,726 |
| Current tax liabilities | 11(3) and 16(2) | 8,440,554 | 300,429 | 7,457,513 |
| Deposits and remittances | 6(19), 11(3) and 16(2) | 2,617,463,763 | 93,164,754 | 2,460,554,855 |
| Bank notes payable | 6(20)(38) | 13,000,000 | 462,716 | 12,000,000 |
| Other financial liabilities | 6(22) | 8,134,052 | 289,520 | 10,266,531 |
| Provisions | 6(21) and 16(2) | 16,916,656 | 602,123 | 16,289,362 |
| Lease liabilities | 6(11) and 16(2) | 1,926,296 | 68,564 | 1,943,483 |
| Deferred income tax liabilities | 6(36) | 2,755,194 | 98,067 | 2,828,278 |
| Other liabilities | 6(23) | 7,737,096 | 275,390 | 7,265,191 |
| Total liabilities | | 3,157,094,791 | 112,372,123 | 3,042,193,653 |
| Equity attributable to owners of parent | | | | |
| Capital | | | | |
| Common stock | 6(24) | 85,362,336 | 3,038,346 | 85,362,336 |
| Capital surplus | 6(24) | 62,219,540 | 2,214,613 | 62,219,540 |
| Retained earnings | | | | |
| Legal reserve | 6(24) | 100,792,996 | 3,587,578 | 93,399,533 |
| Special reserve | 6(24) | 4,240,967 | 150,951 | 4,289,719 |
| Unappropriated earnings | | 34,961,287 | 1,244,395 | 39,380,565 |
| Other equity interest | 6(26) | 7,006,303 | 249,379 | 7,028,450 |
| Equity attributable to former owner of business combination under common control | 16(2) | - | - | 466,496 |
| Total equity | | 294,583,429 | 10,485,262 | 292,146,639 |
| Total liabilities and equity | | \$ 3,451,678,220 | \$ 122,857,385 | \$ 3,334,340,292 |

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)

| | Notes | For the years ended December 31, | | | Changes Percentage (%) |
|--|------------------------|----------------------------------|---------------------|-----------------------|------------------------------|
| | | 2020 | | (Restatement) 2019 | |
| | | NT\$ | US\$ | NT\$ | |
| | | | (Unaudited- Note 4) | | |
| Interest income | 6(27) and 11(3) | \$ 46,745,658 | \$ 1,663,842 | \$ 68,496,356 | (32) |
| Less: interest expenses | 6(27), 11(3) and 16(2) | (16,937,019) | (602,848) | (34,456,774) | (51) |
| Net interest revenue (expense) | | 29,808,639 | 1,060,994 | 34,039,582 | (12) |
| Net revenue other than interest | | | | | |
| Net service fee revenue (charge) | 6(28), 11(3) and 16(2) | 6,580,731 | 234,232 | 7,185,257 | (8) |
| Gain (loss) on financial assets or liabilities measured at fair value through profit or loss | 6(29) | 6,555,685 | 233,340 | 9,094,375 | (28) |
| Realized gains on financial assets at fair value through other comprehensive income | 6(30) | 4,285,922 | 152,551 | 2,262,424 | 89 |
| Loss arising from derecognition of financial assets measured at amortised cost | 6(5)(7) | (155,917) | (5,550) | 4 | 3897825 |
| Foreign exchange gains | | 1,498,288 | 53,329 | 2,189,034 | (32) |
| Impairment losses on assets | 6(31) | (50,115) | (1,784) | (82,507) | (39) |
| Share of profit (loss) of associates and joint ventures accounted for using equity method | 6(8) | (22,539) | (802) | 130,642 | (117) |
| Net other revenue other than interest income | 6(32) and 16(2) | 405,358 | 14,428 | 656,683 | (38) |
| Net revenue | | 48,906,052 | 1,740,738 | 55,475,486 | (12) |
| Bad debts expense, commitment and guarantee liability provision | 8(3) | (1,917,068) | (68,235) | (746,859) | 157 |
| Operating expenses | | | | | |
| Employee benefits expenses | 6(33), 11(3) and 16(2) | (15,875,076) | (565,050) | (16,039,009) | (1) |
| Depreciation and amortization expenses | 6(34) and 16(2) | (1,387,188) | (49,375) | (1,308,380) | 6 |
| Other general and administrative expenses | 6(35), 11(3) and 16(2) | (6,266,470) | (223,045) | (8,493,767) | (26) |
| Consolidated income from continuing operations before tax | | 23,460,250 | 835,033 | 28,887,471 | (19) |
| Income tax expense | 6(36) and 16(2) | (3,128,169) | (111,343) | (3,837,082) | (18) |
| Consolidated income from continuing operations, net of tax | | \$ 20,332,081 | \$ 723,690 | \$ 25,050,389 | (19) |
| Other comprehensive income | | | | | |
| Components of other comprehensive income that will not be reclassified to profit or loss | | | | | |
| Gains (losses) on remeasurements of defined benefit plans | 6(21) | (\$ 607,480) | (\$ 21,623) | (\$ 883,550) | (31) |
| Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income | 6(4)(26) | 1,127,190 | 40,121 | 741,168 | 52 |
| Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss | 6(8)(26) | 2,242 | 80 | 1,493 | 50 |
| Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | 6(36) | 120,891 | 4,303 | 177,009 | (32) |
| Components of other comprehensive income that will be reclassified to profit or loss | | | | | |
| Exchange differences on translation | 6(26) | (1,600,913) | (56,982) | (771,311) | 108 |
| Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss | 6(8)(26) | 53,738 | 1,913 | 21,269 | 153 |
| Revaluation gains (losses) from investments in debt instruments measured at fair value through other comprehensive income | 6(4)(26) | (119,199) | (4,243) | 1,604,024 | (107) |
| Impairment losses from investments in debt instruments measured at fair value through other comprehensive income | 6(4)(26) | 81,561 | 2,903 | 30,733 | 165 |
| Income tax related to components of other comprehensive income that will be reclassified to profit or loss | 6(36) | (17,052) | (607) | (15,284) | 12 |
| Other comprehensive (loss) income, net of tax | | (959,022) | (34,135) | \$ 905,551 | (206) |
| Total comprehensive income | | \$ 19,373,059 | \$ 689,555 | \$ 25,955,940 | (25) |
| Consolidated profit attributable to: | | | | | |
| Owners of the parent | | 20,251,877 | 720,835 | 24,644,876 | (18) |
| Former owner of business combination under common control | | 80,204 | 2,855 | 405,513 | (80) |
| | | \$ 20,332,081 | \$ 723,690 | \$ 25,050,389 | (19) |
| Consolidated comprehensive income attributable to: | | | | | |
| Owners of the parent | | 19,292,855 | 686,700 | 25,550,427 | (24) |
| Former owner of business combination under common control | | 80,204 | 2,855 | 405,513 | (80) |
| | | \$ 19,373,059 | \$ 689,555 | \$ 25,955,940 | (25) |
| Consolidated earnings per share | 6(37) | | | | |
| Owners of the parent | | \$ 2.37 | \$ 0.08 | \$ 2.89 | |
| Former owner of business combination under common control | | 0.01 | 0.00 | 0.04 | |
| Basic and diluted earnings per share (in dollars) | | \$ 2.38 | \$ 0.08 | \$ 2.93 | |

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN THOUSANDS OF DOLLARS)

| | Equity attributable to owners of the parent | | | | | | | | | | |
|---|---|-------------------|-----------------|----------------|-----------------|----------------------------------|---|---|-------------|--|----------------|
| | Notes | Retained earnings | | | | | Other equity interest | | | Equity attributable to former owner of business combination under common control | Total equity |
| | | Common stock | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income | Others | | |
| For the year ended December 31, 2020 (NT Dollars) | | | | | | | | | | | |
| Balance, January 1, 2020 | | \$ 85,362,336 | \$ 62,219,540 | \$ 93,399,533 | \$ 4,289,719 | \$ 39,380,565 | (\$ 2,382,637) | \$ 9,439,013 | (\$ 27,926) | \$ 466,496 | \$ 292,146,639 |
| Profit | | - | - | - | - | 20,251,877 | - | - | - | 80,204 | 20,332,081 |
| Other comprehensive income (loss) | | - | - | - | - | (486,589) | (1,601,970) | 1,120,616 | 8,921 | - | (959,022) |
| Total comprehensive income (loss) | | - | - | - | - | 19,765,288 | (1,601,970) | 1,120,616 | 8,921 | 80,204 | 19,373,059 |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | 6(4) | - | - | - | - | (450,286) | - | 450,286 | - | - | - |
| Effect of reorganization | | - | - | - | - | - | - | - | - | (141,187) | (141,187) |
| Earnings distribution for 2019 | 6(25) | | | | | | | | | | |
| Cash dividends | | - | - | - | - | (16,389,569) | - | - | - | (405,513) | (16,795,082) |
| Legal reserve | | - | - | 7,393,463 | - | (7,393,463) | - | - | - | - | - |
| Special reserve | | - | - | - | 34,209 | (34,209) | - | - | - | - | - |
| Reversal of special reserve | | - | - | - | (82,961) | 82,961 | - | - | - | - | - |
| Balance, December 31, 2020 | | \$ 85,362,336 | \$ 62,219,540 | \$ 100,792,996 | \$ 4,240,967 | \$ 34,961,287 | (\$ 3,984,607) | \$ 11,009,915 | (\$ 19,005) | \$ - | \$ 294,583,429 |
| For the year ended December 31, 2020 (US Dollars - Unaudited-Note 4) | | | | | | | | | | | |
| Balance, January 1, 2020 | | \$ 3,038,346 | \$ 2,214,613 | \$ 3,324,418 | \$ 152,686 | \$ 1,401,693 | (\$ 84,806) | \$ 335,968 | (\$ 994) | \$ 16,604 | \$ 10,398,528 |
| Profit | | - | - | - | - | 720,835 | - | - | - | 2,855 | 723,690 |
| Other comprehensive income (loss) | | - | - | - | - | (17,319) | (57,020) | 39,886 | 318 | - | (34,135) |
| Total comprehensive income (loss) | | - | - | - | - | 703,516 | (57,020) | 39,886 | 318 | 2,855 | 689,555 |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | | - | - | - | - | (16,027) | - | 16,027 | - | - | - |
| Effect of reorganization | | - | - | - | - | - | - | - | - | (5,025) | (5,025) |
| Earnings distribution for 2019 | | | | | | | | | | | |
| Cash dividends | | - | - | - | - | (583,362) | - | - | - | (14,434) | (597,796) |
| Legal reserve | | - | - | 263,160 | - | (263,160) | - | - | - | - | - |
| Special reserve | | - | - | - | 1,218 | (1,218) | - | - | - | - | - |
| Reversal of special reserve | | - | - | - | (2,953) | 2,953 | - | - | - | - | - |
| Balance, December 31, 2020 | | \$ 3,038,346 | \$ 2,214,613 | \$ 3,587,578 | \$ 150,951 | \$ 1,244,395 | (\$ 141,826) | \$ 391,881 | (\$ 676) | \$ 0 | \$ 10,485,262 |

(Continued)

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN THOUSANDS OF DOLLARS)

| | Equity attributable to owners of the parent | | | | | | | | | | |
|---|---|----------------------|----------------------|----------------------|---------------------|----------------------------------|---|---|--------------------|--|-----------------------|
| | Notes | Retained earnings | | | | | Other equity interest | | | Equity attributable to former owner of business combination under common | Total equity |
| | | Common stock | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income | Others | | |
| <u>For the year ended December 31, 2019 (Restatement) (NT Dollars)</u> | | | | | | | | | | | |
| Balance, January 1, 2019 | | \$ 85,362,336 | \$ 62,219,540 | \$ 86,147,870 | \$ 4,535,074 | \$ 39,333,671 | (\$ 1,608,022) | \$ 6,921,933 | (\$ 51,668) | \$ - | \$ 282,860,734 |
| Effects of retrospective application and retrospective restatement | | - | - | - | - | - | - | - | - | 383,543 | 383,543 |
| Balance at January 1 after adjustments | | <u>85,362,336</u> | <u>62,219,540</u> | <u>86,147,870</u> | <u>4,535,074</u> | <u>39,333,671</u> | <u>(1,608,022)</u> | <u>6,921,933</u> | <u>(51,668)</u> | <u>383,543</u> | <u>283,244,277</u> |
| Profit | | - | - | - | - | 24,644,876 | - | - | - | 405,513 | 25,050,389 |
| Other comprehensive income (loss) | | - | - | - | - | (706,541) | (774,615) | 2,362,965 | 23,742 | - | 905,551 |
| Total comprehensive income (loss) | | - | - | - | - | <u>23,938,335</u> | <u>(774,615)</u> | <u>2,362,965</u> | <u>23,742</u> | <u>405,513</u> | <u>25,955,940</u> |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | 6(4) | - | - | - | - | (154,115) | - | 154,115 | - | - | - |
| Reversal of special reserve | | - | - | - | (6,389) | 6,389 | - | - | - | - | - |
| Earnings distribution for 2018 | 6(25) | | | | | | | | | | |
| Cash dividends | | - | - | - | - | (16,731,018) | - | - | - | (322,560) | (17,053,578) |
| Legal reserve | | - | - | 7,251,663 | - | (7,251,663) | - | - | - | - | - |
| Special reserve | | - | - | - | 155,416 | (155,416) | - | - | - | - | - |
| Reversal of special reserve | | - | - | - | (394,382) | 394,382 | - | - | - | - | - |
| Balance, December 31, 2019 | | <u>\$ 85,362,336</u> | <u>\$ 62,219,540</u> | <u>\$ 93,399,533</u> | <u>\$ 4,289,719</u> | <u>\$ 39,380,565</u> | <u>(\$ 2,382,637)</u> | <u>\$ 9,439,013</u> | <u>(\$ 27,926)</u> | <u>\$ 466,496</u> | <u>\$ 292,146,639</u> |

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF DOLLARS)

| | For the years ended December 31, | | |
|--|----------------------------------|----------------------|-----------------------|
| | 2020 | | (Restatement) 2019 |
| | NT\$ | US\$ | NT\$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | (Unaudited -Note 4) | |
| Profit before tax | \$ 23,460,250 | \$ 835,033 | \$ 28,887,471 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation expense | 1,381,067 | 49,157 | 1,300,757 |
| Amortization expense | 6,121 | 218 | 7,623 |
| Bad debts expense, commitment and guarantee liability provision | 1,917,068 | 68,235 | 746,859 |
| Interest expense | 16,937,019 | 602,848 | 34,456,774 |
| Interest income | (46,745,658) | (1,663,842) | (68,496,356) |
| Dividend income | (1,238,762) | (44,092) | (1,301,251) |
| Share of loss (profit) of associates and joint ventures accounted for using equity method | 22,539 | 802 | (130,642) |
| Gain on disposal of property and equipment | (492) | (18) | (611) |
| Loss on retirement of property and equipment | 8,509 | 303 | 657 |
| Impairment loss on assets | 50,115 | 1,784 | 82,507 |
| Changes in operating assets and liabilities | | | |
| (Increase) decrease in due from the Central Bank and call loans to banks | (42,487,815) | (1,512,291) | 19,115,755 |
| Decrease (increase) in financial assets at fair value through profit or loss | 6,737,486 | 239,811 | (820,718) |
| Increase in financial assets at fair value through other comprehensive income | (8,468,782) | (301,434) | (121,311,616) |
| Increase in investments in debt instruments measured at amortised cost | (258,960,841) | (9,217,329) | (1,479,599) |
| Decrease (increase) in receivables | 21,462,974 | 763,943 | (671,584) |
| Increase in discounts and loans | (18,623,564) | (662,878) | (10,377,993) |
| Increase in other financial assets | (89,437) | (3,183) | (2,507,006) |
| Increase in other assets | (2,456,630) | (87,440) | (3,355,124) |
| (Decrease) increase in deposits from the Central Bank and banks | (22,909,262) | (815,421) | 18,531,159 |
| Decrease in financial liabilities at fair value through profit or loss | (1,018,123) | (36,239) | (5,320,241) |
| (Decrease) increase in securities sold under repurchase agreements | (19,740,051) | (702,618) | 5,089,819 |
| Increase in payables | 3,906,996 | 139,064 | 1,099,622 |
| Increase in deposits and remittances | 156,908,908 | 5,584,941 | 138,426,718 |
| Decrease in other financial liabilities | (2,132,479) | (75,903) | (262,871) |
| Increase in provisions for employee benefits | 378,413 | 13,469 | 454,306 |
| (Decrease) increase in other liabilities | (743,431) | (26,461) | 983,785 |
| Cash (outflow) inflow generated from operations | (192,437,862) | (6,849,541) | 33,148,200 |
| Interest received | 48,488,221 | 1,725,867 | 69,093,584 |
| Dividends received | 1,384,504 | 49,279 | 1,449,549 |
| Interest paid | (19,246,257) | (685,042) | (34,060,244) |
| Income taxes paid | (1,953,966) | (69,549) | (2,505,652) |
| Net cash flows (used in) from operating activities | (163,765,360) | (5,828,986) | 67,125,437 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of property and equipment | (617,125) | (21,965) | (745,934) |
| Proceeds from disposal of property and equipment | 514 | 18 | 611 |
| Proceeds from capital reduction of liquidation | - | - | 75,754 |
| Net cash flows used in investing activities | (616,611) | (21,947) | (669,569) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Decrease in due to the Central Bank and banks | (797,342) | (28,380) | (32,759,560) |
| Increase (decrease) in bank notes payable | 1,000,000 | 35,594 | (1,300,000) |
| Increase in guarantee deposits received | 1,216,409 | 43,296 | 158,133 |
| Payments of lease liabilities | (438,164) | (15,596) | (590,967) |
| Cash dividends paid | (16,795,082) | (597,796) | (17,053,578) |
| Net cash flows used in financing activities | (15,814,179) | (562,882) | (51,545,972) |
| EFFECT OF EXCHANGE RATE CHANGES | (1,872,684) | (66,656) | (757,068) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (182,068,834) | (6,480,471) | 14,152,828 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 502,285,681 | 17,878,116 | 488,132,853 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 320,216,847 | \$ 11,397,645 | \$ 502,285,681 |
| CASH AND CASH EQUIVALENTS COMPOSITION: | | | |
| Cash and cash equivalents reported in the balance sheet | \$ 115,110,508 | \$ 4,097,188 | \$ 141,035,485 |
| Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7 | 194,748,505 | 6,931,785 | 353,716,617 |
| Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7 | 10,357,834 | 368,672 | 7,533,579 |
| CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD | \$ 320,216,847 | \$ 11,397,645 | \$ 502,285,681 |

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE
INDICATED)

1. HISTORY AND ORGANISATION

(1) Mega International Commercial Bank Co., Ltd. (the “Bank”; formerly The International Commercial Bank of China Co., Ltd.) was reorganized on December 17, 1971 in accordance with the “Law for International Commercial Bank of China” as announced by the President of the Republic of China (R.O.C.) (which was then abolished in December, 2005) and other related regulations. As of December 31, 2002, the Bank became an unlisted wholly owned subsidiary of Mega Financial Holding Co. Ltd., through a share swap transaction. With the view to enlarging business scale and increasing market share, the Bank entered into a merger agreement with Chiao Tung Bank Co., Ltd. on August 21, 2006, the effective date of the merger. The Bank was later renamed Mega International Commercial Bank Co., Ltd. Mega Financial Holding Co., Ltd. holds 100% equity interest in the Bank and is the Bank’s ultimate parent company.

The Bank and Mega Life Insurance Agency Co., Ltd. (“Mega Life Insurance Agency”) are both wholly owned subsidiaries of Mega Financial Holding Co. Ltd. To integrate all the resource of the Group and create synergies, the Bank merged with Mega Life Insurance Agency on May 12, 2020, and concurrently engages in personal insurance agent business.

- (2) The Bank engages in the following operations: (a) commercial banking operations authorized by the R.O.C. Banking Law; (b) foreign exchange and related operations; (c) import and export financing and guarantees; (d) financial operations related to international trade; (e) trust operations; (f) investment services on consignments by clients; (g) loan operations, including mid-term to long-term development loan and guarantee operations; (h) venture capital activities; (i) other related operations approved by the R.O.C. government; and (j) the insurance agent business which commercial banks are permitted to engage in under Insurance Act.
- (3) The Bank’s business and operations are widely managed by the head office. The Bank expands its network by opening branches at key locations in both domestic and foreign markets. The Bank was incorporated as company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.). As of December 31, 2020, in addition to Offshore Banking Unit, the Bank had 108 domestic branches (excluding Head Office business unit), 23 overseas branches, 1 overseas subsidiary (excluding Mega International Commercial Bank (Canada) which was dissolved on April 29, 2019), 5 overseas sub-branches, 2 overseas representative offices, and 1 marketing office.
- (4) The Trust Department of the Bank is primarily responsible for planning, management and operation of trust investment businesses regulated by the R.O.C. Banking Law.
- (5) As of December 31, 2020, and 2019, the Bank and subsidiaries had 6,855 and 6,970 employees, respectively.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 12, 2021.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date by International Accounting Standards Board</u> |
|---|---|
| Amendments to IAS 1 and IAS 8, ‘Disclosure initiative-definition of material’ | January 1, 2020 |
| Amendments to IFRS 3, ‘Definition of a business’ | January 1, 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7, ‘Interest rate benchmark reform’ | January 1, 2020 |
| Amendment to IFRS 16, ‘Covid-19-related rent concessions’ | June 1, 2020 (Note) |

Note : Earlier application from January 1, 2020 is allowed by FSC.

The above standards and interpretations have no significant impact to the Bank and subsidiaries’ financial condition and financial performance based on the Bank and subsidiaries’ assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Bank and subsidiaries

New standards, interpretations and amendments endorsed by the FSC effective from 2021 are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date by International Accounting Standards Board</u> |
|---|---|
| Amendments to IFRS 4, ‘Extension of the temporary exemption from applying IFRS 9’ | January 1, 2021 |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, ‘Interest Rate Benchmark Reform— Phase 2’ | January 1, 2021 |

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment. The quantitative impact will be disclosed when the assessment is complete.

A. Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, ‘Interest Rate Benchmark Reform— Phase 2’

The amendments address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one. Given the pervasive nature of IBOR-based contracts, the amendments provide accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform, end date for Phase 1 relief for non-contractually specified risk components in hedging relationships, additional temporary exceptions from applying specific hedge accounting requirements, and additional IFRS 7 disclosures related to IBOR reform.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date by International Accounting Standards Board</u> |
|---|---|
| Amendments to IFRS 3, 'Reference to the conceptual framework' | January 1, 2022 |
| 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 International Accounting Standards Board |
| IFRS 17, 'Insurance contracts' | January 1, 2023 |
| Amendments to IFRS 17, 'Insurance contracts' | January 1, 2023 |
| Amendments to IAS 1, 'Classification of liabilities as current or non-current' | January 1, 2023 |
| Amendments to IAS 1, 'Disclosure of accounting policies' | January 1, 2023 |
| Amendments to IAS 8, 'Definition of accounting estimates' | January 1, 2023 |
| Amendments to IAS 16, 'Property, plant and equipment: proceeds before intended use' | January 1, 2022 |
| Amendments to IAS 37, 'Onerous contracts—cost of fulfilling a contract' | January 1, 2022 |
| Annual improvements to IFRS Standards 2018–2020 | January 1, 2022 |

The above standards and interpretations have no significant impact to the Bank and subsidiaries' financial condition and financial performance based on the Bank and subsidiaries' assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Bank and subsidiaries have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, International Financial Reporting Standards, International Accounting standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis for preparation

A. Except for financial assets and financial liabilities (including derivatives) recognised at fair value, financial assets at fair value through other comprehensive income, and defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation, and these consolidated financial statements have been prepared under the historical cost convention.

B. The analysis of expense is classified based on the nature of expenses.

C. The management has to make certain significant accounting estimates based on their professional judgment and decide the accounting policy according to the IFRSs as endorsed by the FSC. Any change in the assumption could result in a significant change in the financial statements. The management of the Bank and subsidiaries believes that the assumptions used in the consolidated statements are appropriate. For highly complicated matters, matters requiring high level of judgments, significant judgments that could have an impact on the consolidated financial statements and estimates and key sources of assumption uncertainty, please refer to Note 5 for further details.

(3) Basis for preparation of consolidated financial statements

A. All subsidiaries are included in the Bank and subsidiaries' consolidated financial statements. Subsidiaries are all entities controlled by the Bank. The Bank controls an entity when the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Bank obtains control of the subsidiaries and ceases when the Bank loses control of the subsidiaries.

Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Bank and subsidiaries are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Bank.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent. Total comprehensive income is also attributed to the owners of the parent.

B. Subsidiaries included in the consolidated financial statements:

| Name of investor | Name of subsidiaries | Major business activities | Percentage of holding shares (%) | |
|------------------|---|---------------------------|----------------------------------|-------------------|
| | | | December 31, 2020 | December 31, 2019 |
| The Bank | Mega International Commercial Public Co., Ltd. (Thailand) | Commercial Banking | 100.00 | 100.00 |
| The Bank | Mega International Commercial Bank (Canada) (Note) | Commercial Banking | - | - |

Note: Mega International Commercial Bank (Canada) was transformed into a full-function commercial bank branch following the approval from the local competent authority on March 13, 2018. Mega Canada Branch was open for business on April 16, 2018. Mega International Commercial Bank (Canada) was dissolved on April 29, 2019 following the approval from the local competent authority.

C. Subsidiaries not included in the consolidated financial statements:

| Name of investor | Name of subsidiaries | Major business activities | Percentage of holding shares (%) | |
|---------------------------|--|---|----------------------------------|-------------------|
| | | | December 31, 2020 | December 31, 2019 |
| The Bank | Mega Management Consulting Co., Ltd. | Venture capital and management consulting etc. | 100.00 | 100.00 |
| The Bank | Cathay Investment & Warehousing Co.,S.A. | Real estate investment industry | 100.00 | 100.00 |
| The Bank | Ramlett Finance Holdings Inc. | Real estate investment industry | 100.00 | 100.00 |
| The Bank | Yung-Shing Industries Co. | Packaging, printing and agency of manpower service | 99.56 | 99.56 |
| The Bank | China Products Trading Company | Investments in products businesses, storage businesses and other businesses | 68.27 | 68.27 |
| Yung-Shing Industries Co. | Win Card Co., Ltd | Corporate management consulting, data processing business and general advertising services | 100.00 | 100.00 |
| Yung-Shing Industries Co. | ICBC Assets Management & Consulting Co., Ltd | Investment consulting, corporate management consulting and venture investment management consulting | 100.00 | 100.00 |

As the individual total assets or operating revenue amounts of the above subsidiaries are immaterial, the accounts of these subsidiaries are not included in the Bank's consolidated financial statements although the Bank holds more than 50% equity interest in these subsidiaries. The investments of certain subsidiaries are accounted for using equity method.

D. Adjustments for subsidiaries with different balance sheet dates : None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency translations

A. Functional and presentation currency

Items included in the financial statements of each of the Bank and subsidiaries' entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Bank's functional and the Bank and subsidiaries' presentation currency.

B. Transactions and balances

The transactions denominated in foreign currency or to be settled in foreign currency are translated into a functional currency at the spot exchange rate between the functional currency and the underlying foreign currency on the date of the transaction.

Foreign currency monetary items should be reported using the closing rate (market exchange rate) at the date of each balance sheet. When multiple exchange rates are available for use, they should be reported using the rate that would be used to settle the future cash flows of the foreign currency transactions or balances at the measurement date. Foreign currency non-monetary items measured at historical cost should be reported using the exchange rate at the date of the transaction. Foreign currency non-monetary items measured at fair value should be reported at the rate that existed when the fair values were determined.

Exchange differences arising when foreign currency transactions are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period.

If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income. Conversely, if a gain or loss on a non-monetary item is recognized in profit or loss, any foreign exchange component of that gain or loss is also recognized in profit or loss.

C. Translation of foreign operations

The operating results and financial position of the entire Bank and subsidiaries' entities in the consolidated financial statements that have a functional currency (which is not the currency of a hyperinflationary economy) different from the presentation currency are translated into the presentation currency as follows:

- (A) Assets and liabilities presented are translated at the Bank and subsidiaries' closing exchange rate at the date of that balance sheet;
- (B) The profit and loss presented is translated by the average exchange rate in the period (except for the situation that the exchange rate on the trade date shall be adopted when the exchange rate fluctuate rapidly); and
- (C) All resulting exchange differences are recognized in other comprehensive income.

The translation differences arising from above processes are recognized as 'Cumulative translation differences of foreign operations' under equity items.

(5) Cash and cash equivalents

"Cash and cash equivalents" in the consolidated balance sheet includes cash on hand, due from other banks, short-term highly liquid investments that are readily convertible to known amount of cash

and subject to an insignificant risk of changes in value. In respect of the consolidated statements of cash flows, cash and cash equivalents include cash and cash equivalents in the consolidated balance sheet, due from the Central Bank and call loans to banks meeting the definition of cash and cash equivalents as stated in IAS No.7 “Cash Flow Statements”, and securities purchased under resell agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 “Cash Flow Statements” as endorsed by the FSC.

(6) Securities sold under repurchase or resell agreements

The transactions of bills and bonds with a condition of repurchase agreement or resell agreement are accounted for under the financing method. The interest expense and interest income are recognized as incurred at the date of sale and purchase and the agreed period of sale and purchase. The repo trade liabilities, bond liabilities, reverse repo trade bills and bond investments are recognized at the date of sale or purchase.

(7) Financial assets or liabilities

A. Financial assets

Financial assets owned by the Bank and subsidiaries are classified based on both the Bank and subsidiaries' business model for managing the financial assets and the contractual cash flow characteristics of the financial assets into ‘discounts and loans’, ‘receivables’, ‘financial assets at fair value through profit or loss’, ‘financial assets at fair value through comprehensive income’, and ‘investments in debt instrument at amortised cost’.

Business model refers to the method by which the Bank and subsidiaries manages the financial assets to generate cash flows, which originates from collecting contractual cash flows, selling financial assets, or both. When determining whether the contractual cash flows of the asset are solely payments of principal and interest on principal amount outstanding, the Bank and subsidiaries assesses whether the contractual cash flows are consistent with those required in a basic loan agreement. In other words, the Bank and subsidiaries determines whether interest is solely based on the time value of money, credit risk related to the principal amount outstanding on specified dates, other risks and costs associated with the basic loan agreement, and marginal profits consideration.

(A) A regular way purchase or sale

The Bank and subsidiaries recognises a regular way purchase or sale of financial assets using trade date accounting based on their category and accounting classification.

(B) Discounts and loans

Discounts and loans consist of export bills negotiation, export bills discount, loans, and overdue receivables arising from loans. Discounts and loans are measured at amortised cost using the effective interest rate method. Measurement at initial investment amount is allowed if effect of discounting is immaterial.

If a discount and loan held by the Bank and subsidiaries is renegotiated or has its terms modified due to financial difficulties of the borrower, so that it is required to be derecognised, entirely or partially, in accordance with IFRS 9, the old financial assets is derecognised, and a new financial asset and related gains or losses are recognised.

If a discounts and loans held by the Bank and subsidiaries is renegotiated or has its terms modified due to financial difficulties of the borrower, but is not required to be derecognised, or if renegotiations or modification of terms are for reasons other than financial difficulties, which rarely results in the derecognition of the asset, the carrying amount of the asset is recalculated and resulting gains or losses are recognised in profit or loss.

Interest arising from discounts and loans is recognised as ‘interest income’.

(C) Receivables, net

Receivables include receivables originated and not originated by the Bank and subsidiaries. Receivables originated by the entity arising from a direct provision of money, goods or services to debtors while receivables not originated by the Bank and subsidiaries include otherwise.

Receivables are measured at amortised cost using the effective interest method. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

The Bank and subsidiaries determines whether the receivables that has been discounted or transferred qualify derecognition under IFRS 9 based on how much control over the risks and rewards of the receivables it has retained.

Significant amounts of receivables due from related parties are shown separately.

Interest arising from receivables are recognised as ‘interest income’.

(D) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income. Financial assets at amortised cost or fair value through other comprehensive income are designated as at fair value through profit or loss at initial recognition when they eliminate or significantly reduce a measurement or recognition inconsistency.

At initial recognition, the Bank and subsidiaries measures the financial assets at fair value. All related transaction costs are recognised in profit or loss. The Bank and subsidiaries subsequently measures these financial assets at fair value with any gain or loss recognised in profit or loss.

Dividends are recognised as gain (loss) on financial assets or liabilities at fair value through profit or loss - dividend revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Bank and its subsidiaries and the amount of the dividend can be measured reliably.

- (E) Investments in debt instruments at amortised cost
- a. Financial assets at amortised cost are those that meet all of the following criteria:
 - (a) The objective of the Bank and subsidiaries' business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
 - b. At initial recognition, the Bank and subsidiaries measure the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in derecognition designated as gain (loss) on financial assets at amortised cost when the asset is derecognised or impaired.
- (F) Financial assets at fair value through other comprehensive income
- a. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Bank and subsidiaries has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Bank and subsidiaries' business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
 - b. At initial recognition, the Bank and subsidiaries measures the financial assets at fair value plus transaction costs. The Bank and subsidiaries subsequently measures the financial assets at fair value:
 - (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as realised gains (losses) on financial assets at fair value through other comprehensive income-dividend revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Bank and subsidiaries and the amount of the dividend can be measured reliably.
 - (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial assets is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.
- (G) Reclassification of financial assets

When, and only when, the Bank and subsidiaries changes its business model for managing financial assets it reclassifies all affected financial assets except for equity instruments and financial assets designated as at fair value through profit or loss. The Bank and subsidiaries applies the reclassification prospectively from the reclassification date and does not restate any previously recognised gains, losses or interest.

B. Financial liabilities

Financial liabilities held by the Bank and subsidiaries comprise financial liabilities at fair value through profit or loss and financial liabilities measured at amortized cost.

(A) Financial liabilities at fair value through profit or loss

Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges. Or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

- a. Hybrid (combined) contracts; or
- b. They eliminate or significantly reduce a measurement or recognition inconsistency; or
- c. They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

At initial recognition, the Bank and subsidiaries measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Bank and subsidiaries subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(B) Financial liabilities measured at amortized cost

Liabilities not classified as financial liabilities at fair value through profit or loss and financial guarantee contracts are all included in financial liabilities carried at amortised cost.

C. Decision of fair value

Fair value and level information of financial instruments are provided in Note 7.

D. Derecognition of financial instruments

(A) The Bank and subsidiaries derecognize a financial asset when one of the following conditions is met:

- a. The contractual rights to receive cash flows from the financial assets expire.
- b. The contractual rights to receive cash flows from the financial assets have been transferred and the Bank and subsidiaries have transferred substantially all risks and rewards of ownership of the financial assets.
- c. The contractual rights to receive cash flows from the financial assets have been transferred; however, it has not retained control of the financial assets.

(B) A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(C) In case of securities lending or borrowing by the Bank and subsidiaries or provision of bonds

or stocks as security for repo trading, the Bank and subsidiaries does not derecognize the financial assets, because substantially all risks and rewards of ownership of the financial assets are still retained in the Bank and subsidiaries.

(8) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the consolidated balance sheet when (A) there is a legally enforceable right to offset the recognized amounts and (B) there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(9) Impairment of financial assets

For discounts and loans, receivables, debt instruments measured at fair value through other comprehensive income, financial assets at amortised cost, loan commitments and financial guarantee contracts, at each reporting date, the Bank and subsidiaries recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs); if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts.

The Bank and subsidiaries measures expected credit losses in a way that reflects:

- A. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- B. The time value of money; and
- C. Reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

For loan assets, the Bank and subsidiaries assesses the loss allowance at the balance sheet date in accordance with “Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” as issued by the FSC, “Financial-Supervisory-Banks Letter No. 10300329440” issued on December 4, 2014 relating to the strengthening of domestic banks’ risk endurance to real estate loans, “Financial-Supervisory-Banks Letter No. 10410001840” issued on April 23, 2015 relating to the strengthening of domestic banks’ risk endurance to management of exposures in China as well as IFRS 9 requirements. The loss allowance is provisioned at the higher of the amounts assessed in compliance with the aforementioned domestic regulations and IFRS 9 and then presented at net value.

(10) Non-hedging and embedded derivatives

- A. Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.
- B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognized as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost based on the contract terms.

C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivatives are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivatives is accounted for differently from the host contract as derivatives while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as a derivative instrument included in financial liabilities at fair value through profit or loss upon initial recognition, and no separate accounting is required.

(11) Leasing arrangements (lessor) – operating leases

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(12) Investments measured by equity method

- A. Associates are all entities over which the Bank and subsidiaries have significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using equity method and are initially recognized at cost.
- B. The Bank and subsidiaries' share of its associates' post-acquisition profits or losses is recognized in profits or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Bank and subsidiaries' share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank and subsidiaries do not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. Unrealized gains on transactions between the Bank and subsidiaries and its associates are eliminated to the extent of the Bank and subsidiaries' interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Bank and subsidiaries.
- D. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associates and such changes not affecting the Bank and subsidiaries' ownership percentage of the associate, the Bank and subsidiaries recognized the Bank and subsidiaries' share of change in equity of the associate in 'capital reserve' in proportion to its ownership.
- E. When the Bank and subsidiaries disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as other comprehensive income in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as other comprehensive income in relation to the associate are transferred to profit or loss proportionately.

(13) Property and equipment

The property and equipment of the Bank and subsidiaries are recognized on the basis of the historical cost less accumulated depreciation. Historical cost includes all costs directly attributable to the acquisition of the assets.

Such assets are subsequently measured using the cost model. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable

that future economic benefits associated with the item will flow to the Bank and subsidiaries and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not affected by depreciation. Depreciation for other assets is provided on a straight-line basis over the estimated useful lives of the assets till residual value. If each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

| Item | Year |
|-----------------------------------|------|
| Buildings and accessory equipment | 1~60 |
| Machinery and computer equipment | 1~20 |
| Transportation equipment | 1~10 |
| Other equipment | 3~10 |

(14) Investment property

The properties held by the Bank and subsidiaries, with an intention to obtain long-term rental profit or capital increase or both and not being used by any other enterprises of the consolidated entities, are classified as investment property. Investment property includes the office building and land leased out in a form of operating lease.

Part of the property may be held by the Bank and subsidiaries and the remaining will be used to generate rental income or capital appreciation. If the property held by the Bank and subsidiaries can be sold individually, then the accounting treatment should be made respectively.

When the future economic benefit related to the investment property is highly likely to flow into the Bank and subsidiaries and the costs can be reliably measured, the investment property shall be recognized as assets. When the future economic benefit generated from subsequent costs is highly likely to flow into the entity and the costs can be reliably measured, the subsequent expenses of the assets shall be capitalized. All maintenance cost are recognized as incurred in the consolidated statement of comprehensive income.

An investment property is stated initially at its cost and measured subsequently using the cost model. The depreciation method, remaining useful life and residual value should apply the same rules as applicable for property and equipment.

(15) Leasing arrangements (lessee) – right-of-use assets/ lease liabilities

A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Bank and subsidiaries. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate.

Lease payments are comprised of the following:

- (a) Fixed payments, less any lease incentives receivable;
- (b) Variable lease payments that depend on an index or a rate;
- (c) Amounts expected to be payable by the lessee under residual value guarantees;
- (d) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- (e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Bank and subsidiaries subsequently measure the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

- (a) The amount of the initial measurement of lease liability;
- (b) Any lease payments made at or before the commencement date;
- (c) Any initial direct costs incurred by the lessee; and
- (d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

D. For lease modifications that decrease the scope of the lease, the lessee shall decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognise the difference between remeasured lease liability in profit or loss.

(16) Foreclosed properties

Foreclosed properties are stated at the lower of carrying amount or fair value less selling cost on the financial reporting date.

(17) Impairment of non-financial assets

The Bank and subsidiaries assess at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(18) Provisions for liabilities, contingent liabilities and contingent assets

When all the following criteria are met, the Bank and subsidiaries shall recognize a provision:

- A. A present obligation (legal or constructive) as a result of a past event;

B. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

C. The amount of the obligation can be reliably estimated.

If there are several similar obligations, the outflow of economic benefit as a result of settlement is determined based on the overall obligation. Provisions for liabilities should be recognized when the outflow of economic benefits is probable in order to settle the obligation as a whole even if the outflow of economic benefits from any one of the obligation is remote.

Provisions are measured by the present value of expense which is required for settling the anticipated obligation. The pre-tax discount rate is used with timely adjustment that reflects the current market assessments on the time value of money and the risks specific to the obligation.

Contingent liability is a possible obligation that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and subsidiaries. Or it could be a present obligation as a result of past event but the payment is not probable or the amount cannot be measured reliably. The Bank and subsidiaries did not recognize any contingent liabilities but made appropriate disclosure in compliance with relevant regulations.

Contingent asset is a possible asset that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and subsidiaries. The Bank and subsidiaries did not recognize any contingent assets and made appropriate disclosure in compliance with relevant regulations when the economic inflow is probable.

(19) Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the Bank and subsidiaries to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A loan commitment is an agreement to provide credit under predetermined terms and conditions.

The Bank and subsidiaries initially recognize financial guarantee contracts at fair value on the date of issuance. The Bank and subsidiaries charge a service fee when the contract is signed and therefore the service fee income charged is the fair value at the date that the financial guarantee contract is signed. Service fee received in advance is recognized in deferred accounts and amortized through straight-line method during the contract term.

Loss provisions are recognised for financial guarantee contracts and loan commitments, and the amounts of loss allowance are determined by expected credit losses.

Subsequently, the Bank and subsidiaries should measure the financial guarantee contract issued at the higher of:

A. The amount of loss allowance is determined by using an expected-credit-loss model; and

B. The initially recognised amount less the cumulative gains that were recognised under IFRS 15 'Revenue from contracts with customers'.

Loss allowance for the aforementioned reserve for guarantee liabilities is assessed in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" as issued by the FSC and IFRS 9 requirements. A provision is then recognised at the higher of the amounts assessed in compliance with the aforementioned domestic regulations and IFRS 9.

The Bank and subsidiaries determines loss allowance for the loan commitments based on expected credit loss.

The loss allowance is recognized as provision for loan commitments and financial guarantee contracts. If the financial instrument contains both a loan (i.e. financial assets) and an undrawn commitment (i.e. loan commitment) component and the Bank and subsidiaries is unable to identify the expected credit losses (ECLs) of the financial assets and loan commitment component, the ECLs of loan commitment is recognised together with the loss allowance for financial assets. A provision is recognised for the aggregate ECLs exceeding the carrying amount of the financial assets.

The increase in liabilities due to financial guarantee contracts and loan commitments is recognised in 'bad debts expense, commitment and guarantee liability provision'.

(20) Employee benefits

A. Short-term employee benefits

The Bank and subsidiaries should recognize the undiscounted amount of the short-term benefits expected to be paid in the future as expenses in the period when the employees render service.

B. Employee preferential savings

The Bank provides preferential interest rate for employees, including flat preferential savings for current employees and flat preferential savings for retired employees and current employees. The difference gap compared to market interest rate is deemed as employee benefits.

According to Regulation Governing the Preparation of Financial Statements by Public Banks, the preferential monthly interest paid to current employees is calculated based on accrual basis, and the difference between the preferential interest rate and the market interest rate is recognized under "employee benefit expense". According to Article 30 of Regulation Governing the Preparation of Financial Statements by Public Banks, the excessive interest arising from the interest rate upon retirement agreed with the employees in excess of general market interest rate should be recognized in accordance with IAS 19, "Employee Benefits", as endorsed by the FSC. However, various parameters should be in compliance with competent authorities if indicated otherwise.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the decisions of the Bank and subsidiaries to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Bank and subsidiaries recognizes expense as it can no longer withdraw an offer of termination benefits or it recognizes relating restructuring costs, whichever is earlier.

Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Post-employment benefit

The pension plan of the Bank and subsidiaries includes both Defined Contribution Plan and Defined Benefit Plan. In addition, defined contribution plan is adopted for employees working overseas according to the local regulations.

(A) Defined Contribution Plan

The contributions are recognized as pension expenses when they are due on an accrual

basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(B) Defined Benefit Plan

- a. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Bank and subsidiaries in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Bank and subsidiaries uses interest rates of government bonds (at the balance sheet date) instead.
- b. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- c. Past service costs are recognized immediately in profit or loss.

E. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Bank and subsidiaries calculate the number of shares based on the closing price at the previous day of the Board of Directors' resolution day.

(21) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

(22) Revenue and expense

Income and expense of the Bank and subsidiaries are recognized as incurred. Expenses consist of employee benefit expense, depreciation and amortization expense and other business and administration expenses. Dividend revenues are recognized within ‘financial assets and liabilities at fair value through profit or loss’ and ‘financial assets and liabilities at fair value through other comprehensive income’ in the consolidated statement of comprehensive income when the right to receive dividends is assured.

- A. Other than those classified as financial assets and liabilities at fair value through profit and loss, all the interest income and interest expense generated from interest-bearing financial assets are calculated by effective interest rate according to relevant regulations and recognized as “interest income” and “interest expense” in the consolidated statement of comprehensive income.
- B. Service fee income and expense are recognised upon the completion of services of loans or other services; service fee earned from performing significant items shall be recognised upon the completion of the service, such as syndication loan service fee received from sponsor, service fee income and expense of subsequent services of loans are amortized or included in the calculation of effective interest rate of loans and receivables during the service period.

(23) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the following year after the Board of Directors make resolution in respect of earnings appropriation proposal on behalf of stockholders.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Bank and subsidiaries and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current income tax assets against current income tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(24) Share capital and dividends

Dividends on ordinary shares are recognized in the financial statements in the period in which they are approved by the shareholders. Cash dividends are recorded as liabilities. Stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance; they are not recognized and only disclosed as subsequent event in the notes if the dividend declaration date is later than the consolidated balance sheet date.

(25) Operating segments

Information of operating segments of the Bank and subsidiaries is reported in the same method as the internal management report provided to the chief operating decision-maker (CODM). The CODM is the person or group in charge of allocating resources to operating segments and evaluating their performance. The CODM of the Bank and subsidiaries is the Board of Directors.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Bank and subsidiaries' accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors (COVID-19 impact included).

Management's critical judgements in applying the Bank and subsidiaries' accounting policies that have significant impact on the consolidated financial statements are outlined below:

(1) Fair value measurement of investment in unlisted stock

The fair value of unlisted stocks without an active market is determined by using valuation techniques such as market approach and net asset approach. The measurement of fair value may adopt observable information or models of similar financial instruments or use assumptions in an appropriate manner if the observable parameters are unavailable in the market. Observable information is the primary source of reference. When valuation models are used for the measurements, calibration are performed to ensure its accountability in reflecting real information and market price.

In the fair value measurement, the Bank and subsidiaries primarily uses reference of the latest updated market multipliers of similar listed stocks in the industry alike and takes into account marketability discount and discount in the specialised risks. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 7 for the financial instruments fair value information.

(2) Expected credit losses

For financial assets at amortised cost and financial assets at fair value through other comprehensive income, the measurement of expected credit losses (ECLs) involves complex model and various

assumptions associated with macro-economic projections and borrowers' situation in terms of the probability of default and losses-given-default. Information relating to parameters, assumptions, methods of estimation, ECL's sensitivity analysis corresponding to the aforementioned factors is provided in Note 8(3).

The measurement of ECLs in accordance with the framework of accounting principles involves several significant judgements, such as:

- A. Criteria in determining whether there has been a significant increase in credit risk;
- B. A selection of appropriate models and assumptions in ECLs measurement;
- C. Forward-looking information to be taken into consideration in terms of different products; and
- D. Grouping the financial instruments to include financial assets with the same credit risk characteristics into one group.

Please refer to Note 8(3) for the aforementioned judgements and estimates with respect of ECLs.

(3) Post-employment benefit

The present value of post-employment benefit obligations are estimated based on several assumptions. Any changes in those assumptions will affect the carrying amounts of post-employment benefit obligations.

The assumptions used to determine net pension cost (revenue) comprise discount rate. The Bank and subsidiaries determine the appropriate discount rate at the end of each year, and use the discount rate in calculating the present value of future cash outflow of post-employment benefit obligations. The discount rate is chosen by reference to the rate of government bonds where the currency and maturity date of government bonds are in agreement with those of post-employment benefit obligations. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | December 31, 2020 | | December 31, 2019 |
|--|-------------------|--------------|-------------------|
| | NT\$ | US\$ | NT\$ |
| Cash on hand and petty cash | \$ 14,091,565 | \$ 501,568 | \$ 20,558,498 |
| Checks for clearance | 547,733 | 19,496 | 1,037,136 |
| Due from banks | 100,471,220 | 3,576,124 | 119,439,851 |
| Subtotal | 115,110,518 | 4,097,188 | 141,035,485 |
| Less: Allowance for bad debt - due from banks | (10) | - | - |
| Total | \$ 115,110,508 | \$ 4,097,188 | \$ 141,035,485 |

Information relating to credit risk is provided in Note 8(3).

(2) Due from the Central Bank and call loans to banks

| | December 31, 2020 | |
|---|-------------------|---------------|
| | NT\$ | US\$ |
| Reserve for deposits - category A | \$ 18,943,085 | \$ 674,251 |
| Reserve for deposits - category B | 46,395,791 | 1,651,390 |
| Reserve for deposits - general | 266 | 10 |
| Reserve for deposits - foreign currency | 696,177 | 24,779 |
| Deposits of overseas branches with foreign Central Banks | 154,718,126 | 5,506,963 |
| Interbank settlement fund of Fund Center | 12,012,994 | 427,585 |
| Call loans to banks and bank overdrafts | 144,698,948 | 5,150,345 |
| Subtotal | 377,465,387 | 13,435,323 |
| Less: Allowance for bad debt- call loans to banks | (153) | (6) |
| Less: Allowance for bad debt – due from the Central Bank | (6) | - |
| Total | \$ 377,465,228 | \$ 13,435,317 |

| | December 31, 2019 | |
|---|-------------------|-------------|
| | NT\$ | |
| Reserve for deposits - category A | \$ | 12,811,817 |
| Reserve for deposits - category B | | 39,604,012 |
| Reserve for deposits - general | | 284 |
| Reserve for deposits - foreign currency | | 631,211 |
| Deposits of overseas branches with foreign Central Banks | | 228,656,079 |
| Interbank settlement fund of Fund Center | | 4,005,092 |
| Call loans to banks and bank overdrafts | | 208,251,579 |
| Subtotal | | 493,960,074 |
| Less: Allowance for bad debt- call loans to banks | (| 14,565) |
| Less: Allowance for bad debt – due from the Central Bank | | - |
| Total | \$ | 493,945,509 |

- A. As required by relevant laws, the reserves for deposits are calculated at required reserve ratios based on the monthly average balances of various deposit accounts. Reserve for deposits - category B cannot be used except upon the monthly adjustment of the reserve.
- B. On December 31, 2020 and 2019, due from the Central Bank and call loans to banks of the Bank and subsidiaries that were in accordance to the definition of cash and cash equivalents under IAS 7, which included the total of the above-listed Reserve for deposit - category A, Reserve for deposit-general, Call loans to banks and bank overdrafts, Reserve for deposit-foreign currency and a portion of Deposit of overseas branches with foreign Central Banks that are highly liquid and readily convertible to cash, was NT\$194,478,505 thousand and NT\$353,716,617 thousand, respectively.
- C. Information relating to credit risk is provided in Note 8(3).

(3) Financial assets at fair value through profit or loss

| | December 31, 2020 | |
|--|----------------------|---------------------|
| | NT\$ | US\$ |
| Financial assets mandatorily measured at fair value through profit or loss | | |
| Listed stocks | \$ 8,462,242 | \$ 301,201 |
| Emerging stocks | 1,038,136 | 36,951 |
| Unlisted stocks | 5,740,712 | 204,332 |
| Asset securitization | 11,730 | 418 |
| Beneficiary certificates | 171,830 | 6,116 |
| Derivatives | 4,757,979 | 169,353 |
| Government bonds | 1,229,224 | 43,752 |
| Corporate bonds | 25,597,258 | 911,097 |
| Bank notes | 5,125,537 | 182,436 |
| Subtotal | <u>52,134,648</u> | <u>1,855,656</u> |
| Valuation adjustment | <u>5,033,213</u> | <u>179,150</u> |
| Total | <u>\$ 57,167,861</u> | <u>\$ 2,034,806</u> |

| | December 31, 2019 | |
|--|-------------------|----------------------|
| | NT\$ | |
| Financial assets mandatorily measured at fair value through profit or loss | | |
| Listed stocks | | \$ 11,189,199 |
| Emerging stocks | | 967,543 |
| Unlisted stocks | | 5,482,489 |
| Asset securitization | | 14,205 |
| Beneficiary certificates | | 171,830 |
| Derivatives | | 4,754,538 |
| Government bonds | | 1,258,598 |
| Corporate bonds | | 27,933,201 |
| Bank notes | | <u>8,228,913</u> |
| Subtotal | | 60,000,516 |
| Valuation adjustment | | <u>3,904,831</u> |
| Total | | <u>\$ 63,905,347</u> |

- A. Gain or loss on financial assets mandatorily measured at fair value through profit or loss recognized for the years ended December 31, 2020 and 2019 are provided in Note 6(29).
- B. As of December 31, 2020 and 2019, the above financial assets were not pledged to other parties as collateral for business reserves and guarantees.
- C. As of December 31, 2019, the above financial assets used as underlying assets for repurchase agreements held by the Bank and subsidiaries were NT\$6,242,069 thousand.
- D. Information relating to credit risk is provided in Note 8(3).

(4) Financial assets at fair value through other comprehensive income

| | December 31, 2020 | | December 31, 2019 |
|--------------------------------|-------------------|---------------|-------------------|
| | NT\$ | US\$ | NT\$ |
| Debt instruments | | | |
| Corporate bonds | \$ 138,571,674 | \$ 4,932,254 | \$ 109,723,928 |
| Government bonds | 70,464,831 | 2,508,092 | 103,850,629 |
| Bank notes | 92,452,467 | 3,290,709 | 99,397,068 |
| Asset securitization | 64,111,460 | 2,281,952 | 46,438,486 |
| Bank's certificates of deposit | 9,914,736 | 352,900 | 11,176,373 |
| Subtotal | 375,515,168 | 13,365,907 | 370,586,484 |
| Valuation adjustment | 2,189,575 | 77,935 | 2,242,532 |
| Debt instruments, net | 377,704,743 | 13,443,842 | 372,829,016 |
| Equity instruments | | | |
| Listed stocks | 5,590,498 | 198,986 | 2,611,487 |
| Unlisted stocks | 4,788,006 | 170,422 | 4,742,462 |
| Other securities | 302,258 | 10,758 | 300,000 |
| Subtotal | 10,680,762 | 380,166 | 7,653,949 |
| Valuation adjustment | 8,569,879 | 305,032 | 6,995,646 |
| Equity instruments, net | 19,250,641 | 685,198 | 14,649,595 |
| Total | \$ 396,955,384 | \$ 14,129,040 | \$ 387,478,611 |

- A. The Bank and subsidiaries have elected to classify investments that are considered to be strategic investments and with steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to NT\$19,250,641 thousand and NT\$14,649,595 thousand as at December 31, 2020 and 2019, respectively.
- B. As result of the completion of liquidations for investee, BDF II, the Bank has cumulative loss on disposal amounting to NT\$6,355 thousand in May 2020. Furthermore, the investee, H&QAP GCGF, returned NT\$26,731 thousand of investments to the Bank with gain on disposal amounting to NT\$14,135 thousand in August 2020 as the investee has ceased to make new investments and successively disposed of assets on its accounts. Additionally, because the spread of the Covid-19 pandemic globally has suppressed market demand momentum and the plummet in international oil prices has impacted prices of raw materials, the Bank adjusted its investment position of relevant equity instruments and sold equity instruments - listed stocks at fair value amounting to NT\$1,074,215 thousand with cumulative loss on disposal amounting to NT\$454,440 thousand.
- C. As result of the completion of liquidations for investees, ARCH IV and HCV VII, the Bank has cumulative loss on disposal amounting to NT\$91,302 thousand for the year ended December 31, 2019. Furthermore, due to the US-China trade tensions resulting in uncertainty in global politics and economy, to avoid the possible unreasonable decline of the Taiwan stock market, the Bank sold equity instruments –listed stocks at fair value amounting to NT\$1,930,261 thousand with cumulative loss on disposal amounting to NT\$59,504 thousand.

D. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

| | 2020 | | 2019 |
|--|----------------|--------------|----------------|
| | NT\$ | US\$ | NT\$ |
| <u>Equity instruments at fair value through other comprehensive income</u> | | | |
| Fair value change recognised in other comprehensive income | \$ 1,127,190 | \$ 40,121 | \$ 744,477 |
| Cumulative losses reclassified to retained earnings due to derecognition | \$ 446,660 | \$ 15,898 | \$ 150,806 |
| Dividend income recognised in profit or loss | | | |
| Held at end of year | \$ 613,204 | \$ 21,826 | \$ 590,847 |
| Derecognised during the year | - | - | 32,540 |
| | \$ 613,204 | \$ 21,826 | \$ 623,387 |
| <u>Debt instruments at fair value through other comprehensive income</u> | | | |
| Fair value change recognised in other comprehensive income | \$ 3,553,519 | \$ 126,482 | \$ 3,243,061 |
| Cumulative other comprehensive income reclassified to profit or loss | | | |
| Reclassified due to impairment recognition (reversal) | \$ 81,561 | \$ 2,903 | \$ 30,733 |
| Reclassified due to derecognition | (3,672,718) | (130,725) | (1,639,037) |
| | (\$ 3,591,157) | (\$ 127,822) | (\$ 1,608,304) |
| Interest income recognised in profit or loss | | | |
| | \$ 4,940,023 | \$ 175,833 | \$ 6,272,824 |

E. As of December 31, 2020 and 2019, the aforementioned financial assets at fair value through other comprehensive income, amounting to NT\$9,963,413 thousand and NT\$9,337,239 thousand, was pledged to other parties as collateral for business reserves and guarantees, respectively.

F. As of December 31, 2020 and 2019, financial assets at fair value through other comprehensive income undertaken for repurchase agreements were NT\$13,745,736 thousand and NT\$27,870,473 thousand, respectively.

G. Information relating to credit risk is provided in Note 8(3).

(5) Investments in debt instruments at amortised cost

| | <u>December 31, 2020</u> | | <u>December 31, 2019</u> |
|--|--------------------------|----------------------|--------------------------|
| | <u>NT\$</u> | <u>US\$</u> | <u>NT\$</u> |
| Central Bank's certificates of deposit | \$ 348,884,420 | \$ 12,418,025 | \$ 179,271,045 |
| Short-term notes and bills | 136,385,848 | 4,854,453 | 54,958,282 |
| Bank's certificates of deposit | 7,403,155 | 263,504 | 6,302,756 |
| Bank notes | 29,865,761 | 1,063,028 | 27,543,713 |
| Government bonds | 4,800,842 | 170,879 | 2,868,058 |
| Corporate bonds | 2,376,996 | 84,606 | 211,571 |
| Treasury bills | 399,310 | 14,213 | - |
| Subtotal | 530,116,332 | 18,868,708 | 271,155,425 |
| Accumulated impairment | (32,333) | (1,151) | (21,330) |
| Total | <u>\$ 530,083,999</u> | <u>\$ 18,867,557</u> | <u>\$ 271,134,095</u> |

A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

| | <u>December 31, 2020</u> | | <u>December 31, 2019</u> |
|--------------------|--------------------------|------------------|--------------------------|
| | <u>NT\$</u> | <u>US\$</u> | <u>NT\$</u> |
| Interest income | \$ 2,154,704 | \$ 76,693 | \$ 2,395,261 |
| Losses on disposal | (35) | (1) | (4) |
| Impairment loss | (10,937) | (389) | (9,391) |
| | <u>\$ 2,143,732</u> | <u>\$ 76,303</u> | <u>\$ 2,385,866</u> |

B. The Bank sold investments in debt instruments and recognised a loss of NT\$35 thousand by considering the value of treasury securities is easily affected by the market fluctuation for the year ended December 31, 2020.

C. Because of the issuer's credit downgrade, the Bank sold the investments in debt instruments and recognised a loss of NT\$4 thousand for the year ended December 31, 2019.

D. As of December 31, 2020 and 2019, the aforementioned debt investments, amounting to NT\$7,112,429 thousand and NT\$6,875,628 thousand, were pledged to other parties as collateral for business reserves and guarantees, respectively.

E. Please refer to Note 8(3) for the movement information on accumulated loss for the years ended December 31, 2020 and 2019.

F. Information relating to credit risk is provided in Note 8(3).

(6) Receivables, net

| | December 31, 2020 | | December 31, 2019 |
|--|----------------------|---------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Factoring receivable | \$ 17,544,174 | \$ 624,459 | \$ 28,218,088 |
| Accounts receivable - Credit card | 7,934,806 | 282,428 | 7,597,716 |
| Acceptances receivable | 6,392,924 | 227,547 | 5,638,677 |
| Accrued interest | 4,215,380 | 150,040 | 5,957,943 |
| Accrued income | 1,144,979 | 40,754 | 1,065,787 |
| Accounts receivable for bonds settlement | - | - | 11,594,295 |
| Other receivables | 1,761,203 | 62,687 | 2,185,803 |
| Subtotal | 38,993,466 | 1,387,915 | 62,258,309 |
| Less: Allowance for bad debts | (1,060,604) | (37,751) | (1,302,738) |
| Receivables, net | <u>\$ 37,932,862</u> | <u>\$ 1,350,164</u> | <u>\$ 60,955,571</u> |

A. Please refer to Note 8(3) for the movement information on loss allowance for the years ended December 31, 2020 and 2019.

B. Information relating to credit risk is provided in Note 8(3).

(7) Discounts and loans, net

| | December 31, 2020 | | December 31, 2019 |
|--|-------------------------|----------------------|-------------------------|
| | NT\$ | US\$ | NT\$ |
| Bills and notes discounted | \$ 47,315 | \$ 1,684 | \$ 12,949 |
| Overdrafts | 232,794 | 8,286 | 1,320,257 |
| Short-term loans | 503,722,431 | 17,929,255 | 559,609,907 |
| Medium-term loans | 735,803,605 | 26,189,842 | 727,534,712 |
| Long-term loans | 669,809,653 | 23,840,885 | 604,855,982 |
| Export bills negotiated | 5,504,446 | 195,923 | 7,613,470 |
| Loans transferred to non-accrual loans | 4,003,945 | 142,514 | 2,313,988 |
| Subtotal | 1,919,124,189 | 68,308,389 | 1,903,261,265 |
| Less: Allowance for bad debts | (29,165,967) | (1,038,119) | (29,583,431) |
| Discounts and loans, net | <u>\$ 1,889,958,222</u> | <u>\$ 67,270,270</u> | <u>\$ 1,873,677,834</u> |

A. As of December 31, 2020 and 2019, the amounts of reclassified non-performing loans to overdue loans were NT\$4,003,945 thousand and NT\$2,313,988 thousand, including interest receivable of NT\$18,311 thousand and NT\$14,229 thousand, respectively.

B. The Bank and subsidiaries derecognised credit assets at amortised cost disposal losses amounted to NT\$155,822 thousand for the year 2020.

C. Please refer to Note 8(3) for the movement information on loss allowance for the years ended December 31, 2020 and 2019.

D. The amount of recovery of write-off for the years ended December 31, 2020 and 2019 was NT\$497,728 thousand and NT\$459,473 thousand, respectively.

E. Information relating to credit risk is provided in Note 8(3).

(8) Investments measured by equity method, net

| Investee Company | December 31, 2020 | | Percentage of Shareholding |
|--|---------------------|-------------------|----------------------------|
| | Carry amount | | |
| | NT\$ | US\$ | |
| Mega Management Consulting Co., Ltd. | \$ 64,007 | \$ 2,278 | 100.00 |
| Cathay Investment & Warehousing Co., S.A. | 34,119 | 1,215 | 100.00 |
| Ramlett Finance Holdings Inc. | - | - | 100.00 |
| Yung-Shing Industries Co. | 704,125 | 25,062 | 99.56 |
| China Products Trading Company | 27,916 | 994 | 68.27 |
| Next Commercial Bank Co., Ltd.(Note 1) | 2,284,743 | 81,322 | 25.10 |
| An Feng Enterprise Co., Ltd. | 12,034 | 428 | 25.00 |
| Taiwan Finance Corporation | 1,776,306 | 63,225 | 24.55 |
| Everstrong Iron & Steel Foundry & Mfg. Corporation | 46,333 | 1,649 | 22.22 |
| China Real Estate Management Co., Ltd. | 180,215 | 6,415 | 20.00 |
| Universal Venture Capital Investment Corporation | 125,335 | 4,461 | 11.84 |
| Mega Growth Venture Capital Co., Ltd. | 153,817 | 5,475 | 11.81 |
| Mega 1 Venture Capital Co., Ltd.(Note 2) | - | - | - |
| Total | <u>\$ 5,408,950</u> | <u>\$ 192,524</u> | |

| Investee Company | December 31, 2019 | | Percentage of Shareholding |
|--|---------------------|------|----------------------------|
| | Carry amount | | |
| | NT\$ | US\$ | |
| Mega Management Consulting Co., Ltd. | \$ 60,680 | | 100.00 |
| Cathay Investment & Warehousing Co., S.A. | 41,043 | | 100.00 |
| Ramlett Finance Holdings Inc. | 5,396 | | 100.00 |
| Yung-Shing Industries Co. | 695,046 | | 99.56 |
| China Products Trading Company | 28,057 | | 68.27 |
| Next Commercial Bank Co., Ltd.(Note 1) | - | | - |
| An Feng Enterprise Co., Ltd. | 11,918 | | 25.00 |
| Taiwan Finance Corporation | 1,676,448 | | 24.55 |
| Everstrong Iron & Steel Foundry & Mfg. Corporation | 45,156 | | 22.22 |
| China Real Estate Management Co., Ltd. | 177,461 | | 20.00 |
| Universal Venture Capital Investment Corporation | 122,616 | | 11.84 |
| Mega Growth Venture Capital Co., Ltd. | 147,782 | | 11.81 |
| Mega 1 Venture Capital Co., Ltd.(Note 2) | - | | - |
| Total | <u>\$ 3,011,603</u> | | |

Note 1: In January 2019, the Board of Directors of the Bank resolved to establish an internet-only bank, Next Bank, with Chunghwa Telecom, which has been approved by FSC in July 2019. On January 31, 2020, the registration for establishment was completed and the internet-only bank was reclassified as investment accounted for using the equity method. In addition, the Bank has provided the necessary financial support letter to Next Bank. Information relating to credit risk is provided in Note 13(3).

For the year ended December 31, 2020, the Bank recognised cumulative investment loss amounting to NT\$225,257 thousand based on Next bank's unaudited financial statements.

Note 2: On June 27, 2019, the investee was dissolved as resolved by its stockholders' meeting, and the liquidation was completed on November 20, 2019.

A. The carrying amount of the Bank and subsidiaries' interests in all individually immaterial associates and the Bank and subsidiaries' share of the operating results are summarized as follows:

| | For the years ended December 31, | | |
|--|----------------------------------|-----------------|-------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| (Loss) profit for the year | (\$ 22,539) | (\$ 802) | \$ 130,642 |
| Other comprehensive income (after income tax) | 55,980 | 1,993 | 22,762 |
| Total comprehensive income | <u>\$ 33,441</u> | <u>\$ 1,191</u> | <u>\$ 153,404</u> |

B. The shares of associates that the Bank and subsidiaries own have no quoted market price available in an active market. There is no significant restriction on fund transfer from the associates to their shareholders, i.e. distribution of cash dividends, repayment of loans or money advanced.

C. As of December 31, 2020 and 2019, investments measured by equity method were not pledged as collateral.

D. The ownership percentage of the Bank investment in Universal Venture Capital Investment Corporation is 11.84%. However, due to the Bank occupying 2 board seats of Universal Venture Capital Investment Corporation's total 11 board seats, and the Bank being elected as the chairman of the board, the Bank has influence over decision-making. Therefore, valuations are accounted for using equity method.

E. The Bank's investment in Mega Growth Venture Capital Co., Ltd. accounted for an ownership percentage of 11.81%. However, the combined ownership percentage of the Bank, and the Bank's subsidiaries was over 20%, thus the investment is accounted for using equity method.

(9) Other financial assets, net

| | December 31, 2020 | | December 31, 2019 |
|--|-------------------|-----------------|---------------------|
| | NT\$ | US\$ | NT\$ |
| Call loan to security brokers | \$ 78,666 | \$ 2,800 | \$ - |
| Non-accrual loans transferred from overdue receivables | 61,324 | 2,183 | 32,392 |
| Remittance purchased | 773 | 27 | 2,485 |
| Prepaid investment (Note) | - | - | 2,510,000 |
| Subtotal | 140,763 | 5,010 | 2,544,877 |
| Less: Allowance for bad debts - Remittance purchased | (8) | - | (25) |
| Less: Allowance for bad debts - Non-accrual loans transferred from overdue receivables | (32,340) | (1,151) | (7,168) |
| Total | <u>\$ 108,415</u> | <u>\$ 3,859</u> | <u>\$ 2,537,684</u> |

A. Related information is provided in Note 6(8).

B. Information relating to credit risk is provided in Note 8(3).

(10) Property and equipment, net

| December 31, 2020 | | | | |
|--|----------------------|-----------------------------|---------------------------|----------------------|
| | Cost | Accumulated Depreciation | Accumulated Impairment | Net Book Value |
| (In NT Thousand Dollars) | | | | |
| Land and land improvements | \$ 9,483,118 | \$ - | \$ - | \$ 9,483,118 |
| Buildings and auxiliary equipment | 10,471,125 | (6,485,007) | - | 3,986,118 |
| Computers and peripheral equipment | 4,251,880 | (3,135,460) | - | 1,116,420 |
| Transportation and communication equipment | 125,527 | (97,815) | - | 27,712 |
| Miscellaneous equipment | 1,564,257 | (1,342,581) | - | 221,676 |
| | <u>\$ 25,895,907</u> | <u>(\$ 11,060,863)</u> | <u>\$ -</u> | <u>\$ 14,835,044</u> |
| December 31, 2020 | | | | |
| | Cost | Accumulated Depreciation | Accumulated Impairment | Net Book Value |
| (In US Thousand Dollars) | | | | |
| Land and land improvements | \$ 337,538 | \$ - | \$ - | \$ 337,538 |
| Buildings and auxiliary equipment | 372,704 | (230,824) | - | 141,880 |
| Computers and peripheral equipment | 151,339 | (111,602) | - | 39,737 |
| Transportation and communication equipment | 4,468 | (3,482) | - | 986 |
| Miscellaneous equipment | 55,677 | (47,787) | - | 7,890 |
| | <u>\$ 921,726</u> | <u>(\$ 393,695)</u> | <u>\$ -</u> | <u>\$ 528,031</u> |
| December 31, 2019 | | | | |
| | Cost | Accumulated Depreciation | Accumulated Impairment | Net Book Value |
| (In NT Thousand Dollars) | | | | |
| Land and land improvements | \$ 9,486,039 | \$ - | (\$ 42,383) | \$ 9,443,656 |
| Buildings and auxiliary equipment | 10,473,996 | (6,312,780) | - | 4,161,216 |
| Computers and peripheral equipment | 3,913,313 | (2,824,869) | - | 1,088,444 |
| Transportation and communication equipment | 120,669 | (98,390) | - | 22,279 |
| Miscellaneous equipment | 1,559,295 | (1,312,377) | - | 246,918 |
| | <u>\$ 25,553,312</u> | <u>(\$ 10,548,416)</u> | <u>(\$ 42,383)</u> | <u>\$ 14,962,513</u> |

2020

| | Land and land improvements | Buildings and auxiliary equipment | Computers and peripheral equipment | Transportation and communication equipment | Miscellaneous equipment | Total |
|---------------------------------|-------------------------------|--------------------------------------|---------------------------------------|--|----------------------------|----------------------|
| (In NT Thousand Dollars) | | | | | | |
| <u>Cost</u> | | | | | | |
| Balance at January 1, 2020 | \$ 9,486,039 | \$ 10,473,996 | \$ 3,913,313 | \$ 120,669 | \$ 1,559,295 | \$ 25,553,312 |
| Additions for the year | - | 67,623 | 492,305 | 14,563 | 42,634 | 617,125 |
| Disposals for the year | - (| 20,560) (| 151,227) (| 7,794) (| 18,207) (| 197,788) |
| Transfers for the year | - | - | - | - | - | - |
| Exchange adjustments and others | (2,921) (| 49,934) (| 2,511) (| 1,911) (| 19,465) (| 76,742) |
| Balance at December 31, 2020 | <u>9,483,118</u> | <u>10,471,125</u> | <u>4,251,880</u> | <u>125,527</u> | <u>1,564,257</u> | <u>25,895,907</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| Balance at January 1, 2020 | - (| 6,312,780) (| 2,824,869) (| 98,390) (| 1,312,377) (| 10,548,416) |
| Depreciation for the year | - (| 236,934) (| 459,008) (| 8,905) (| 59,960) (| 764,807) |
| Disposals for the year | - | 20,560 | 151,227 | 7,772 | 18,189 | 197,748 |
| Transfers for the year | - | - | - | - | - | - |
| Exchange adjustments and others | - | 44,147 (| 2,810) (| 1,708 | 11,567 | 54,612) |
| Balance at December 31, 2020 | - (| 6,485,007) (| 3,135,460) (| 97,815) (| 1,342,581) (| 11,060,863) |
| <u>Accumulated impairment</u> | | | | | | |
| Balance at January 1, 2020 | (42,383) | - | - | - | - | (42,383) |
| Reversal of impairment | 42,383 | - | - | - | - | 42,383 |
| Balance at December 31, 2020 | - | - | - | - | - | - |
| | <u>\$ 9,483,118</u> | <u>\$ 3,986,118</u> | <u>\$ 1,116,420</u> | <u>\$ 27,712</u> | <u>\$ 221,676</u> | <u>\$ 14,835,044</u> |

2020

| | Land and land improvements | Buildings and auxiliary equipment | Computers and peripheral equipment | Transportation and communication equipment | Miscellaneous equipment | Total |
|---------------------------------|-------------------------------|--------------------------------------|---------------------------------------|--|----------------------------|-------------------|
| (In US Thousand Dollars) | | | | | | |
| <u>Cost</u> | | | | | | |
| Balance at January 1, 2020 | \$ 337,642 | \$ 372,806 | \$ 139,288 | \$ 4,295 | \$ 55,501 | \$ 909,532 |
| Additions for the year | - | 2,407 | 17,523 | 518 | 1,517 | 21,965 |
| Disposals for the year | - (| 732) (| 5,383) (| 277) (| 648) (| 7,040) |
| Transfers for the year | - | - | - | - | - | - |
| Exchange adjustments and others | (104) | (1,777) | (89) | (68) | (693) | (2,731) |
| Balance at December 31, 2020 | <u>337,538</u> | <u>372,704</u> | <u>151,339</u> | <u>4,468</u> | <u>55,677</u> | <u>921,726</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| Balance at January 1, 2020 | - (| 224,694) (| 100,547) (| 3,502) (| 46,712) (| 375,455) |
| Depreciation for the year | - (| 8,433) (| 16,338) (| 317) (| 2,134) (| 27,222) |
| Disposals for the year | - | 732 | 5,383 | 276 | 647 | 7,038 |
| Transfers for the year | - | - | - | - | - | - |
| Exchange adjustments and others | - | 1,571 | (100) | 61 | 412 | 1,944 |
| Balance at December 31, 2020 | - (| 230,824) (| 111,602) (| 3,482) (| 47,787) (| 393,695) |
| <u>Accumulated impairment</u> | | | | | | |
| Balance at January 1, 2020 | (1,509) | - | - | - | - | (1,509) |
| Reversal of impairment | 1,509 | - | - | - | - | 1,509 |
| Balance at December 31, 2020 | - | - | - | - | - | - |
| | <u>\$ 337,538</u> | <u>\$ 141,880</u> | <u>\$ 39,737</u> | <u>\$ 986</u> | <u>\$ 7,890</u> | <u>\$ 528,031</u> |

2019

| | Land and land improvements | Buildings and auxiliary equipment | Computers and peripheral equipment | Transportation and communication equipment | Miscellaneous equipment | Total |
|---------------------------------|-------------------------------|--------------------------------------|---------------------------------------|--|----------------------------|----------------------|
| (In NT Thousand Dollars) | | | | | | |
| <u>Cost</u> | | | | | | |
| Balance at January 1, 2019 | \$ 9,486,629 | \$ 10,401,146 | \$ 3,593,290 | \$ 126,355 | \$ 1,503,753 | \$ 25,111,173 |
| Additions for the year | - | 124,037 | 515,486 | 9,147 | 97,264 | 745,934 |
| Disposals for the year | - (| 34,445) (| 179,293) (| 14,505) (| 40,217) (| 268,460) |
| Transfers for the year | - (| 2,163) (| 170) | - | 2,333 | - |
| Exchange adjustments and others | (590) | (14,579) | (16,000) | (328) | (3,838) | (35,335) |
| Balance at December 31, 2019 | <u>9,486,039</u> | <u>10,473,996</u> | <u>3,913,313</u> | <u>120,669</u> | <u>1,559,295</u> | <u>25,553,312</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| Balance at January 1, 2019 | - (| 6,131,325) (| 2,621,304) (| 104,601) (| 1,295,469) (| 10,152,699) |
| Depreciation for the year | - (| 231,681) (| 398,672) (| 8,588) (| 58,966) (| 697,907) |
| Disposals for the year | - | 34,445 | 178,752 | 14,506 | 40,100 | 267,803 |
| Transfers for the year | - | 1,527 | 292 | - (| 1,819) | - |
| Exchange adjustments and others | - | 14,254 | 16,063 | 293 | 3,777 | 34,387 |
| Balance at December 31, 2019 | - (| 6,312,780) (| 2,824,869) (| 98,390) (| 1,312,377) (| 10,548,416) |
| <u>Accumulated impairment</u> | | | | | | |
| Balance at January 1, 2019 | - | - | - | - | - | - |
| Impairment loss | (42,383) | - | - | - | - | (42,383) |
| Balance at December 31, 2019 | (42,383) | - | - | - | - | (42,383) |
| | <u>\$ 9,443,656</u> | <u>\$ 4,161,216</u> | <u>\$ 1,088,444</u> | <u>\$ 22,279</u> | <u>\$ 246,918</u> | <u>\$ 14,962,513</u> |

(11) Leasing arrangements – lessee

A. The Bank and subsidiaries lease various assets including land and land improvements, buildings and auxiliary equipment, machinery and equipment. Lease contracts are typically made for periods of 1 to 30.3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease contracts do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The carrying amount of right-of-use assets and the depreciation expense are as follows:

| | December 31, 2020 | | December 31, 2019 |
|-----------------------------------|----------------------|------------------|----------------------|
| | Carrying amount | | Carrying amount |
| | NT\$ | US\$ | NT\$ |
| Land and land improvements | \$ 478,105 | \$ 17,017 | \$ 498,451 |
| Buildings and auxiliary equipment | 1,305,963 | 46,484 | 1,306,257 |
| Machinery and equipment | 96,186 | 3,424 | 112,216 |
| Others | 590 | 21 | 1,329 |
| Total | <u>\$ 1,880,844</u> | <u>\$ 66,946</u> | <u>\$ 1,918,253</u> |
| For the years ended December 31, | | | |
| | 2020 | | 2019 |
| | Depreciation expense | | Depreciation expense |
| | NT\$ | US\$ | NT\$ |
| Land and land improvements | \$ 25,902 | \$ 922 | \$ 26,122 |
| Buildings and auxiliary equipment | 534,417 | 19,022 | 523,364 |
| Machinery and equipment | 54,858 | 1,952 | 51,945 |
| Others | 749 | 27 | 1,084 |
| Total | <u>\$ 615,926</u> | <u>\$ 21,923</u> | <u>\$ 602,515</u> |

C. The information on income and expense accounts and cashflow relating to lease contracts is as follows:

| | For the years ended December 31, | | |
|---------------------------------------|----------------------------------|-----------|------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| <u>Items affecting profit or loss</u> | | | |
| Interest expense on lease liabilities | \$ 27,259 | \$ 970 | \$ 26,943 |
| Expense on short-term lease contracts | 5,408 | 192 | 5,926 |
| Expense on leases of low-value assets | 6,915 | 246 | 7,628 |
| <u>Other disclosures</u> | | | |
| Addition of right-of-use assets | \$ 594,198 | \$ 21,150 | \$ 810,459 |
| Cash outflow for leases | (477,746) | (17,005) | (631,464) |

(12) Leasing arrangements – lessor

A. The Bank and subsidiaries lease various assets including land and land improvements, buildings and auxiliary equipment, machinery and equipment. Lease contracts are typically made for periods of 1 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes, or a residual value guarantee was required.

B. For the years ended December 31, 2020 and 2019, the Bank and subsidiaries recognised rental income in the amounts of NT\$156,790 thousand and NT\$158,825 thousand based on the operating lease contracts, of which variable lease payments amounted to NT\$0 thousand and NT\$1,616 thousand, respectively.

C. The maturity analysis of the lease payments under the operating leases is as follows:

| | For the years ended December 31, | | |
|---------------|----------------------------------|------------------|-------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Within 1 year | \$ 156,596 | \$ 5,574 | \$ 160,140 |
| 1-2 years | 68,258 | 2,429 | 129,671 |
| 2-3 years | 28,979 | 1,031 | 43,596 |
| 3-4 years | 15,211 | 541 | 18,126 |
| 4-5 years | 5,325 | 190 | 10,809 |
| After 5 years | 15,272 | 544 | 17,853 |
| Total | <u>\$ 289,641</u> | <u>\$ 10,309</u> | <u>\$ 380,195</u> |

(13) Investment property, net

| | December 31, 2020 | | | |
|-----------------------------------|--------------------------|--------------------------|------------------------|-------------------|
| | Cost | Accumulated Depreciation | Accumulated Impairment | Net Book Value |
| | (In NT Thousand Dollars) | | | |
| Land and land improvements | \$ 574,770 | \$ - | \$ - | \$ 574,770 |
| Buildings and auxiliary equipment | 21,499 | (12,645) | - | 8,854 |
| | <u>\$ 596,269</u> | <u>(\$ 12,645)</u> | <u>\$ -</u> | <u>\$ 583,624</u> |

| | December 31, 2020 | | | |
|-----------------------------------|--------------------------|--------------------------|------------------------|------------------|
| | Cost | Accumulated Depreciation | Accumulated Impairment | Net Book Value |
| | (In US Thousand Dollars) | | | |
| Land and land improvements | \$ 20,458 | \$ - | \$ - | \$ 20,458 |
| Buildings and auxiliary equipment | 765 | (450) | - | 315 |
| | <u>\$ 21,223</u> | <u>(\$ 450)</u> | <u>\$ -</u> | <u>\$ 20,773</u> |

| | December 31, 2019 | | | |
|--------------------------------------|--------------------------|-----------------------------|---------------------------|-------------------|
| | Cost | Accumulated Depreciation | Accumulated Impairment | Net Book Value |
| | (In NT Thousand Dollars) | | | |
| Land and land improvements | \$ 574,770 | \$ - | \$ - | \$ 574,770 |
| Buildings and auxiliary equipment | <u>21,540</u> | <u>(12,337)</u> | <u>-</u> | <u>9,203</u> |
| | <u>\$ 596,310</u> | <u>(\$ 12,337)</u> | <u>\$ -</u> | <u>\$ 583,973</u> |

- A. The fair value of the investment property held by the Bank and subsidiaries as of December 31, 2020 and 2019 was NT\$3,096,155 thousand and NT\$3,034,172 thousand, respectively, according to the result of valuation by an independent valuation expert using the comparison method and land development analysis approach, both of which are considered to be ranked at Level 2 within the fair value hierarchy.
- B. Rental income from the lease of the investment property for the years ended December 31, 2020 and 2019 was NT\$14,280 thousand and NT\$13,977 thousand, respectively; direct operating expenses incident to current rental income from investment property was NT\$6,708 thousand and NT\$6,769 thousand, respectively.
- C. For the rental revenue from the lease of the investment property among related parties, please refer to Note 11(3).
- D. None of the Bank's and its subsidiaries' investment property as at December 31, 2020 and 2019 have been pledged or provided as guarantees.

(Blank below)

| | 2020 | | |
|---------------------------------|-------------------------------|--------------------------------------|-------------------|
| | Land and land improvements | Buildings and auxiliary equipment | Total |
| | (In NT Thousand Dollars) | | |
| <u>Original cost</u> | | | |
| Balance at January 1, 2020 | \$ 574,770 | \$ 21,540 | \$ 596,310 |
| Exchange adjustments | - | (41) | (41) |
| Balance at December 31, 2020 | <u>574,770</u> | <u>21,499</u> | <u>596,269</u> |
| <u>Accumulated depreciation</u> | | | |
| Balance at January 1, 2020 | - | (12,337) | (12,337) |
| Depreciation for the year | - | (334) | (334) |
| Exchange adjustments | - | 26 | 26 |
| Balance at December 31, 2020 | <u>-</u> | <u>(12,645)</u> | <u>(12,645)</u> |
| | <u>\$ 574,770</u> | <u>\$ 8,854</u> | <u>\$ 583,624</u> |
| | 2020 | | |
| | Land and land improvements | Buildings and auxiliary equipment | Total |
| | (In US Thousand Dollars) | | |
| <u>Original cost</u> | | | |
| Balance at January 1, 2020 | \$ 20,458 | \$ 767 | \$ 21,225 |
| Exchange adjustments | - | (2) | (2) |
| Balance at December 31, 2020 | <u>20,458</u> | <u>765</u> | <u>21,223</u> |
| <u>Accumulated depreciation</u> | | | |
| Balance at January 1, 2020 | - | (439) | (439) |
| Depreciation for the year | - | (12) | (12) |
| Exchange adjustments | - | 1 | 1 |
| Balance at December 31, 2020 | <u>-</u> | <u>(450)</u> | <u>(450)</u> |
| | <u>\$ 20,458</u> | <u>\$ 315</u> | <u>\$ 20,773</u> |
| | 2019 | | |
| | Land and land improvements | Buildings and auxiliary equipment | Total |
| | (In NT Thousand Dollars) | | |
| <u>Original cost</u> | | | |
| Balance at January 1, 2019 | \$ 574,770 | \$ 21,498 | \$ 596,268 |
| Exchange adjustments | - | 42 | 42 |
| Balance at December 31, 2019 | <u>574,770</u> | <u>21,540</u> | <u>596,310</u> |
| <u>Accumulated depreciation</u> | | | |
| Balance at January 1, 2019 | - | (11,977) | (11,977) |
| Depreciation for the year | - | (335) | (335) |
| Exchange adjustments | - | (25) | (25) |
| Balance at December 31, 2019 | <u>-</u> | <u>(12,337)</u> | <u>(12,337)</u> |
| | <u>\$ 574,770</u> | <u>\$ 9,203</u> | <u>\$ 583,973</u> |

(14) Other assets, net

| | December 31, 2020 | | December 31, 2019 |
|---------------------|---------------------|-------------------|---------------------|
| | NT\$ | US\$ | NT\$ |
| Refundable deposits | \$ 6,399,972 | \$ 227,798 | \$ 4,524,234 |
| Temporary payments | 1,136,585 | 40,455 | 863,147 |
| Computer software | 829,235 | 29,515 | 506,828 |
| Prepaid expenses | 133,829 | 4,763 | 126,882 |
| Others | 132,544 | 4,718 | 160,566 |
| Total | <u>\$ 8,632,165</u> | <u>\$ 307,249</u> | <u>\$ 6,181,657</u> |

(15) Deposits from the Central Bank and banks

| | December 31, 2020 | | December 31, 2019 |
|---|-----------------------|----------------------|-----------------------|
| | NT\$ | US\$ | NT\$ |
| Deposits from the Central Bank | \$ 191,071,013 | \$ 6,800,890 | \$ 174,826,666 |
| Call loans from the Central Bank and banks | 130,019,654 | 4,627,857 | 175,091,254 |
| Deposits from banks | 67,236,076 | 2,393,169 | 58,859,396 |
| Overdrafts on banks | 1,917,837 | 68,263 | 4,344,459 |
| Deposits transferred from Chunghwa Post Co., Ltd. | 39,343 | 1,400 | 71,410 |
| Total | <u>\$ 390,283,923</u> | <u>\$ 13,891,579</u> | <u>\$ 413,193,185</u> |

(16) Due to the Central Bank and banks

| | December 31, 2020 | | December 31, 2019 |
|--|----------------------|-------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Other dues to the Central Bank | \$ 9,754,140 | \$ 347,184 | \$ - |
| Due to banks | 7,023,750 | 250,000 | 17,392,460 |
| Collateral loans transferred to the Central Bank | 3,586,089 | 127,642 | 3,768,861 |
| Total | <u>\$ 20,363,979</u> | <u>\$ 724,826</u> | <u>\$ 21,161,321</u> |

(17) Financial liabilities at fair value through profit or loss

| | December 31, 2020 | | December 31, 2019 |
|--|----------------------|-------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Financial liabilities held for trading: | | | |
| Derivatives | <u>\$ 3,300,350</u> | <u>\$ 117,471</u> | <u>\$ 2,853,050</u> |
| Financial liabilities designated at fair value through profit or loss: | | | |
| Bank notes | 15,570,980 | 554,226 | 17,362,339 |
| Valuation adjustment | <u>1,483,293</u> | <u>52,796</u> | <u>1,157,357</u> |
| Subtotal | <u>17,054,273</u> | <u>607,022</u> | <u>18,519,696</u> |
| Total | <u>\$ 20,354,623</u> | <u>\$ 724,493</u> | <u>\$ 21,372,746</u> |

A. The Bank and subsidiaries' gain (loss) on financial liabilities held for trading and gain (loss) on financial liabilities designated at fair value through profit or loss recognized for the years ended December 31, 2020 and 2019 are provided in Note 6(29).

B. Financial liabilities designated at fair value through profit or loss by the Bank is for the purpose of eliminating recognition inconsistency.

(18) Payables

| | December 31, 2020 | | December 31, 2019 |
|-----------------------------------|----------------------|---------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Accounts payable | \$ 15,690,983 | \$ 558,497 | \$ 11,714,037 |
| Bankers' acceptances | 6,504,180 | 231,507 | 5,670,515 |
| Dividends and bonus payable | 5,679,263 | 202,145 | 5,681,664 |
| Accrued expenses | 4,624,528 | 164,603 | 5,219,043 |
| Accrued interest | 2,061,784 | 73,386 | 4,371,022 |
| Collections payable for customers | 973,763 | 34,660 | 1,178,172 |
| Other payables | 1,912,743 | 68,081 | 2,015,273 |
| Total | <u>\$ 37,447,244</u> | <u>\$ 1,332,879</u> | <u>\$ 35,849,726</u> |

(19) Deposits and remittances

| | December 31, 2020 | | December 31, 2019 |
|------------------------------------|-------------------------|----------------------|-------------------------|
| | NT\$ | US\$ | NT\$ |
| Time deposits | \$ 984,771,155 | \$ 35,051,474 | \$ 1,018,377,750 |
| Demand deposits | 789,876,419 | 28,114,484 | 656,570,681 |
| Demand savings deposits | 520,156,920 | 18,514,217 | 466,103,601 |
| Time savings deposits | 286,782,369 | 10,207,594 | 282,924,395 |
| Checking deposits | 25,516,435 | 908,220 | 26,496,329 |
| Remittances | 8,958,765 | 318,874 | 9,222,599 |
| Negotiable certificates of deposit | 1,401,700 | 49,891 | 859,500 |
| Total | <u>\$ 2,617,463,763</u> | <u>\$ 93,164,754</u> | <u>\$ 2,460,554,855</u> |

(20) Bank notes payable

| | December 31, 2020 | | December 31, 2019 |
|------------------------------|----------------------|-------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Subordinated bank debentures | \$ 12,000,000 | \$ 427,122 | \$ 12,000,000 |
| General bank debentures | 1,000,000 | 35,594 | - |
| Total | <u>\$ 13,000,000</u> | <u>\$ 462,716</u> | <u>\$ 12,000,000</u> |

Bank notes were as follows:

| Name of bond | Issuing period | Interest rate % | Total issued amount | December 31, 2020 | | Remark |
|---------------------------------------|-----------------------|-----------------|---------------------|-------------------|------------|---|
| | | | | NT\$ | US\$ | |
| 103-1 Development Bank Notes (Note 1) | 2014.03.28-2021.03.28 | 1.70% | NT\$ 4,900,000 | \$ 4,900,000 | \$ 174,408 | Interest is paid annually. The principal is repaid at maturity. |
| 103-2 Development Bank Notes (Note 1) | 2014.06.24-2021.06.24 | 1.65% | 7,100,000 | 7,100,000 | 252,714 | Interest is paid annually. The principal is repaid at maturity. |
| 109-1 Development Bank Notes (Note 2) | 2020.03.11-2023.03.11 | 0.60% | 1,000,000 | 1,000,000 | 35,594 | Interest is paid annually. The principal is repaid at maturity. |
| Total | | | | \$ 13,000,000 | \$ 462,716 | |

(Note 1)It was a subordinated bank debenture.

(Note 2)It was a general bank debenture.

| Name of bond | Issuing period | Interest rate % | Total issued amount | December 31, 2020 | | Remark |
|------------------|-----------------------|-----------------|---------------------|-------------------|---------|--------------------------------------|
| | | | | US\$ | | |
| 107-1 Bank Notes | 2018.03.01-2048.03.01 | 0.00% | US\$ 330,000 | \$ | 330,000 | The principal is repaid at maturity. |
| 107-2 Bank Notes | 2018.05.17-2048.05.17 | 0.00% | 164,000 | | 164,000 | The principal is repaid at maturity. |
| 107-3 Bank Notes | 2018.11.28-2048.11.28 | 0.00% | 45,000 | | - | The principal is repaid at maturity. |
| Total | | | | \$ | 494,000 | |

| Name of bond | Issuing period | Interest rate % | Total issued amount | December 31, 2019 | | Remark |
|---------------------------------------|-----------------------|-----------------|---------------------|-------------------|------------|---|
| | | | | NT\$ | | |
| 103-1 Development Bank Notes (Note 1) | 2014.03.28-2021.03.28 | 1.70% | NT\$4,900,000 | \$ | 4,900,000 | Interest is paid annually. The principal is repaid at maturity. |
| 103-2 Development Bank Notes (Note 1) | 2014.06.24-2021.06.24 | 1.65% | 7,100,000 | | 7,100,000 | Interest is paid annually. The principal is repaid at maturity. |
| 109-1 Development Bank Notes (Note 2) | 2020.03.11-2023.03.11 | 0.60% | 1,000,000 | | - | Interest is paid annually. The principal is repaid at maturity. |
| Total | | | | \$ | 12,000,000 | |

(Note 1)It was a subordinated bank debenture.

(Note 2)It was a general bank debenture.

| Name of bond | Issuing period | Interest rate % | Total issued amount | December 31, 2019 | | Remark |
|------------------|-----------------------|-----------------|---------------------|-------------------|---------|--------------------------------------|
| | | | | US\$ | | |
| 107-1 Bank Notes | 2018.03.01-2048.03.01 | 0.00% | US\$ 330,000 | \$ | 330,000 | The principal is repaid at maturity. |
| 107-2 Bank Notes | 2018.05.17-2048.05.17 | 0.00% | 164,000 | | 164,000 | The principal is repaid at maturity. |
| 107-3 Bank Notes | 2018.11.28-2048.11.28 | 0.00% | 45,000 | | 45,000 | The principal is repaid at maturity. |
| Total | | | | \$ | 539,000 | |

As of December 31, 2020 and 2019, the outstanding balances of the above mentioned bank notes amounted to US\$494 million and US\$539 million; and NT\$13.0 billion and NT\$12.0 billion,

respectively. In addition, among the above bank notes, the senior bank notes with face value of US\$494 million and US\$539 million were designated as financial liabilities at fair value through profit or loss and hedged by interest rate swap contracts, respectively. As such interest rate swap contracts were valued at fair value with changes in fair value recognized as profit or loss, the aforementioned bank notes were designated as financial liabilities at fair value through profit or loss in order to eliminate recognition inconsistency.

(21) Provisions

| | December 31, 2020 | | December 31, 2019 |
|--------------------------------------|----------------------|-------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Provisions for employee benefits | \$ 14,098,537 | \$ 501,817 | \$ 13,233,535 |
| Provisions for guarantee liabilities | 2,595,698 | 92,390 | 2,956,406 |
| Provisions for loan commitments | 219,469 | 7,811 | 97,542 |
| Provisions for others | 2,952 | 105 | 1,879 |
| Total | <u>\$ 16,916,656</u> | <u>\$ 602,123</u> | <u>\$ 16,289,362</u> |

Provisions for employee benefits are as follows:

| | December 31, 2020 | | December 31, 2019 |
|---|----------------------|-------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Recognized in consolidated balance sheet: | | | |
| -Defined benefit plans | \$ 8,911,482 | \$ 317,191 | \$ 8,501,956 |
| -Employee preferential savings plans | 5,187,055 | 184,626 | 4,731,579 |
| Total | <u>\$ 14,098,537</u> | <u>\$ 501,817</u> | <u>\$ 13,233,535</u> |

A. Defined benefit plans

(A) The Bank has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Bank contributes monthly an amount equal to 11.896% (the contribution percentage from January 2019 to May 2019 was 11.654%; the contribution percentage from June 2019 to June 2020 was 12.197%) of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Bank would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Bank will make contributions to cover the deficit by the end of next March.

(B) The amounts recognized in the balance sheet are determined as follows:

| | December 31, 2020 | | December 31, 2019 |
|-------------------------------------|---------------------|-------------------|---------------------|
| | NT\$ | US\$ | NT\$ |
| Present value of funded obligations | \$ 17,790,850 | \$ 633,239 | \$ 17,508,187 |
| Fair value of plan assets | (8,879,368) | (316,048) | (9,006,231) |
| Net defined benefit liability | <u>\$ 8,911,482</u> | <u>\$ 317,191</u> | <u>\$ 8,501,956</u> |

(C) Movements in net defined benefit liabilities are as follows:

| | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|---|---|------------------------------|----------------------------------|
| (In NT Thousand Dollars) | | | |
| 2020 | | | |
| Balance at January 1 | \$ 17,508,187 | (\$ 9,006,231) | \$ 8,501,956 |
| Current service cost | 504,279 | - | 504,279 |
| Interest expenses (income) | 119,687 | (62,274) | 57,413 |
| Past service cost | - | - | - |
| | <u>18,132,153</u> | <u>(9,068,505)</u> | <u>9,063,648</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expenses) | - | (305,798) | (305,798) |
| Change in financial assumptions | 905,321 | - | 905,321 |
| Experience adjustments | <u>4,931</u> | <u>-</u> | <u>4,931</u> |
| | <u>910,252</u> | <u>(305,798)</u> | <u>604,454</u> |
| Pension fund contribution | - | (756,601) | (756,601) |
| Paid Pension | (1,251,536) | 1,251,536 | - |
| Business combination adjustments | (19) | - | (19) |
| Balance at December 31 | <u>\$ 17,790,850</u> | <u>(\$ 8,879,368)</u> | <u>\$ 8,911,482</u> |

| | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|---|---|------------------------------|----------------------------------|
| (In US Thousand Dollars) | | | |
| 2020 | | | |
| Balance at January 1 | \$ 623,178 | (\$ 320,563) | \$ 302,615 |
| Current service cost | 17,949 | - | 17,949 |
| Interest expenses (income) | 4,260 | (2,217) | 2,043 |
| Past service cost | - | - | - |
| | <u>645,387</u> | <u>(322,780)</u> | <u>322,607</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expenses) | - | (10,884) | (10,884) |
| Change in financial assumptions | 32,224 | - | 32,224 |
| Experience adjustments | 175 | - | 175 |
| | <u>32,399</u> | <u>(10,884)</u> | <u>21,515</u> |
| Pension fund contribution | - | (26,930) | (26,930) |
| Paid Pension | (44,546) | 44,546 | - |
| Business combination adjustments | (1) | - | (1) |
| Balance at December 31 | <u>\$ 633,239</u> | <u>(\$ 316,048)</u> | <u>\$ 317,191</u> |

| | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|---|---|------------------------------|----------------------------------|
| (In NT Thousand Dollars) | | | |
| 2019 | | | |
| Balance at January 1 | \$ 16,909,442 | (\$ 9,151,785) | \$ 7,757,657 |
| Current service cost | 514,327 | - | 514,327 |
| Interest expenses (income) | 165,187 | (90,683) | 74,504 |
| Past service cost | 163,077 | - | 163,077 |
| | <u>17,752,033</u> | <u>(9,242,468)</u> | <u>8,509,565</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expenses) | - | (326,716) | (326,716) |
| Change in financial assumptions | 722,064 | - | 722,064 |
| Experience adjustments | 489,696 | - | 489,696 |
| | <u>1,211,760</u> | <u>(326,716)</u> | <u>885,044</u> |
| Pension fund contribution | - | (892,653) | (892,653) |
| Paid Pension | (1,455,606) | 1,455,606 | - |
| Balance at December 31 | <u>\$ 17,508,187</u> | <u>(\$ 9,006,231)</u> | <u>\$ 8,501,956</u> |

(D) The Bank of Taiwan was commissioned to manage the Fund of the Bank's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.), and the performance of fund utilization is supervised by the Labor Funds Supervisory Committee. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Bank has no right to participate in managing and operating that fund and hence the Bank is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2020 and 2019 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(E) The principal actuarial assumptions used were as follows:

| | For the years ended December 31, | |
|---------------------------------|----------------------------------|-------|
| | 2020 | 2019 |
| Discount rate | 0.30% | 0.70% |
| Rate of future salary increases | 3.52% | 3.36% |

Assumptions regarding future mortality rate are set based on the 5th Chart of Life Span Estimate Used by the Taiwan Life Insurance Enterprises.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

| | Discount rate | | Rate of future salary increases | |
|---|--------------------------|----------------|---------------------------------|----------------|
| | Increase 0.25% | Decrease 0.25% | Increase 0.25% | Decrease 0.25% |
| | (In NT Thousand Dollars) | | | |
| December 31, 2020 | | | | |
| Effect on present value of defined benefit obligation | (\$ 416,059) | \$ 431,320 | \$ 416,643 | (\$ 404,300) |

| | Discount rate | | Rate of future salary increases | |
|---|--------------------------|----------------|---------------------------------|----------------|
| | Increase 0.25% | Decrease 0.25% | Increase 0.25% | Decrease 0.25% |
| | (In US Thousand Dollars) | | | |
| December 31, 2020 | | | | |
| Effect on present value of defined benefit obligation | (\$ 14,809) | \$ 15,352 | \$ 14,830 | (\$ 14,390) |

| | Discount rate | | Rate of future salary increases | |
|---|--------------------------|----------------|---------------------------------|----------------|
| | Increase 0.25% | Decrease 0.25% | Increase 0.25% | Decrease 0.25% |
| | (In NT Thousand Dollars) | | | |
| December 31, 2019 | | | | |
| Effect on present value of defined benefit obligation | (\$ 409,789) | \$ 425,041 | \$ 412,889 | (\$ 400,380) |

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(F) Expected contributions to the defined benefit pension plans of the Bank for the year ending December 31, 2021 amount to NT\$491,000 thousand.

(G) As of December 31, 2020, the weighted average duration of that pension plan is 9.1 years.

B. Defined contribution plans

(A) Effective July 1, 2005, the Bank has established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), applicable to employees of local citizenship. Under the New Plan, the Bank contributes monthly an amount not less than 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The payment of pension benefits is based on the employees’ individual pension fund accounts and the cumulative profit in such accounts, and the employees can choose to receive such pension benefits monthly or in a lump sum.

(B) The pension costs under the defined contribution pension plan for the years ended December 31, 2020 and 2019 were NT\$165,892 thousand and NT\$142,612 thousand, respectively. For local employees of overseas branches and subsidiaries, pension expenses under defined contribution plans following local regulations for the years ended December 31, 2020 and 2019, were NT\$28,656 thousand and NT\$47,453 thousand, respectively.

C. The Bank’s payment obligations of fixed-amount preferential savings of retired employees and current employees after retirement follow the internal regulation “Rules Governing Pension Preferential Savings of Staff of Mega International Commercial Bank”. The excessive interest arising from the interest rate upon retirement agreed with the employees in excess of general market interest rate should be accounted for in accordance with IAS 19, “Employee Benefits”.

(A) Adjustment of assets and liabilities recognized in the consolidated balance sheets, present value of defined benefit obligation, and fair value of plan assets:

| | December 31, 2020 | | December 31, 2019 |
|---|---------------------|-------------------|---------------------|
| | NT\$ | US\$ | NT\$ |
| Present value of defined benefit obligation | \$ 5,187,055 | \$ 184,626 | \$ 4,731,579 |
| Less: Fair value of plan assets | - | - | - |
| | <u>\$ 5,187,055</u> | <u>\$ 184,626</u> | <u>\$ 4,731,579</u> |

(B) Movements in net defined benefit liabilities are as follows:

| | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|-----------------------------------|---|------------------------------|----------------------------------|
| (In NT Thousand Dollars) | | | |
| 2020 | | | |
| Balance at January 1 | \$ 4,731,579 | \$ - | \$ 4,731,579 |
| Interest expenses | 180,439 | - | 180,439 |
| | <u>4,912,018</u> | <u>-</u> | <u>4,912,018</u> |
| Remeasurements: | | | |
| Change in demographic assumptions | 646,947 | - | 646,947 |
| Experience adjustments | 593,480 | - | 593,480 |
| | <u>1,240,427</u> | <u>-</u> | <u>1,240,427</u> |
| Pension fund contribution | - | (965,390) | (965,390) |
| Paid pension | (965,390) | 965,390 | - |
| Balance at December 31 | <u>\$ 5,187,055</u> | <u>\$ -</u> | <u>\$ 5,187,055</u> |

| | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|-----------------------------------|---|------------------------------|----------------------------------|
| (In US Thousand Dollars) | | | |
| 2020 | | | |
| Balance at January 1 | \$ 168,415 | \$ - | \$ 168,415 |
| Interest expenses | 6,422 | - | 6,422 |
| | <u>174,837</u> | <u>-</u> | <u>174,837</u> |
| Remeasurements: | | | |
| Change in demographic assumptions | 23,027 | - | 23,027 |
| Experience adjustments | 21,124 | - | 21,124 |
| | <u>44,151</u> | <u>-</u> | <u>44,151</u> |
| Pension fund contribution | - | (34,362) | (34,362) |
| Paid pension | (34,362) | 34,362 | - |
| Balance at December 31 | <u>\$ 184,626</u> | <u>\$ -</u> | <u>\$ 184,626</u> |

| | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liability |
|-----------------------------------|---|------------------------------|----------------------------------|
| (In NT Thousand Dollars) | | | |
| 2019 | | | |
| Balance at January 1 | \$ 4,315,032 | \$ - | \$ 4,315,032 |
| Interest expenses | <u>164,618</u> | <u>-</u> | <u>164,618</u> |
| | <u>4,479,650</u> | <u>-</u> | <u>4,479,650</u> |
| Remeasurements: | | | |
| Change in demographic assumptions | 545,544 | - | 545,544 |
| Experience adjustments | <u>574,868</u> | <u>-</u> | <u>574,868</u> |
| | <u>1,120,412</u> | <u>-</u> | <u>1,120,412</u> |
| Pension fund contribution | - | (868,483) | (868,483) |
| Paid pension | <u>(868,483)</u> | <u>868,483</u> | <u>-</u> |
| Balance at December 31 | <u>\$ 4,731,579</u> | <u>\$ -</u> | <u>\$ 4,731,579</u> |

(C) Actuarial assumptions are as follows:

| | For the years ended December 31, | |
|--|----------------------------------|---------------|
| | 2020 | 2019 |
| Discount rate for employee preferential interest savings | <u>4.00%</u> | <u>4.00%</u> |
| Return rate on capital deposited | <u>2.00%</u> | <u>2.00%</u> |
| Annual decreasing ratio for account balance | <u>1.00%</u> | <u>1.00%</u> |
| Probability of change in preferential savings system in the future | <u>50.00%</u> | <u>50.00%</u> |

Because the main actuarial assumption changed, the present value of employee preferential interest savings obligation is affected. The analysis was as follows:

| | Discount rate | | Rate of deposit cost | |
|---|----------------------|----------------------|----------------------|------------------|
| | Increase 0.25% | Decrease 0.25% | Increase 0.05% | Decrease 0.05% |
| (In NT Thousand Dollars) | | | | |
| December 31, 2020 | | | | |
| Effect on present value of defined benefit obligation | (\$ <u>103,333</u>) | \$ <u>107,183</u> | (\$ <u>24,206</u>) | \$ <u>24,206</u> |
| | Discount rate | Rate of deposit cost | | |
| | Increase 0.25% | Decrease 0.25% | Increase 0.05% | Decrease 0.05% |
| (In US Thousand Dollars) | | | | |
| December 31, 2020 | | | | |
| Effect on present value of defined benefit obligation | (\$ <u>3,678</u>) | \$ <u>3,815</u> | (\$ <u>862</u>) | \$ <u>862</u> |

| | Discount rate | | Rate of deposit cost | |
|---|----------------|----------------|----------------------|----------------|
| | Increase 0.25% | Decrease 0.25% | Increase 0.05% | Decrease 0.05% |
| (In NT Thousand Dollars) | | | | |
| December 31, 2019 | | | | |
| Effect on present value of defined benefit obligation | (\$ 94,797) | \$ 98,340 | (\$ 34,433) | \$ 34,433 |

(D) The Bank and subsidiaries recognized employee benefit expenses of NT\$1,692,849 thousand and NT\$1,533,094 thousand for the years ended December 31, 2020 and 2019, respectively.

D. Please refer to Note 8(3) for the movement information on provisions for loan commitments and guarantee liabilities for the years ended December 31, 2020 and 2019.

E. Information relating to credit risk of provisions for loan commitments and guarantee liabilities is provided in Note 8(3).

(22) Other financial liabilities

| | December 31, 2020 | | December 31, 2019 |
|---|---------------------|-------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Principal received on structured notes | \$ 7,657,573 | \$ 272,560 | \$ 9,646,310 |
| Cumulative earnings on appropriated loan fund | 476,479 | 16,960 | 620,221 |
| Total | <u>\$ 8,134,052</u> | <u>\$ 289,520</u> | <u>\$ 10,266,531</u> |

(23) Other liabilities

| | December 31, 2020 | | December 31, 2019 |
|---------------------------------|---------------------|-------------------|---------------------|
| | NT\$ | US\$ | NT\$ |
| Guarantee deposits received | \$ 4,408,938 | \$ 156,929 | \$ 3,192,529 |
| Temporary credits | 1,372,911 | 48,867 | 2,007,525 |
| Advance receipt | 1,371,917 | 48,831 | 1,451,333 |
| Other liabilities to be settled | 403,013 | 14,345 | 425,622 |
| Others | 180,317 | 6,418 | 188,182 |
| Total | <u>\$ 7,737,096</u> | <u>\$ 275,390</u> | <u>\$ 7,265,191</u> |

(24) Equity

A. Common stock

As of December 31, 2020 and 2019, the Bank's authorized and paid-in capital was NT\$85,362,336 thousand and outstanding shares were 8,536,234 thousand, with a par value of NT\$10 per share.

B. Capital surplus

(A) Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Bank has no accumulated deficit. Further, the R.O.C. Securities and

Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(B) On December 31, 2020 and 2019, the details of the Bank's capital surplus are as follows:

| | December 31, 2020 | | December 31, 2019 |
|--|----------------------|---------------------|----------------------|
| | NT\$ | US\$ | NT\$ |
| Additional paid-in capital | \$ 31,495,952 | \$ 1,121,052 | \$ 31,495,952 |
| Consolidation surplus arising from share conversion | 30,109,277 | 1,071,695 | 30,109,277 |
| Changes in additional paid-in capital of investees accounted for using equity method | 375,908 | 13,380 | 375,908 |
| Share-based payment (Note) | 238,403 | 8,486 | 238,403 |
| Total | <u>\$ 62,219,540</u> | <u>\$ 2,214,613</u> | <u>\$ 62,219,540</u> |

Note: above-mentioned share-based payment includes the subsidiaries.

C. Legal reserve and Special reserve

(A) Legal reserve

Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Bank's paid-in capital. As of December 31, 2020 and 2019, the Bank's legal reserves was NT\$100,792,996 thousand and NT\$93,399,533 thousand, respectively.

(B) Special reserve

In accordance with Financial-Supervisory-Securities-Corporate No. 1010012865 of the FSC dated on April 6, 2012, upon the first-time adoption for IFRSs, equivalent amounts of special reserve with regard to the unrealized revaluation increment under the stockholders' equity and cumulative translation adjustment (gains) transferred to retained earnings should be set aside. For the said special reserve, reversal of distributed earnings shall be based on the proportion of the original ratio of special reserve provision in the subsequent use, disposal or reclassification for the related assets. Amount of NT\$6,389 thousand previously set aside by the Bank as special reserve in accordance with Financial-Supervisory-Securities-Corporate No. 1010012865 was reversed proportionally due to disposal of investments Cathy Investment & Development Corporation (Bahamas), which was measured by equity method- for the year ended December 31, 2019. As of December 31, 2020, and 2019, the special reserve of the Bank were NT\$4,240,967 thousand and NT\$4,289,719 thousand, respectively.

In accordance with the regulations, the Bank shall set aside an equivalent amount of special reserve from earnings after tax of the current year and the undistributed earnings of the prior period based on the net decreased amount of other stockholders' equity in the current

period before distributing earnings. If there is any reversal of decrease in other stockholders' equity, the earnings may be distributed based on the reversal proportion.

In accordance with Financial-Supervisory-Banks Letter No. 10510001510, as a response to the development of financial technology, and to ensure the rights of bank practitioners, the Bank shall, upon appropriating the earnings of 2016 to 2018, provision 0.5% to 1% of income after taxes as special reserve. Starting from the 2017 accounting year, public banks may reverse an amount of the aforementioned special reserve commensurate to employee termination or arrangement expenditures resulting from the development of financial technology.

(25) Retained earnings and dividend policies

- A. The current year's earnings, if any, shall first be used to pay all taxes and offset prior year's deficit, and the remaining amount should then be set aside as legal reserve and special reserve in accordance with provisions under the applicable laws and regulations. Whether to payout dividends, bonus or keep the remaining earnings plus prior year's accumulated unappropriated earnings are subject to the approval of shareholders' meeting.
- B. The legal reserve is to be used exclusively to offset any deficit or to increase capital by issuing new shares or distribute cash dividends to original shareholders in proportion to the number of shares being held by each of them and is not to be used for any other purposes. For the legal reserve to be used for issuing new shares or distributing cash dividends, only the portion of the legal reserve exceeding 25% of paid-in capital may be capitalized or released.
- C. The appropriations and distributions for 2019 and 2018 approved by the Bank's Board of Directors on the stockholders' behalf on May 8, 2020 and May 10, 2019, respectively, was as follows:

| | <u>For the years ended December 31,</u> | |
|---|---|----------------------|
| | <u>2019</u> | <u>2018</u> |
| | <u>NT\$</u> | <u>NT\$</u> |
| Legal reserve | \$ 7,393,463 | \$ 7,251,663 |
| Special reserve (Note) | 34,209 | 155,416 |
| Cash dividends (NT\$1.92 and NT\$1.96 dollar per share) | <u>16,389,569</u> | <u>16,731,018</u> |
| | <u>\$ 23,817,241</u> | <u>\$ 24,138,097</u> |

Note: The special reserves were reversed amounting to NT\$89,350 thousand and NT\$394,382 thousand for the years ended December 31, 2019 and 2018, respectively.

Information on the appropriation of the Bank's earnings as approved by the Board of Directors on behalf of the shareholders' meeting is posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

D. The appropriation of 2020 earnings resolved by the Board of Directors on March 12, 2021 is set forth below:

| | For the year ended December 31, 2020 | |
|--|--------------------------------------|-------------------|
| | NT\$ | US\$ |
| Legal reserve | \$ 5,794,501 | \$ 206,247 |
| Special reserve (Note) | 36,432 | 1,297 |
| Cash dividends (NT\$1.54 dollar per share) | 13,145,800 | 467,905 |
| | <u>\$ 18,976,733</u> | <u>\$ 675,449</u> |

Note: The special reserve was reversed amounting to NT\$59,104 thousand for the year ended December 31, 2020.

E. For information related to employee compensation, please refer to Note 6 (33).

(26) Other equity

| | Exchange differences on translation of foreign financial statements | Gain (loss) on financial assets at fair value through other comprehensive income | Other equity-other | Total |
|--|---|---|--------------------|---------------------|
| | | | | |
| January 1, 2020 | (\$ 2,382,637) | \$ 9,439,013 | (\$ 27,926) | \$ 7,028,450 |
| Financial assets at fair value through other comprehensive income | | | | |
| Evaluation adjustment for the year | - | 4,680,709 | - | 4,680,709 |
| Changed in accumulated impairments in the period | - | 81,561 | - | 81,561 |
| Realized gain and loss in the period | - (| 3,222,432) | - (| 3,222,432) |
| Translation gain and loss on the financial statements of foreign operating entities in the period | (1,600,913) | - | - (| 1,600,913) |
| Share of other comprehensive income of associates and joint ventures accounted for using equity method | (1,057) | 48,116 | 8,921 | 55,980 |
| Income tax related to components of other comprehensive income that will be reclassified to profit or loss | - (| 17,052) | - (| 17,052) |
| December 31, 2020 | <u>(\$ 3,984,607)</u> | <u>\$ 11,009,915</u> | <u>(\$ 19,005)</u> | <u>\$ 7,006,303</u> |

| | Exchange differences | Gain (loss) on financial | Other equity-other | Total |
|--|---------------------------|------------------------------|--------------------|------------|
| | on translation of foreign | assets at fair value through | | |
| | financial statements | other comprehensive | | |
| | | income | | |
| | (In US Thousand Dollars) | | | |
| January 1, 2020 | (\$ 84,806) | \$ 335,968 | (\$ 994) | \$ 250,168 |
| Financial assets at fair value through other comprehensive income | | | | |
| Evaluation adjustment for the year | - | 166,603 | - | 166,603 |
| Changed in accumulated impairments in the period | - | 2,903 | - | 2,903 |
| Realized gain and loss in the period | - (| 114,699) | - (| 114,699) |
| Translation gain and loss on the financial statements of foreign operating entities in the period | (56,982) | - | - (| 56,982) |
| Share of other comprehensive income of associates and joint ventures accounted for using equity method | (38) | 1,713 | 318 | 1,993 |
| Income tax related to components of other comprehensive income that will be reclassified to profit or loss | - | (607) | - | (607) |
| December 31, 2020 | (\$ 141,826) | \$ 391,881 | (\$ 676) | \$ 249,379 |

| | Exchange differences | Gain (loss) on financial | Other equity-other | Total |
|--|---------------------------|------------------------------|--------------------|--------------|
| | on translation of foreign | assets at fair value through | | |
| | financial statements | other comprehensive | | |
| | | income | | |
| | (In NT Thousand Dollars) | | | |
| January 1, 2019 | (\$ 1,608,022) | \$ 6,921,933 | (\$ 51,668) | \$ 5,262,243 |
| Financial assets at fair value through other comprehensive income | | | | |
| Evaluation adjustment for the year | - | 3,984,229 | - | 3,984,229 |
| Changed in accumulated impairments in the period | - | 30,733 | - | 30,733 |
| Realized gain and loss in the period | - (| 1,484,922) | - (| 1,484,922) |
| Translation gain and loss on the financial statements of foreign operating entities in the period | (771,311) | - | - (| 771,311) |
| Share of other comprehensive income of associates and joint ventures accounted for using equity method | (3,304) | 2,324 | 23,742 | 22,762 |
| Income tax related to components of other comprehensive income that will be reclassified to profit or loss | - | (15,284) | - | (15,284) |
| December 31, 2019 | (\$ 2,382,637) | \$ 9,439,013 | (\$ 27,926) | \$ 7,028,450 |

(27) Net interest revenue (expense)

| | For the years ended December 31, | | |
|--|----------------------------------|---------------------|----------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| <u>Interest income</u> | | | |
| Interest income, discounts and loans | \$ 34,642,500 | \$ 1,233,048 | \$ 45,564,938 |
| Interest income, due from banks | 4,482,818 | 159,559 | 13,200,824 |
| Interest income, securities investment | 7,094,727 | 252,526 | 8,668,085 |
| Interest income, accounts receivable factoring | 168,981 | 6,015 | 484,244 |
| Interest income, credit card recurrence | 178,740 | 6,362 | 172,644 |
| Interest income, others | 177,892 | 6,332 | 405,621 |
| Subtotal | <u>46,745,658</u> | <u>1,663,842</u> | <u>68,496,356</u> |
| <u>Interest expenses</u> | | | |
| Interest expenses, deposit | (13,648,710) | (485,805) | (25,226,492) |
| Interest expenses, deposits from the Central Bank and banks | (2,581,503) | (91,885) | (7,940,539) |
| Interest expenses, repurchase | (402,413) | (14,323) | (865,071) |
| Interest expenses, bond and bill | (205,283) | (7,307) | (207,772) |
| Interest expenses, others | (99,110) | (3,528) | (216,900) |
| Subtotal | <u>(16,937,019)</u> | <u>(602,848)</u> | <u>(34,456,774)</u> |
| Total | <u>\$ 29,808,639</u> | <u>\$ 1,060,994</u> | <u>\$ 34,039,582</u> |

(28) Net service fee revenue (charge)

| | For the years ended December 31, | | |
|--------------------------------|----------------------------------|-------------------|---------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| <u>Service fee</u> | | | |
| Service fee, trust | \$ 2,113,342 | \$ 75,221 | \$ 1,558,730 |
| Service fee, loan | 1,240,802 | 44,165 | 1,273,493 |
| Service fee, insurance agency | 995,649 | 35,439 | 1,597,304 |
| Service fee, guarantee | 814,602 | 28,995 | 881,384 |
| Service fee, remittances | 647,119 | 23,033 | 745,611 |
| Service fee, credit cards | 550,606 | 19,598 | 605,044 |
| Service fee, import and export | 393,738 | 14,015 | 486,669 |
| Service fee, others (Note) | <u>1,039,918</u> | <u>37,014</u> | <u>1,332,209</u> |
| Subtotal | <u>7,795,776</u> | <u>277,480</u> | <u>8,480,444</u> |
| <u>Service charges</u> | | | |
| Service charge, agency | (734,617) | (26,148) | (901,989) |
| Service charge, custodian | (76,137) | (2,710) | (64,756) |
| Service charge, others | (404,291) | (14,390) | (328,442) |
| Subtotal | <u>(1,215,045)</u> | <u>(43,248)</u> | <u>(1,295,187)</u> |
| Total | <u>\$ 6,580,731</u> | <u>\$ 234,232</u> | <u>\$ 7,185,257</u> |

The Bank and subsidiaries provide custody, trust, and investment management and consultation service to the third party, and therefore the Bank and subsidiaries are involved with the exercise of planning, managing and trading decision of financial instruments. In relation to the management and exercise of trust fund and portfolio for brokerage, the Bank and subsidiaries record and prepare the financial statements independently for internal management purposes, which are not included in the financial statements of the Bank and subsidiaries.

Note:

- A. In 2020 and 2019, the fee income generated by the Bank and subsidiaries concurrently in electronic payment business were amounted to NT\$2,262 thousand and NT\$4,249 thousand, respectively.
- B. Due to the Bank and subsidiaries concurrently in electronic payment business, in 2020 and 2019, the interest earned from utilizing funds received from users amounted to NT\$7 and NT\$54, respectively, based on the calculation required in Article 4 of “Regulations Governing the Organization and Administration of Sinking Fund Established by Electronic Payment Institutions”.

(Blank below)

(29) Gain (loss) on financial assets or liabilities measured at fair value through profit or loss

| | For the years ended December 31, | | |
|--|----------------------------------|-------------------|---------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| <u>Gains (losses) on disposal of financial assets or liabilities measured at fair value through profit or loss</u> | | | |
| Bond | \$ 23,644 | \$ 842 | \$ 22,517 |
| Stock | (16,959) | (604) | (564,874) |
| Interest rate | 174,076 | 6,196 | 654,027 |
| Exchange rate | 4,424,979 | 157,501 | 4,923,306 |
| Options | 56,650 | 2,016 | 43,427 |
| Futures | (195) | (7) | (1,842) |
| Asset swap contracts | 205,297 | 7,307 | 337,979 |
| Credit default swap | 271,819 | 9,675 | 199,113 |
| Currency swap | 426,031 | 15,164 | 62,630 |
| Fund | (23,494) | (836) | 3,863 |
| Others | (627) | (22) | 6,010 |
| Subtotal | <u>5,541,221</u> | <u>197,232</u> | <u>5,686,156</u> |
| <u>Revaluation gains (losses) on financial assets or liabilities measured at fair value through profit or loss</u> | | | |
| Bond | 103,850 | 3,696 | 1,046,621 |
| Stock | 807,572 | 28,744 | 2,405,452 |
| Interest rate | (235,843) | (8,394) | 207,077 |
| Exchange rate | (570,990) | (20,324) | 294,448 |
| Options | 4,126 | 147 | (13,772) |
| Asset swap contracts | (35,657) | (1,269) | (1,463,735) |
| Credit default swap | (90,722) | (3,229) | 33,399 |
| Currency swap | 413,855 | 14,731 | 291,568 |
| Fund | 4,983 | 177 | 1,856 |
| Others | (5,733) | (204) | (5,318) |
| Subtotal | <u>395,441</u> | <u>14,075</u> | <u>2,797,596</u> |
| Dividend income from financial assets measured at fair value through profit or loss | 625,558 | 22,266 | 677,864 |
| Interest income from financial assets measured at fair value through profit or loss | 719,562 | 25,611 | 935,083 |
| Interest expenses from financial liabilities measured at fair value through profit or loss | (726,097) | (25,844) | (1,002,324) |
| Total | <u>\$ 6,555,685</u> | <u>\$ 233,340</u> | <u>\$ 9,094,375</u> |

Net income on the exchange rate instrument includes realized and unrealized gains and losses on forward exchange agreement, FX options, and exchange rate futures.

Interest-linked instruments include interest rate swap contracts, money market instruments, interest linked-options and other interest related instruments.

(30) Realized gains on financial assets at fair value through other comprehensive income

| | For the years ended December 31, | | |
|-------------------|----------------------------------|-------------------|---------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Dividend income | \$ 613,204 | \$ 21,826 | \$ 623,387 |
| Gains on disposal | | | |
| Bond | 3,672,718 | 130,725 | 1,639,037 |
| Total | <u>\$ 4,285,922</u> | <u>\$ 152,551</u> | <u>\$ 2,262,424</u> |

(31) Reversal of (impairment losses) on assets

| | For the years ended December 31, | | |
|---|----------------------------------|-------------------|--------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Impairment losses | | | |
| on investment in debt instruments measured at fair value through other comprehensive income | (\$ 81,561) | (\$ 2,903) | (\$ 30,733) |
| Impairment losses | | | |
| on investments in debt instruments measured at amortised cost | (10,937) | (389) | (9,391) |
| Reversal of (impairment losses) | | | |
| on property and equipment | 42,383 | 1,508 | (42,383) |
| Total | <u>(\$ 50,115)</u> | <u>(\$ 1,784)</u> | <u>(\$ 82,507)</u> |

(32) Net other revenue other than interest income

| | For the years ended December 31, | | |
|--|----------------------------------|------------------|-------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Net income from rent | \$ 191,843 | \$ 6,828 | \$ 173,286 |
| Net gain on sale of non-performing loans | 662 | 24 | 70,942 |
| Gain on sale of foreclosed collaterals | 882 | 31 | - |
| Gain on disposal of property and equipment | 492 | 18 | 611 |
| Loss on retirement of assets | (8,509) | (303) | (657) |
| Other revenue | 219,988 | 7,830 | 412,501 |
| Total | <u>\$ 405,358</u> | <u>\$ 14,428</u> | <u>\$ 656,683</u> |

(33) Employee benefits expenses

| | For the years ended December 31, | | |
|---|----------------------------------|-------------------|----------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Payroll expenses | \$ 11,398,267 | \$ 405,705 | \$ 11,633,946 |
| Preferential interest deposit for retired employees | 1,692,849 | 60,254 | 1,533,094 |
| Pension | 756,240 | 26,917 | 941,973 |
| Staff insurance | 777,981 | 27,691 | 763,089 |
| Other staff expenses | 1,249,739 | 44,483 | 1,166,907 |
| Total | <u>\$ 15,875,076</u> | <u>\$ 565,050</u> | <u>\$ 16,039,009</u> |

- A. Please refer to Note 1(5) for information on number of employees, the calculating basis agreed with employee benefit expense excluding preferential interest deposit for retired employees.
- B. The Board of Directors of the Bank has approved the amended Articles of Incorporation of the Bank on October 20, 2017 on behalf of the shareholders' meeting. According to the amended articles, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation. In case there are earnings at the end of each fiscal year, the employees' compensation of the Bank shall be 2~6% of the amount of net profit before income tax and employees' compensation, under the Board's discretion after taking into account the performance indicators and industry benchmark.
- C. For the years ended December 31, 2020 and 2019, employees' compensation was accrued at NT\$1,226,521 thousand and NT\$1,489,561 thousand, respectively. The above-mentioned amounts were recognized in payroll expenses.
- D. The actual distributed amount of employees' compensation for 2019 resolved at the Board of Directors' annual meeting was NT\$1,489,561 thousand, which agreed with those amounts recognised in the 2019 financial statements.
- E. Information about employees' compensation of the Bank as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(34) Depreciation and amortization expenses

| | For the years ended December 31, | | |
|----------------------|----------------------------------|------------------|---------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Depreciation expense | \$ 1,381,067 | \$ 49,157 | \$ 1,300,757 |
| Amortization expense | 6,121 | 218 | 7,623 |
| Total | <u>\$ 1,387,188</u> | <u>\$ 49,375</u> | <u>\$ 1,308,380</u> |

(35) Other general and administrative expenses

| | For the years ended December 31, | | |
|------------------------------------|----------------------------------|-------------------|---------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Taxes | \$ 1,775,457 | \$ 63,195 | \$ 2,017,184 |
| Professional expenses | 1,057,907 | 37,655 | 2,846,775 |
| Computer software maintenance fees | 801,144 | 28,515 | 700,561 |
| Insurance charges | 448,232 | 15,954 | 453,758 |
| Postage | 264,203 | 9,404 | 270,650 |
| Business development | 203,507 | 7,243 | 298,240 |
| Advertising and printing cost | 195,240 | 6,949 | 208,084 |
| Shipping expenses | 131,504 | 4,681 | 234,797 |
| Water and electricity | 122,579 | 4,363 | 135,416 |
| Research and development expense | 89,599 | 3,189 | 92,148 |
| Donation expenses | 79,614 | 2,834 | 82,505 |
| Traveling expenses | 64,742 | 2,304 | 119,428 |
| Employee training expenses | 64,700 | 2,303 | 89,196 |
| Rental | 12,323 | 439 | 13,554 |
| Others | 955,719 | 34,017 | 931,471 |
| Total | <u>\$ 6,266,470</u> | <u>\$ 223,045</u> | <u>\$ 8,493,767</u> |

(36) Income tax expense

A. Income tax expense

(A) Components of income tax expense:

| | For the years ended December 31, | | |
|---|----------------------------------|-------------------|---------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Current income tax: | | | |
| Income tax from current income | \$ 2,920,499 | \$ 103,951 | \$ 2,945,489 |
| Tax on undistributed surplus earnings | - | - | 19,623 |
| Prior year income tax over estimation | (32,870) | (1,169) | (29,603) |
| Total current income tax | <u>2,887,629</u> | <u>102,782</u> | <u>2,935,509</u> |
| Deferred income tax: | | | |
| Origination and reversal of temporary differences | <u>240,540</u> | <u>8,561</u> | <u>901,573</u> |
| Total deferred tax | <u>240,540</u> | <u>8,561</u> | <u>901,573</u> |
| Income tax expense | <u>\$ 3,128,169</u> | <u>\$ 111,343</u> | <u>\$ 3,837,082</u> |

(B) The income tax relating to components of other comprehensive income is as follows:

| | For the years ended December 31, | | |
|--|----------------------------------|-----------------|-------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Changes in fair value of financial assets at fair value through other comprehensive income | (\$ 17,052) | (\$ 607) | (\$ 15,284) |
| Remeasurement on defined benefit plan | <u>120,891</u> | <u>4,303</u> | <u>177,009</u> |
| | <u>\$ 103,839</u> | <u>\$ 3,696</u> | <u>\$ 161,725</u> |

B. Reconciliation between income tax expense and accounting profit:

| | For the years ended December 31, | | |
|---|----------------------------------|-------------------|---------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Income tax calculated based on pre-tax income using statutory tax rate enacted in the country where the branch operates | \$ 4,680,744 | \$ 166,604 | \$ 6,312,917 |
| Effects of items not recognized under relevant regulations | (789) | (28) | 4,736 |
| Additional 5% tax payment levied on undistributed earnings | - | - | 19,623 |
| Effect of income basic tax | 725,070 | 25,808 | 221,107 |
| Prior year income tax over estimation | (32,870) | (1,170) | (29,603) |
| Adjusted effects on income tax exemption and other adjustments | (2,243,986) | (79,871) | (2,691,698) |
| Income tax expense | <u>\$ 3,128,169</u> | <u>\$ 111,343</u> | <u>\$ 3,837,082</u> |

C. Deferred tax assets or liabilities arising from the temporary differences are as follows:

| | 2020 | | | |
|--|--------------------------|---------------------------------|--|-----------------------|
| | (In NT Thousand Dollars) | | | |
| Temporary differences: | January 1 | Recognized in profit or loss | Recognized in other comprehensive income | December 31 |
| Deferred income tax assets | | | | |
| Allowance for doubtful | | | | |
| accounts in excess of limit | \$ 2,293,853 | (\$ 420,631) | \$ - | \$ 1,873,222 |
| Reserve of guarantees in | | | | |
| excess of limit | 234,820 | - | - | 234,820 |
| Employee benefit | | | | |
| liabilities reserve | 1,677,417 | 138,864 | 120,891 | 1,937,172 |
| Unrealized impairment loss | 867,853 | (8,477) | - | 859,376 |
| Others | 333,060 | (23,380) | (17,052) | 292,628 |
| | <u>\$ 5,407,003</u> | <u>(\$ 313,624)</u> | <u>\$ 103,839</u> | <u>\$ 5,197,218</u> |
| Deferred income tax liabilities | | | | |
| Land value increment tax | (\$ 1,053,300) | \$ - | \$ - | (\$ 1,053,300) |
| Unrealized exchange gains | (614,218) | 64,725 | - | (549,493) |
| Investment income | | | | |
| accounted for using | | | | |
| equity method | (827,869) | (66,680) | - | (894,549) |
| Others | (332,891) | 75,039 | - | (257,852) |
| | <u>(\$ 2,828,278)</u> | <u>\$ 73,084</u> | <u>\$ -</u> | <u>(\$ 2,755,194)</u> |

| 2020 | | | | |
|--|---------------------|---------------------------------|--|--------------------|
| (In US Thousand Dollars) | | | | |
| Temporary differences: | January 1 | Recognized in profit or loss | Recognized in other comprehensive income | December 31 |
| Deferred income tax assets | | | | |
| Allowance for doubtful | | | | |
| accounts in excess of limit | \$ 81,646 | (\$ 14,972) | \$ - | \$ 66,674 |
| Reserve of guarantees in | | | | |
| excess of limit | 8,358 | - | - | 8,358 |
| Employee benefit | | | | |
| liabilities reserve | 59,705 | 4,943 | 4,303 | 68,951 |
| Unrealized impairment loss | 30,890 | (302) | - | 30,588 |
| Others | 11,855 | (832) | (607) | 10,416 |
| | <u>\$ 192,454</u> | <u>(\$ 11,163)</u> | <u>\$ 3,696</u> | <u>\$ 184,987</u> |
| Deferred income tax liabilities | | | | |
| Land value increment tax | (\$ 37,491) | \$ - | \$ - | (\$ 37,491) |
| Unrealized exchange gains | (21,862) | 2,304 | - | (19,558) |
| Investment income | | | | |
| accounted for using | | | | |
| equity method | (29,467) | (2,373) | - | (31,840) |
| Others | (11,849) | 2,671 | - | (9,178) |
| | <u>(\$ 100,669)</u> | <u>\$ 2,602</u> | <u>\$ -</u> | <u>(\$ 98,067)</u> |

| 2019 | | | | |
|---|-----------------------|---------------------------------|--|-----------------------|
| (In NT Thousand Dollars) | | | | |
| Temporary differences: | January 1 | Recognized in profit or loss | Recognized in other comprehensive income | December 31 |
| Deferred income tax assets | | | | |
| Allowance for doubtful accounts in excess of limit | \$ 3,359,973 | (\$ 1,066,120) | \$ - | \$ 2,293,853 |
| Reserve of guarantees in excess of limit | 234,820 | - | - | 234,820 |
| Employee benefit liabilities reserve | 1,704,369 | (203,961) | 177,009 | 1,677,417 |
| Unrealized impairment loss | 859,376 | 8,477 | - | 867,853 |
| Others | 585,592 | (237,248) | (15,284) | 333,060 |
| | <u>\$ 6,744,130</u> | <u>(\$ 1,498,852)</u> | <u>\$ 161,725</u> | <u>\$ 5,407,003</u> |
| Deferred income tax liabilities | | | | |
| Land value increment tax | (\$ 1,053,300) | \$ - | \$ - | (\$ 1,053,300) |
| Unrealized exchange gains | (540,181) | (74,037) | - | (614,218) |
| Investment income accounted for using equity method | (766,056) | (61,813) | - | (827,869) |
| Others | (77,056) | (255,835) | - | (332,891) |
| | <u>(\$ 2,436,593)</u> | <u>(\$ 391,685)</u> | <u>\$ -</u> | <u>(\$ 2,828,278)</u> |

D. As of December 31, 2014, the income tax return of the Bank and its subsidiaries has been approved by National Taxation Bureau of Taipei. However, the Bank and its subsidiaries disagreed with the results of the 2014 income tax return. As a result, the parent company, Mega Financial Holding Co., Ltd, has appealed for a review.

(37) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing consolidated profit attributable to owners of the parent by the weighted-average number of ordinary shares in issue during the period.

| | For the years ended December 31, | | |
|--|----------------------------------|------------|---------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Weighted-average number of shares outstanding common stock (Unit: Thousand) | 8,536,234 | 8,536,234 | 8,536,234 |
| Profit attributable to ordinary shareholders of the parent | \$ 20,251,877 | \$ 720,835 | \$ 24,644,876 |
| Profit attributable to former owner of business combination under common control | \$ 80,204 | \$ 2,855 | \$ 405,513 |
| Basic earnings per share (in dollars) | \$ 2.37 | \$ 0.08 | \$ 2.89 |
| Earnings per share, attributable to former owner of business combination under common control (in dollars) | \$ 0.01 | \$ - | \$ 0.04 |

(38) Change in liabilities from financing activities

| | Bank notes payable | |
|---------------------------------|--------------------|------------|
| | NT\$ | US\$ |
| January 1, 2020 | \$ 12,000,000 | \$ 427,122 |
| Repayment of bank notes payable | 1,000,000 | 35,594 |
| December 31, 2020 | \$ 13,000,000 | \$ 462,716 |
| January 1, 2019 | \$ 13,300,000 | |
| Repayment of bank notes payable | (1,300,000) | |
| December 31, 2019 | \$ 12,000,000 | |

7. FAIR VALUE INFORMATION OF FINANCIAL INSTRUMENTS

(1) Overview

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments are recorded at fair value upon their initial recognition, where often fair value refers to the transaction price; for subsequent measurements, other than a portion of financial instruments being measured at amortized cost, fair value is elected for measurements. The best evidence for fair value is a public quote in an active market. If the market of a financial instrument is not active, the Bank elects valuation techniques or references Bloomberg or the quotes of counterparties to measure the fair value of the financial instrument. In addition, through the valuation process, information on the counterparty's and the Bank's credit risk is also considered.

(2) Fair value information of financial instruments

Except for those listed in the table below, the carrying amount of some of certain financial instruments held by the Bank and subsidiaries (e.g. cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under resell agreements, receivables, discounts and loans, investments in debt instruments at amortised cost-Central Bank's certificates of deposit

and short-term notes and bills , deposits from the Central Bank and banks, due to the Central Bank and banks, securities sold under repurchase agreements, payables, deposits and remittances, bank notes payable and other financial liabilities) are approximate to their fair value (please refer to Note 7 (5)). The fair value information of financial instruments measured at fair value is provided in Note 7(6).

| | NT\$ | |
|---|---------------|---------------|
| | Book Value | Fair Value |
| December 31, 2020 | | |
| Investments in debt instruments at amortised cost | \$ 37,033,783 | \$ 37,295,999 |
| | US\$ | |
| | Book Value | Fair Value |
| December 31, 2020 | | |
| Investments in debt instruments at amortised cost | \$ 1,318,163 | \$ 1,327,496 |
| | NT\$ | |
| | Book Value | Fair Value |
| December 31, 2019 | | |
| Investments in debt instruments at amortised cost | \$ 30,616,578 | \$ 30,782,766 |

The fair values of the above-mentioned investments in debt instruments at amortised cost are classified as Level 1 and Level 2.

(3) Financial instruments measured at fair value

The quoted market price is used as the fair value when the financial instruments have an active market, such as market prices provided by the Stock Exchange Corporation, Bloomberg and Reuters are all foundation of fair value for listed equity securities and debt instruments with a quoted market price in an active market.

If the market quotation from Stock Exchange Corporation, commission merchants, underwriters or pricing service institutions can be frequently obtained on time, and the price represents the actual and frequent transactions at arm's length, then a financial instrument is deemed to have an active market. If the above condition is not met, the market is deemed inactive. In general, significant price variance between the purchase price and selling price or significantly increasing price variance are both indicators of an inactive market.

In addition to above financial instruments with an active market, other financial instruments at fair value are assessed by evaluation technique with reference to other financial instruments at fair value with similar conditions and characteristics in actual practice, cash flow discounting method and other evaluation technique, including market information obtained by exercising the model at balance sheet date (such as yield curve used in OTC and the Taipei Interbank Offered Rate (Taibor) price curve).

When a financial instrument has no standardized evaluation and with less complexity involved, such as interest rate swap, currency swap and options. The Bank and subsidiaries usually adopt the valuation generally accepted by market users. The inputs used in the valuation method to measure these financial instruments are normally observable in the market. For financial instruments with higher complexity, the fair value is assessed through the valuation model developed by valuation methods and techniques generally accepted by competitors. These kinds of valuation models are usually applicable for derivative instruments, debt instruments with no quoted market price (including debt instrument of embedded derivatives) or other debt instruments with low market

liquidity. Certain inputs used in these valuation models are not observable in the market, and the Bank and subsidiaries needs to make appropriate estimates based on the assumptions.

The valuation of derivative instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate. Structured interest derivative instruments are measured by using appropriate option pricing models.

The output of the evaluation model is an estimate, and the valuation technique may not reflect all the relevant factors of the financial instruments held by the Bank and its subsidiaries. As a result, the estimate generated by valuation model will be slightly adjusted based on additional inputs, such as model risk, liquidity risk or credit risk of counterparties. According to the Bank and its subsidiaries valuation model management and other related controlling procedures, the adjustment made is adequate and necessary and the balance sheet is believed to present fairly, in all material aspects, the fair value of financial instruments. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

- A. NTD Central Government Bond: the yield rates across different contract length and one-hundred price bulletined by Over-The-Counter (hereinafter OTC) are used.
- B. NTD corporate bonds, financial debentures, government bonds, bond-type beneficiary securities and designated financial debentures issued by the Bank and subsidiaries: the present value of future estimated cash flows is calculated by using the yield curve.
- C. NTD short-term bills and NTD bill-type beneficiary securities: the present value of future estimated cash flows of NTD and USD short-term bills is calculated by using quotes of TAIBOR and TAIFX3 central parity rate from Reuters, respectively.
- D. Foreign securities: Bloomberg information.
- E. Listed stock and emerging stock in active market : the closing price listed in exchanges is adopted.
- F. Emerging stock not in active markets: The Bank shall first adopt the 30 days average price or representative trading in the recent half year in accordance with the classifications of transaction volume, amount and turnover rates during the month. The trading price might be the best estimate of stocks' fair value; secondly adopt the 30 days average price, net of the discount on liquidity as stocks' fair value, of which the discount on liquidity is calculated based on the market liquidity condition under a 30 days average price basis.
- G. Unlisted stock: The sale price in the most recent year or rights offering price is adopted as stock's fair value if they were available for the objective company's stocks and its stock price or operation and industry has no significant change; the average price is adopted for more than one sale price or rights offering price available; otherwise, the fair value is estimated through the market approach or net asset approach under the consideration of life cycle, profitability and asset and liability structure of the objective company. The fair value of stock is measured at equity value that has taken into consideration the discount on liquidity and materialisation adjustments if the market approach is adopted by the objective company or the fair value is equivalent to the book value if the objective company adopted the net asset approach.
- H. Funds : net asset value is adopted.
- I. Derivatives:
 - (A) Foreign exchange forward contract, currency swaps, forward rate agreement, interest rate swaps and cross currency swaps: the discounting future cash flow is adopted.

- (B) Options: Black-Scholes model is mainly adopted for valuation.
- (C) Some structured derivatives are valued by using Reuters..
- (D) Some foreign-currency derivatives are valued by using the quoted prices from Bloomberg.

(4) Credit risk value adjustment

- A. Credit risk value adjustments can be primarily classified as either credit value adjustments or debit value adjustments. The definitions are as follows:
 - (A) Credit value adjustments refer to adjustments through fair value, which reflect the possibility that a counterparty may default on repayments and that an entity may not be able to recover, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).
 - (B) Debit value adjustments refer to adjustments through fair value, which reflect the possibility that the Bank may default on repayments and that the Bank may not be able to pay, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).
- B. The Bank and subsidiaries has incorporated credit risk value adjustments in the considerations for calculating the fair value of financial instruments in order to respectively reflect the counterparty's credit risk and the Bank's and its subsidiaries' credit quality.

(5) Financial instruments not measured at fair value through profit or loss

- A. In relation to cash and cash equivalents, securities purchased under resell agreements, due from the Central Bank and call loans to banks, receivables, refundable deposits, deposits from the Central Bank and banks, due to the Central Bank and banks, securities sold under repurchase agreements, payables and guarantee deposits received, the book value of the financial instruments which have a short maturity period will be considered as their fair value. While the maturities are quite closed or the future payment or receipt is closed to the carrying amount, the carrying amount at the consolidated balance sheet date is used to estimate the fair value.
- B. Interest rates of the Bank and subsidiaries' discounts and loans (including non-performing loans) are generally based on the benchmark interest rate plus or minus certain adjustment to reflect the market interest rate. Thus, their fair values are based on the book value after adjustments of estimated recoverability. Fair values for long-term loans with fixed interest rates shall be estimated using their discounted values of expected future cash flows. However, as such loans account for only a small portion of all loans, book value was used to estimate the fair value.
- C. When there is a quoted market price available in an active market, the fair value of financial assets measured at amortised cost is determined using the market price. If there is no quoted market price for reference, a valuation technique or quoted price offer by the counterparties will be adopted to measure the fair value.
- D. The fair value of deposits and remittances are represented by the book value.
- E. The coupon rate of bank notes payable issued by the Bank and subsidiaries is equivalent to market interest rate; therefore, fair value estimated based on the present value of future cash flows is equivalent to book value.
- F. For other financial assets, such as investments in debt instruments without active market, as they have no quoted price in active market and their valuation results by using different valuation methods are significantly different, their fair value cannot be measured reliably and is not disclosed here.

(6) Level information of financial instrument at fair value

A. Three definitions of the Bank and subsidiaries' financial instruments at fair value

(A) Level 1

Level 1 is quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market refers to a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Bank and subsidiaries' investment in listed stock, beneficiary certificates, popular Taiwan government bonds and the derivatives with a quoted price in an active market are deemed as Level 1.

(B) Level 2

Level 2 inputs are observable prices other than quoted prices included in Level 1, including observable direct (e.g. prices) or indirect (e.g. those inferred from prices) inputs in an active market. The Bank and subsidiaries' investments in non-popular government bonds, corporate bonds, bank debentures, convertible bonds, derivatives and corporate bonds issued by the Bank and subsidiaries belong to this category.

(C) Level 3

Level 3 inputs are inputs for assets or liabilities that are unobservable in the market (unobservable inputs, e.g. option pricing model using history volatility rate, because history volatility rate cannot represent the expectation value of market participants for future volatility rate).

(Blank below)

B. Information of fair value hierarchy of financial instruments

(In NT Thousand Dollars)

| Recurring fair value measurements | December 31, 2020 | | | |
|--|-------------------|---------------|----------------|---------------|
| | Total | Level 1 | Level 2 | Level 3 |
| <u>Non-derivatives</u> | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Investment in stock | \$ 18,227,704 | \$ 8,650,165 | \$ 3,300,915 | \$ 6,276,624 |
| Investment in bonds | 34,001,069 | 1,981,455 | 32,019,614 | - |
| Beneficiary certificates | 181,109 | 181,109 | - | - |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in stock | 18,932,017 | 5,595,819 | 734,744 | 12,601,454 |
| Investment in bonds | 367,724,740 | 36,084,344 | 331,640,396 | - |
| Bank's certificates of deposit and treasury securities | 9,980,003 | - | 9,980,003 | - |
| Other securities | 318,624 | 318,624 | - | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | (17,054,273) | - | (17,054,273) | - |
| <u>Derivatives</u> | | | | |
| Assets | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | 4,757,979 | - | 4,757,979 | - |
| Liabilities | | | | |
| Financial liabilities held for trading | (3,300,350) | - | (3,300,350) | - |
| Total | \$ 433,768,622 | \$ 52,811,516 | \$ 362,079,028 | \$ 18,878,078 |

(In US Thousand Dollars)

| Recurring fair value measurements | December 31, 2020 | | | |
|--|-------------------|--------------|---------------|------------|
| | Total | Level 1 | Level 2 | Level 3 |
| <u>Non-derivatives</u> | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Investment in stock | \$ 648,789 | \$ 307,890 | \$ 117,492 | \$ 223,407 |
| Investment in bonds | 1,210,218 | 70,527 | 1,139,691 | - |
| Beneficiary certificates | 6,446 | 6,446 | - | - |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in stock | 673,857 | 199,175 | 26,152 | 448,530 |
| Investment in bonds | 13,088,619 | 1,284,369 | 11,804,250 | - |
| Bank's certificates of deposit and treasury securities | 355,223 | - | 355,223 | - |
| Other securities | 11,341 | 11,341 | - | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | (607,022) | - | (607,022) | - |
| <u>Derivatives</u> | | | | |
| Assets | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | 169,353 | - | 169,353 | - |
| Liabilities | | | | |
| Financial liabilities held for trading | (117,471) | - | (117,471) | - |
| Total | \$ 15,439,353 | \$ 1,879,748 | \$ 12,887,668 | \$ 671,937 |

(In NT Thousand Dollars)

| Recurring fair value measurements | December 31, 2019 | | | |
|--|-------------------|---------------|----------------|---------------|
| | Total | Level 1 | Level 2 | Level 3 |
| <u>Non-derivatives</u> | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Investment in stock | \$ 19,818,275 | \$ 10,994,354 | \$ 3,907,115 | \$ 4,916,806 |
| Investment in bonds | 39,156,408 | 1,925,183 | 37,231,225 | - |
| Beneficiary certificates | 176,126 | 176,126 | - | - |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in stock | 14,342,095 | 2,526,860 | 4,804,514 | 7,010,721 |
| Investment in bonds | 361,635,641 | 29,767,247 | 331,868,394 | - |
| Bank's certificates of deposit and treasury securities | 11,193,375 | - | 11,193,375 | - |
| Other securities | 307,500 | 307,500 | - | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | (18,519,696) | - | (18,519,696) | - |
| <u>Derivatives</u> | | | | |
| Assets | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | 4,754,538 | - | 4,754,538 | - |
| Liabilities | | | | |
| Financial liabilities held for trading | (2,853,050) | - | (2,853,050) | - |
| Total | \$ 430,011,212 | \$ 45,697,270 | \$ 372,386,415 | \$ 11,927,527 |

C. Transfer between Level 1 and Level 2

On December 31, 2020, the balance of the bank and subsidiaries' 2019 Fiscal Year Order 9 Category 1 Central Government Construction Bonds was NT\$2,623,549 thousand. Due to the bonds becoming inactive securities in the Index, thus the bonds were transferred from Level 1 to Level 2.

On December 31, 2019, the balance of the bank and subsidiaries' 2018 Fiscal Year Order 9 Category 1 Central Government Construction Bonds was NT\$865,000 thousand. Due to the bonds becoming inactive securities in the Index, thus the bonds were transferred from Level 1 to Level 2.

(Blank below)

D. Movements of financial instruments classified into Level 3 of fair value are as follows:

(A) Movements of financial assets classified into Level 3 of fair value are as follows:

For the year ended December 31, 2020:

(In NT Thousand Dollars)

| Items | Beginning Balance | Gain and loss on valuation | | Addition | | Reduction | | Ending balance |
|--|----------------------|-----------------------------|--|---------------------|------------------------|---------------------------|--------------------------|----------------------|
| | | Recognised as gain and loss | Recognised as other comprehensive income | Purchased or issued | Transferred to Level 3 | Sold, disposed or settled | Transferred from Level 3 | |
| Financial assets at fair value through profit or loss Investment in stock | \$ 4,916,806 | \$ 784,157 | \$ - | \$ 304,215 | \$ 615,438 | (\$ 211,865) | (\$ 132,127) | \$ 6,276,624 |
| Financial assets at fair value through other comprehensive income Investment in stock | 7,010,721 | - | 8,970 | - | 6,461,131 | (115,165) | (764,203) | 12,601,454 |
| Total | \$ 11,927,527 | \$ 784,157 | \$ 8,970 | \$ 304,215 | \$ 7,076,569 | (\$ 327,030) | (\$ 896,330) | \$ 18,878,078 |

For the year ended December 31, 2020:

(In US Thousand Dollars)

| Items | Beginning Balance | Gain and loss on valuation | | Addition | | Reduction | | Ending balance |
|--|-------------------|-----------------------------|--|---------------------|------------------------|---------------------------|--------------------------|-------------------|
| | | Recognised as gain and loss | Recognised as other comprehensive income | Purchased or issued | Transferred to Level 3 | Sold, disposed or settled | Transferred from Level 3 | |
| Financial assets at fair value through profit or loss Investment in stock | \$ 175,006 | \$ 27,911 | \$ - | \$ 10,828 | \$ 21,906 | (\$ 7,541) | (\$ 4,703) | \$ 223,407 |
| Financial assets at fair value through other comprehensive income Investment in stock | 249,537 | - | 319 | - | 229,974 | (4,099) | (27,201) | 448,530 |
| Total | \$ 424,543 | \$ 27,911 | \$ 319 | \$ 10,828 | \$ 251,880 | (\$ 11,640) | (\$ 31,904) | \$ 671,937 |

The bank and subsidiaries held unlisted stock amounting to NT\$7,076,569 thousand. Due to the stock valued in market approach, thus the stock was transferred from Level 2 to Level 3.

The bank and subsidiaries held unlisted stock amounting to NT\$896,330 thousand. Due to the stock valued by market price within a year, thus the stock was transferred from Level 3 to Level 2.

For the year ended December 31, 2019:

(In NT Thousand Dollars)

| Items | Beginning Balance | Gain and loss on valuation | | Addition | | Reduction | | Ending balance |
|---|-------------------|-----------------------------|--|---------------------|------------------------|---------------------------|--------------------------|----------------|
| | | Recognised as gain and loss | Recognised as other comprehensive income | Purchased or issued | Transferred to Level 3 | Sold, disposed or settled | Transferred from Level 3 | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Investment in stock | \$ 4,871,821 | \$ 145,337 | \$ - | \$ 82,024 | \$ 413,235 | (\$ 90,580) | (\$ 505,031) | \$ 4,916,806 |
| Financial assets at fair value through other comprehensive income | | | | | | | | |
| Investment in stock | 5,137,348 | - | 651,493 | - | 1,746,046 | (233,166) | (291,000) | 7,010,721 |
| Total | \$ 10,009,169 | \$ 145,337 | \$ 651,493 | \$ 82,024 | \$ 2,159,281 | (\$ 323,746) | (\$ 796,031) | \$ 11,927,527 |

(B) Movements of financial liabilities classified into Level 3 of fair value are as follows:

For the year ended December 31, 2020 and 2019: No relevant balance.

(Blank below)

E. Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value.

The Bank and subsidiaries' fair value measurement of financial instruments was reasonable, if valued using different model or parameters, it would obtain different results. For Level 3, if the parameters of valuation varied up or down by 10%, the effect on profit or loss would be shown as follows:

(In NT Thousand Dollars)

| December 31, 2020 | Changes in the fair value recognized in the current profit or loss | | Changes in the fair value recognized in the comprehensive income or loss | |
|--|--|---------------------|--|---------------------|
| | Favorable changes | Unfavorable changes | Favorable changes | Unfavorable changes |
| Financial assets at fair value through profit or loss Investment in stock | \$ 627,662 | (\$ 627,662) | \$ - | \$ - |
| Financial assets at fair value through other comprehensive income Investment in stock | - | - | 1,260,145 | (1,260,145) |

(In US Thousand Dollars)

| December 31, 2020 | Changes in the fair value recognized in the current profit or loss | | Changes in the fair value recognized in the comprehensive income or loss | |
|--|--|---------------------|--|---------------------|
| | Favorable changes | Unfavorable changes | Favorable changes | Unfavorable changes |
| Financial assets at fair value through profit or loss Investment in stock | \$ 22,341 | (\$ 22,341) | \$ - | \$ - |
| Financial assets at fair value through other comprehensive income Investment in stock | - | - | 44,853 | (44,853) |

(In NT Thousand Dollars)

| December 31, 2019 | Changes in the fair value recognized in the current profit or loss | | Changes in the fair value recognized in the comprehensive income or loss | |
|---|--|---------------------|--|---------------------|
| | Favorable changes | Unfavorable changes | Favorable changes | Unfavorable changes |
| Financial assets at fair value through profit or loss | | | | |
| Investment in stock | \$ 491,681 | (\$ 491,681) | \$ - | \$ - |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in stock | - | - | 701,072 | (701,072) |

The favorable changes and unfavorable changes meant the fluctuation of fair value, and the fair value was calculated by the unobservable parameters in different levels, if the fair value of financial instrument was affected by one of the above parameters, the favorable changes and unfavorable changes would not consider the correlation and variability in the table.

F. Quantitative information of fair value measurement of significant unobservable inputs (level 3)

Fair value of the Bank and subsidiaries belongs to level 3 because of equity investments-unlisted stocks.

Fair value belongs to equity investments of level 3 have several significant unobservable inputs, but they are independent from each other, the inputs have no relation.

Table below summaries quantitative information of significant unobservable inputs:

| December 31, 2020 | Fair value (In NT Thousand Dollars) | Fair value (In US Thousand Dollars) | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|--|---|---|---------------------|------------------------------------|--------------------------|---|
| Financial assets measured at fair value through profit or loss | | | | | | |
| Equity investment- unlisted stock | \$ 5,395,110 | \$ 192,031 | Market approach | Lack of liquidity discount | 15%~30% | The higher liquidity discount, the lower fair value. |
| | 881,514 | 31,376 | Net asset approach | Price-book value ratio multiple | 0.81~3.24 | The higher price-book value ratio multiple, the higher fair value. |
| | | | | N/A | N/A | N/A |
| Financial assets at fair value through other comprehensive income | | | | | | |
| Equity investment- unlisted stock | 10,106,712 | 359,733 | Market approach | Lack of liquidity discount | 10%~30% | The higher liquidity discount, the lower fair value. |
| | | | | Price-book value ratio multiple | 0.87~2.77 | The higher price-book value ratio multiple, the higher fair value. |
| | 2,494,742 | 88,797 | Net asset approach | N/A | N/A | N/A |

| December 31, 2019 | Fair value (In NT Thousand Dollars) | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|--|---|---------------------|------------------------------------|--------------------------|---|
| Financial assets measured at fair value through profit or loss | | | | | |
| Equity investment- unlisted stock | \$ 4,410,350 | Market approach | Lack of liquidity discount | 15%~30% | The higher liquidity discount, the lower fair value. |
| | | | Price-book value ratio multiple | 0.83~2.85 | The higher price-book value ratio multiple, the higher fair value. |
| | 506,456 | Net asset approach | N/A | N/A | N/A |
| Financial assets at fair value through other comprehensive income | | | | | |
| Equity investment- unlisted stock | 4,763,514 | Market approach | Lack of liquidity discount | 10%~30% | The higher liquidity discount, the lower fair value. |
| | | | Price-book value ratio multiple | 0.78~3.18 | The higher price-book value ratio multiple, the higher fair value. |
| | 2,247,207 | Net asset approach | N/A | N/A | N/A |

8. MANAGEMENT OBJECTIVE AND POLICY FOR FINANCIAL RISK

(1) Overview

The Bank and subsidiaries earn profits mainly from lending, financial instruments trading and investments. The Bank and subsidiaries are supposed to bear and manage any risks from these business activities. These risks include credit risk, market risk, operating risk and liquidity risk. Among those risks, credit risk, market risk and liquidity risk have greatest impact.

The Bank and subsidiaries regard any potential factors that might negatively affect earnings and reputation as risks. To maintain steady profits and good reputation and avoid losses from incidental events, the Bank and subsidiaries' risk management policies focus on prevention and reduction of anticipated business risks and increase of capital in response to future anticipated risks. In order to meet the solid operating requirements by the competent authorities, depositors and other stakeholders for management objectives for risks, business risks are controlled within the tolerable scope.

(2) The organisation framework of risk management

The Bank and subsidiaries established risk management policies and guidelines and whole risk tolerance of the Bank and subsidiaries. Subsidiaries therefore follow the Bank's instructions in setting risk management organisation, policies, objectives, procedures, internal control operation, risk monitor mechanism and risk limits, and report to the parent company on risk management issues.

The Board of Directors is the highest instruction unit of the Bank and subsidiaries' risk management organisation structure and is responsible for establishing risk management system, including risk management policies, organisation structure, risk preference, internal control system and management of significant business cases.

Under the Board of Directors, the Risk Management Committee is established. The Risk Management Committee is responsible for review and monitor of risk management. Under the management, several committees and other administrative units are established. They are responsible for assessing and monitoring the related risk of loans, investments, trading of financial products.

The Bank has the Risk Management Center, which is responsible for supervising the establishment of risk management mechanism, risk limits setting, risk monitoring and reporting. Each business management unit is responsible for identifying possible risks that may be generated within their respective jurisdictions, establishing internal control procedures and regulations, periodically measuring risk degrees and adopting response measures for possible negative effects.

Business units follow operating procedures and report to the management units directly. Risk management unit is responsible for monitor of overall risk positions and concentration and reporting to the management or Board of Directors.

Auditing office examines the operations of business and administration units regularly or irregularly to ensure the three risk management defense lines operate normally.

The Bank has assigned personnel to sit on the Board of Directors of each subsidiary to monitor the governance of each subsidiary.

(3) Credit risk

A. The source and definition of credit risk

Credit risk pertains to the risk of loss that the borrowers, issuers or counterparties might default on contracts due to deterioration in their finance or other factors.

The Bank and subsidiaries are exposed to credit risk mainly on businesses of corporate and individual loans, guarantees, trade financing, interbank deposits and call loans and securities investments.

Credit risk is the primary risk of the Bank and subsidiaries' capital charge.

B. Credit risk management policies

The objectives of the Bank and subsidiaries' credit risk management are to maintain stable asset allocation strategy, careful loaning policy and excellent asset quality to secure assets and earnings.

The management mechanism of the Bank and subsidiaries for credit risk includes:

The establishment of Risk Management, Loan and Investment committees which adopt responding measures to market environment, changes in industry, and capital limits, and review relevant regulations and cases of significant lending and investments.

Setting careful prior review procedures for lending and criteria of handling subsequent matters, regular post-lending follow-up, understanding of clients' operation and capital outflows, and increase in the frequency of review on clients with higher risk.

Classifying credit ratings based on clients' probability of default or behavior scoring with management put in practice.

Controlling concentration of credit risk by setting credit limits for individuals, corporate groups, industries, areas, and different types of collaterals.

Setting credit risk limits by reference to external ratings and prospects with attention to changes in market credit spread and risk concentration of counterparties.

The establishment of credit pre-warning list and reporting system.

Assessing assets quality regularly and setting aside sufficient reserve for losses.

Setting creditor's rights management unit and advisory committee in charge of accelerating collection of non-performing loans.

The procedures for credit risk management of the Bank and subsidiaries and related measurement approaches are outlined below:

(A) Credit extensions

Classification of credit assets and internal risk ratings are as follows:

a. Classification of credit assets

Corporate credit risk is measured by using the borrower's default probability model with logistic regression analysis in which financial and non-financial factors are incorporated, which predicts the default probability of borrower within the next year. Besides, the extent of risk is measured by using credit rating table and taking into account the characteristics and scale of business. Lending examination and post management are dealt with based on clients' credit rating. Individual borrowers are grouped into different risk levels and managed by using application scoring and behavior scoring cards. Back-testing is conducted on internal models regularly; those models are subject to adjustments

when necessary. Clients' credit ratings are reviewed annually and subject to adjustments when there is significant change in their credit ratings.

b. Internal risk rating

The internal rating for lending is classified as excellent, satisfactory, fair and weak, and corresponds to the Standard & Poor's rating as follows:

| | | | | |
|----------------------|-----------|--------------|------|-------------|
| Internal risk rating | Excellent | Satisfactory | Fair | Weak |
| Corresponding to S&P | AAA~BBB- | BB+~ BB- | B+ | B and below |

(B) Interbank deposits and call loans

Before trading with other banks, the Bank and subsidiaries must assess the credit of the counterparty; generally referencing external rating agencies, assets and scale of equity of the counterparty, and the credit rating of the counterparty's country of origin in order to set different transaction limits, as well as periodically examining the ratings and changes in stock prices of the counterparty in order to monitor the risks of counterparty.

(C) Bonds and derivatives

The limits of bonds purchased by the Bank and subsidiaries are set by considering the credit rating of bond issuers or guarantors (ex. S&P, Moody's, Fitch, Taiwan ratings or Fitch Taiwan), which needs to meet the minimum rating set by the Board of (Managing) Directors, and country risk at the application, changes in CDS quoted prices and market condition.

The Bank and subsidiaries have set trading units and overall total risk limit for non-hedging derivatives, and use positive trading contract evaluation and the potential exposure as the basis for calculating credit risk and add the limit to the total credit risk limit for monitoring.

(D) Asset quality

The Bank and subsidiaries have set the minimum requirements and examination procedures for the quality of financial assets of each type, and controls risk concentration of assets portfolios of each type based on the risk limit of each type. The Bank and subsidiaries also monitor the changes in assets quality regularly during the duration of the assets and takes measures to maintain their quality. According to the policies and regulations, reserve for losses is provided adequately for those assets to actually reflect and safeguard the value of owners' equity.

C. Expected credit losses calculation

In the assessment of impairment and calculation of expected credit losses, the Bank and subsidiaries consider reasonable and supportable information (including forward-looking information that can be obtained without costing excessive costs or inputs) about past events, current conditions and reasonable and supportable forecasts of future economic conditions. The Bank and subsidiaries determine at the reporting date whether there has been a significant increase in credit risk since initial recognition or whether credit impairment has occurred, and recognises expected credit loss according to which stage the asset belongs: no significant increase in credit risk or low credit risk at balance sheet date (Stage 1), significant increase in credit risk (Stage 2), and credit impaired (Stage 3). 12-month expected credit losses are recognised for assets in Stage 1, and lifetime expected credit losses are recognised for assets in Stage 2 and Stage 3.

The definition of each stage and the recognition of expected credit loss are as follows:

Low credit risk (Stage 1)

The Bank and subsidiaries estimate the 12 months expected credit losses if financial assets which has low credit risk at reporting date, or there has not been a significant increase in credit risk since initial recognition.

Significant increase in credit risk (Stage 2)

The Bank and subsidiaries estimate the lifetime expected credit losses (ECLs) if such credit risk has significant increased since initial recognition but not impaired after taking into consideration all reasonable and verifiable information.

Credit-impaired (Stage 3)

The credit is impaired when expected future cash flows of the financial assets have one or more events that occurred with adverse effects, and the Bank and subsidiaries shall estimate the lifetime expected credit losses (ECLs).

(A) Determination of a significant increase in credit risk after initial recognition

a. Loan business

The Bank and subsidiaries assess the changes in default risk over the lifetime of each category of credit assets at each reporting date to determine whether there has been a significant increase in credit risk. The assessment takes into account reasonable and supportable information including forward-looking information that demonstrates a significant increase in credit risk after initial recognition. The main indicators taken into consideration include:

(a) Quantitative indicators

I. Changes in internal/external credit ratings

The credit risk of the financial instrument is assessed to be significantly increased after initial recognition if its external credit rating were lowered over 2 grades and it qualified other conditions at the reporting date. A financial instrument that is not externally rated whose internal credit rating needs to be mapped with an external grade and then determined based on its external credit rating. A no-rated financial instrument is determined by default events and qualitative indicators.

The credit assets are allocated in 13 scales of internal rating. The scales correspond to the ratings of Standard & Poor's as follows:

| | | | | |
|----------------------|-----------------|------------|--------|--------------|
| Internal risk rating | 1~3 | 4~6 | 7~9 | 10~13 |
| Corresponding to S&P | AA-or better~A- | BBB+~ BBB- | BB+~B+ | B +and below |

II. Default events

The repayment of principal and interest is later 1 to 3 months over when contractually dues, and not included in credit-impaired (Stage 3).

(b) Qualitative indicators:

- I. The Bank and subsidiaries, reported a dishonored check issued by debtor.
- II. Debtor was notified as a dishonored account by Taiwan clearing house.
- III. The pledged collateral of the debtor is seized by another bank.
- IV. Debtor's loans from other financial institutions have been reclassified as overdue loan or written off as bad debt.
- V. The independent accountant issues an opinion expressing material uncertainty over the company's ability to continue as a going concern.
- VI. The debtor has other records of bad credit that has affected its capital procurement and normal operation.

The loan assets of the Bank and subsidiaries are assumed to have no significant increase in credit risk since initial recognition if they are of low credit risk at the reporting date.

b. Bond investments and counterparty transactions

The Bank and subsidiaries assess the changes in default risk over the lifetime of bond investments and counterparty transactions at each reporting date to determine whether there has been a significant increase in credit risk. The assessment takes into account reasonable and supportable information including forward-looking information that demonstrates a significant increase in credit risk after initial recognition. The main indicators taken into consideration include:

(a) Quantitative indicators:

- I. The repayment including interests is over 30 days past due.
- II. The fair value and cost are lower than a certain percentage.
- III. A change in internal/external credit ratings.

At the reporting date, if the external credit rating of the financial instrument has decreased by more than certain grades since initial recognition, or if the instrument is not investment grade, it is determined to have significant increase in credit risk. If the financial instrument only has an internal credit rating, the assessment is based on the equivalent external credit rating.

- IV. The CDS spread of bond issuer/counterparty is over certain basis points five business days before the reporting date.

V. Fluctuation rate of individual stock price relative to the overall market price

The fluctuation rate of individual stock price of the bond issuer/ counterparty relative to the overall market price is lower than a certain percentage in consecutive months.

(B) Definition of default and credit impaired financial assets

a. Credit business

The Bank and subsidiaries use the credit-impaired indicators as follows:

- (a) Quantitative indicator: Except for the accounts receivable factoring without recourse resulting from a non-financial factor, the repayment of principal and interest is over 90 days past due.
- (b) Qualitative indicators:
 - I. The accounts receivable factoring without recourse has been recorded as non-performing loans.
 - II. Overdue receivables.
 - III. The amount cannot be expected to be recovered because of the debtor's financial difficulties.
 - IV. A modification of the contractual terms led by the debtor's financial difficulties, including an extended repayment term of principal and a punctual repayment of interests, extended repayment term of interests, debt negotiations for agreed settlement administered by the Bank Association.
 - V. The debtor has filed for bankruptcy or is likely to file for bankruptcy.
 - VI. The debtor entered into reorganisation or is likely to file for reorganisation.
 - VII. A debtor's credit rating has been downgraded significantly, and its operations or financial condition may have deteriorated, which has been approved by irregular transaction reporting of Head office to be recognized as credit-impaired (Stage 3).

b. Bond investments and counterparty transactions

The Bank and subsidiaries use the credit-impaired indicators as follows:

- (a) The repayment is over 90 days past due.
- (b) Overdue receivables.
- (c) Bad debts.
- (d) The issuer or debtor encounters financial difficulties.
- (e) A modification of the contractual terms led by the debtor's financial difficulties.
- (f) The debtor has filed for bankruptcy or is likely to file for bankruptcy.
- (g) The debtor entered into reorganisation or is likely to file for reorganization.
- (h) The credit rating at the reporting date is classified as "D".
- (i) Reclassified as credit-impaired after the expert's judgement.

(C) Write-off policy

The Bank and subsidiaries write-off the financial assets partially or entirely to the extent of the amount which cannot be reasonably expected to be recovered.

The indicators for reasonably expected to be unrecoverable include:

- a. The recourse procedures has ceased.
- b. The debtor's assets or income is evaluated to be insufficient to repay outstanding payments.

The Bank and subsidiaries may proceed recourse activities for the written-off financial assets and undergo recourse procedures in accordance with related policies.

(D) Measurement of expected credit loss

The Bank and subsidiaries recognise the impairment provision for 12 months expected credit losses (ECLs) if there has not been a significant increase in credit risk since initial recognition and recognises the impairment provision for the lifetime expected credit losses if such credit risk has increased since initial recognition.

a. Credit business

Expected credit loss are measured based on probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD").

(a)Probability of default ("PD"):

The estimation of PD is based on the rated financial assets and no-rated financial assets of the Bank and subsidiaries, with the 12-month PD and lifetime PD estimated separately.

I. Calculate the actual 12-month PD from historical data, which is adjusted by using forward-looking information, and use it to estimate the future 12-month PD parameter.

II. Lifetime PD: The Bank and subsidiaries adopts Markov Chain to estimate lifetime PD, which is obtained by a matrix multiplication from rating transition matrix.

In addition, probability of default of externally rated financial assets is measured by the same method with "Bond investments and counterparty transactions".

(b)Loss given default ("LGD"):

Loans are grouped according to type (corporate or consumer) and whether they are secured with collateral, and the LGD of each group is calculated based on historical recovery experience.

(c)Exposure at default ("EAD"):

I. On balance sheet: calculated from the total book value at the reporting date (including interest receivable).

II. Off balance sheet: off balance sheet figures multiplied by the credit conversion factor (CCF). The CCF is estimated according to the rules described in the "Calculation Method of Equity Capital and Risky Assets and Accompanying Forms-Credit Risk Standard Rules."

b. Bond investments and counterparty transactions

(a) PD is calculated based on external credit ratings data, which takes into consideration forward-looking information.

(b) LGD is an average LGD obtained from external credit ratings.

(c) EAD:

I. Stage 1: calculated from total book value (including interest receivable)

II. Stage 2 and Stage 3: used the cash flows of bonds during its duration.

(E) Consideration of forward-looking information

a. Credit business

The Bank and subsidiaries incorporate forecastable information when determining whether there has been a significant increase in credit risk since initial recognition and measuring expected credit losses.

(a) For determining significant increase in credit risk

Clients' financial condition, repayment ability, corporate governance and forward-looking information such as industry's prospects are taken into consideration.

(b) For measuring expected credit losses

Consideration of forward-looking information are reflected by PD and LGD. Consideration of forward-looking information classifies loans into three types: loans with I. external credit ratings II. with internal credit ratings and III. without credit ratings:

I. Loans with external credit ratings: ECLs are measured by the same approach by considering the same forward-looking information adopted for bond investments and counterparty transactions.

II. Loans with internal credit ratings:

To measure the PD of internally rated financial assets, the Bank and subsidiaries assess corporate loan and consumer loan business, refer to academic literatures across countries and employ statistical methods to identify relevant macro-economic factors (including economic growth rate, unemployment rate, consumer price index, interest rate, exchange rate and real estate price index) in order to assess the effects on each rating level while the macro-economic changes, and use it to be the forward-looking information adjustment of future PD. In addition, the Bank and subsidiaries' adjustment of forward-looking information is including the analysis under the different macroeconomic environments, which are appropriated the weight in accordance with its incidence. As a result, the weighted average was calculated based on different economic environments, and it reflects the non-linear system between the incidence of different macroeconomic environments and the existence of credit loss.

III. Loans without credit ratings:

Estimate according to the prosperity of major economic regions.

To measure the LGD of no-rated financial assets, the Bank and subsidiaries considers forward-looking information by complying with the impairment estimation methodology guidelines released by the Bankers Association of the Republic of China. And adjust according to the economic prosperity of major economic regions.

b. Bond investments and counterparty transactions

To measure the forecastable estimation of PD, the PDs under different ratings and limits are obtained by constructing the regression model and combining the result of regression with the assessment of macroeconomic.

- (F) At the beginning of 2020, COVID-19 spread every country and struck some enterprises and economy. Furthermore, it may affect the quality of credit assets or operating result of the Bank. The degree of the impact depends on the subsequent development of the pandemic and the affected result of each economic activity. The Bank has collected the previously and currently available information as well as relevant information of future development, and included related factors into each assumption and parameters used in impairment valuation models and related assessment method (including the latest data which was reflected by the macroeconomic index used in the expected credit loss measurement). The Bank will continually focus on the following situation of COVID-19, carefully assess and actively respond to the effects on the financial situation and operating performance of the Bank from the pandemic.

D. Policies of hedging and mitigation of credit risk

To reduce credit risk, the Bank and its subsidiaries adopt the following policies:

(A) Obtaining collaterals and guarantors

The Bank and subsidiaries have established policies on collateral management, mortgage loan line setting, scope of collaterals, collateral valuation, collateral management and disposal. Besides, protection of creditor's right, collateral terms and offsetting terms are all addressed in the credit extension contract in case of any occurrence of credit event, of which the amount may be deductible, loan repayment schedule may be shortened or deemed as matured, or the debtor's deposits can be used to offset its liabilities to mitigate credit risks.

(B) Loan limit control

To avoid extreme credit risk concentration, subsidiaries established policies for control of credit risk concentration and set up credit extension limit for a single individual, a single group, a single industry, a single area/country, and single collateral.

(C) Master netting arrangements

The Bank and subsidiaries' transactions predominantly settle at gross amount. A portion of transactions have entered into master netting arrangements with counterparties or upon the event of a default may cease all transactions with the counterparties and settle by net amount in order to further reduce credit risk.

(D) Other credit enhancements

The Bank and subsidiaries have offsetting terms within their credit contracts, which clearly define that all deposits in the Bank and subsidiaries from debtors may be offset against their liabilities upon a credit event, and have guarantees from third parties or financial institutions, in order to decrease credit risk.

E. Maximum credit risk exposure

The maximum credit risk exposure of financial assets within the balance sheets is presented in book values. The maximum credit risk exposure of guarantees and irrevocable commitments off balance sheets is calculated based on their limits. Letters of credit and the guarantee refer to those issued but not used.

(Blank below)

(A) The maximum credit risk exposure of financial assets of the Bank and subsidiaries excluding collaterals or other credit enhancement instruments is approximately equal to book value.

a. The breakdown of total carrying amount of financial assets held by the Bank and subsidiaries that have the maximum exposure to credit risk by credit ratings is as follows:

(a) Discounts and loans

Unit: In NT Thousand Dollars

December 31, 2020

| Discounts and loans | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---|---|--|------------------|
| Credit ratings | | | | | |
| - excellent | \$ 853,021,294 | \$ 143,523 | \$ - | \$ - | \$ 853,164,817 |
| - good | 482,946,503 | 30,025,494 | - | - | 512,971,997 |
| - acceptable | 288,875,824 | 20,756,685 | 310,450 | - | 309,942,959 |
| - weak | 96,868,501 | 15,066,021 | 11,607,873 | - | 123,542,395 |
| No rated | 116,424,827 | 1,284,970 | 1,792,224 | - | 119,502,021 |
| Total carrying amount | 1,838,136,949 | 67,276,693 | 13,710,547 | - | 1,919,124,189 |
| Allowance for bad debt | (2,961,164) | (581,822) | (2,109,119) | - | (5,652,105) |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (23,513,862) | (23,513,862) |
| Total | \$ 1,835,175,785 | \$ 66,694,871 | \$ 11,601,428 | (\$ 23,513,862) | \$ 1,889,958,222 |

Unit: In US Thousand Dollars

December 31, 2020

| Discounts and loans | Lifetime expected credit losses (individual assessment) | | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---------------------|---|--|----------------------|
| | 12-month expected credit losses (Stage 1) | (Stage 2) | (Stage 3) | | |
| Credit ratings | | | | | |
| - excellent | \$ 30,362,032 | \$ 5,108 | \$ - | \$ - | \$ 30,367,140 |
| - good | 17,189,767 | 1,068,713 | - | - | 18,258,480 |
| - acceptable | 10,282,108 | 738,803 | 11,050 | - | 11,031,961 |
| - weak | 3,447,891 | 536,253 | 413,165 | - | 4,397,309 |
| No rated | <u>4,143,970</u> | <u>45,737</u> | <u>63,792</u> | - | <u>4,253,499</u> |
| Total carrying amount | 65,425,768 | 2,394,614 | 488,007 | - | 68,308,389 |
| Allowance for bad debt | (105,398) | (20,709) | (75,071) | - | (201,178) |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (836,941) | (836,941) |
| Total | <u>\$ 65,320,370</u> | <u>\$ 2,373,905</u> | <u>\$ 412,936</u> | <u>(\$ 836,941)</u> | <u>\$ 67,270,270</u> |

Unit: In NT Thousand Dollars

December 31, 2019

| Discounts and loans | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---|---|--|-------------------------|
| Credit ratings | | | | | |
| - excellent | \$ 858,600,604 | \$ 94,564 | \$ 119,597 | \$ - | \$ 858,814,765 |
| - good | 493,218,432 | 30,695,221 | 60,995 | - | 523,974,648 |
| - acceptable | 269,148,634 | 21,940,794 | 248,357 | - | 291,337,785 |
| - weak | 92,394,474 | 12,773,535 | 8,988,527 | - | 114,156,536 |
| No rated | <u>113,231,932</u> | <u>1,203,030</u> | <u>542,569</u> | - | <u>114,977,531</u> |
| Total carrying amount | 1,826,594,076 | 66,707,144 | 9,960,045 | - | 1,903,261,265 |
| Allowance for bad debt | (2,736,126) | (599,373) | (2,350,961) | - | (5,686,460) |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (23,896,971) | (23,896,971) |
| Total | <u>\$ 1,823,857,950</u> | <u>\$ 66,107,771</u> | <u>\$ 7,609,084</u> | <u>(\$ 23,896,971)</u> | <u>\$ 1,873,677,834</u> |

(b) Receivables

Unit: In NT Thousand Dollars

December 31, 2020

| Receivables | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---|---|--|---------------|
| Credit ratings | | | | | |
| - excellent | \$ 20,145,493 | \$ 685 | \$ - | \$ - | \$ 20,146,178 |
| - good | 6,405,920 | 152,484 | - | - | 6,558,404 |
| - acceptable | 7,193,393 | 422,185 | 42 | - | 7,615,620 |
| - weak | 199,255 | 88,946 | 354,093 | - | 642,294 |
| No rated | 3,415,630 | 19,988 | 595,352 | - | 4,030,970 |
| Total carrying amount | 37,359,691 | 684,288 | 949,487 | - | 38,993,466 |
| Allowance for bad debt | (79,318) | (4,672) | (67,478) | - | (151,468) |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (909,136) | (909,136) |
| Total | \$ 37,280,373 | \$ 679,616 | \$ 882,009 | (\$ 909,136) | \$ 37,932,862 |

Unit: In US Thousand Dollars

December 31, 2020

| Receivables | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---|---|--|--------------|
| Credit ratings | | | | | |
| - excellent | \$ 717,049 | \$ 24 | \$ - | \$ - | \$ 717,073 |
| - good | 228,009 | 5,428 | - | - | 233,437 |
| - acceptable | 256,039 | 15,027 | 1 | - | 271,067 |
| - weak | 7,092 | 3,166 | 12,604 | - | 22,862 |
| No rated | 121,574 | 711 | 21,191 | - | 143,476 |
| Total carrying amount | 1,329,763 | 24,356 | 33,796 | - | 1,387,915 |
| Allowance for bad debt | (2,823) | (166) | (2,402) | - | (5,391) |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (32,360) | (32,360) |
| Total | \$ 1,326,940 | \$ 24,190 | \$ 31,394 | (\$ 32,360) | \$ 1,350,164 |

Unit: In NT Thousand Dollars

December 31, 2019

| Receivables | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---|---|--|---------------|
| Credit ratings | | | | | |
| - excellent | \$ 28,229,640 | \$ 89 | \$ 2 | \$ - | \$ 28,229,731 |
| - good | 8,123,365 | 425,106 | 17 | - | 8,548,488 |
| - acceptable | 7,191,653 | 316,528 | 81 | - | 7,508,262 |
| - weak | 418,415 | 25,664 | 311,024 | - | 755,103 |
| No rated | 16,576,743 | 9,645 | 630,337 | - | 17,216,725 |
| Total carrying amount | 60,539,816 | 777,032 | 941,461 | - | 62,258,309 |
| Allowance for bad debt | (145,892) | (3,197) | (108,528) | - | (257,617) |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (1,045,121) | (1,045,121) |
| Total | \$ 60,393,924 | \$ 773,835 | \$ 832,933 | (\$ 1,045,121) | \$ 60,955,571 |

(c) Debt instruments

Unit: In NT Thousand Dollars

| December 31, 2020 | | | | |
|------------------------|--|--|---|----------------|
| Debt instruments | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated)(Stage 3) | Total |
| Credit ratings | | | | |
| - excellent | \$ 901,872,471 | \$ - | \$ - | \$ 901,872,471 |
| - good | 4,390,544 | 453,640 | - | 4,844,184 |
| - acceptable | - | - | - | - |
| - weak | 1,104,420 | - | - | 1,104,420 |
| No rated | - | - | - | - |
| Total carrying amount | 907,367,435 | 453,640 | - | 907,821,075 |
| Accumulated impairment | (32,333) | - | - | (32,333) |
| Other equity | (203,263) | (6,091) | - | (209,354) |
| Total | \$ 907,131,839 | \$ 447,549 | \$ - | \$ 907,579,388 |

Unit: In US Thousand Dollars

| December 31, 2020 | | | | |
|------------------------|--|--|---|---------------|
| Debt instruments | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated)(Stage 3) | Total |
| Credit ratings | | | | |
| - excellent | \$ 32,100,818 | \$ - | \$ - | \$ 32,100,818 |
| - good | 156,275 | 16,147 | - | 172,422 |
| - acceptable | - | - | - | - |
| - weak | 39,310 | - | - | 39,310 |
| No rated | - | - | - | - |
| Total carrying amount | 32,296,403 | 16,147 | - | 32,312,550 |
| Accumulated impairment | (1,151) | - | - | (1,151) |
| Other equity | (7,235) | (217) | - | (7,452) |
| Total | \$ 32,288,017 | \$ 15,930 | \$ - | \$ 32,303,947 |

Unit: In NT Thousand Dollars

December 31, 2019

| Debt instruments | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated)(Stage 3) | Total |
|------------------------|--|--|---|----------------|
| Credit ratings | | | | |
| - excellent | \$ 639,160,195 | \$ - | \$ - | \$ 639,160,195 |
| - good | 3,583,201 | - | - | 3,583,201 |
| - acceptable | - | - | - | - |
| - weak | 1,241,045 | - | - | 1,241,045 |
| No rated | - | - | - | - |
| Total carrying amount | 643,984,441 | - | - | 643,984,441 |
| Accumulated impairment | (21,330) | - | - | (21,330) |
| Other equity | (132,652) | - | - | (132,652) |
| Total | \$ 643,830,459 | \$ - | \$ - | \$ 643,830,459 |

b. The breakdown of total carrying amount of financial asset off balance sheet held by the Bank and subsidiaries that have the maximum exposure to credit risk by credit ratings is as follows:

Unit: In NT Thousand Dollars

December 31, 2020

| Loan commitments and financial guarantee contracts | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---|---|--|----------------|
| Credit ratings | | | | | |
| - excellent | \$ 253,345,026 | \$ - | \$ - | \$ - | \$ 253,345,026 |
| - good | 69,205,210 | 16,751,032 | - | - | 85,956,242 |
| - acceptable | 34,699,018 | 4,195,944 | - | - | 38,894,962 |
| - weak | 9,243,793 | 2,191,812 | 276,209 | - | 11,711,814 |
| No rated | 22,447,898 | - | 28,015 | - | 22,475,913 |
| Total carrying amount | 388,940,945 | 23,138,788 | 304,224 | - | 412,383,957 |
| Provisions | (269,137) | (101,055) | 34,650 | - | 404,842 |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (2,410,325) | (2,410,325) |
| Total | \$ 388,671,808 | \$ 23,037,733 | \$ 269,574 | \$ (2,410,325) | \$ 409,568,790 |

Unit: In US Thousand Dollars

December 31, 2020

| Loan commitments and financial guarantee contracts | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---|---|--|---------------|
| Credit ratings | | | | | |
| - excellent | \$ 9,017,442 | \$ - | \$ - | \$ - | \$ 9,017,442 |
| - good | 2,463,257 | 596,228 | - | - | 3,059,485 |
| - acceptable | 1,235,060 | 149,349 | - | - | 1,384,409 |
| - weak | 329,019 | 78,014 | 9,831 | - | 416,864 |
| No rated | 799,000 | - | 997 | - | 799,997 |
| Total carrying amount | 13,843,778 | 823,591 | 10,828 | - | 14,678,197 |
| Provisions | (9,580) | (3,597) | 1,233 | - | 14,410 |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (85,792) | (85,792) |
| Total | \$ 13,834,198 | \$ 819,994 | \$ 9,595 | \$ (85,792) | \$ 14,577,995 |

Unit: In NT Thousand Dollars

December 31, 2019

| Loan commitments and financial guarantee contracts | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|---|---|---|--|-----------------------|
| Credit ratings | | | | | |
| - excellent | \$ 247,367,738 | \$ - | \$ - | \$ - | 247,367,738 |
| - good | 87,068,728 | 6,095,455 | - | - | 93,164,183 |
| - acceptable | 28,196,659 | 2,686,088 | 37,060 | - | 30,919,807 |
| - weak | 7,662,343 | 2,482,076 | 429,068 | - | 10,573,487 |
| No rated | 28,448,498 | - | 25,903 | - | 28,474,401 |
| Total carrying amount | 398,743,966 | 11,263,619 | 492,031 | - | 410,499,616 |
| Provisions | (222,947) | (50,071) | (16,295) | - | (289,313) |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (2,764,635) | (2,764,635) |
| Total | \$ 398,521,019 | \$ 11,213,548 | \$ 475,736 | \$ (2,764,635) | \$ 407,445,668 |

c. The analysis of Bank and subsidiaries' risk exposure assets by risk exposure counterparty and risk exposure category is as follows:

Unit: In NT Thousand Dollars

| | | December 31, 2020 | | | | | | | | | |
|---|-----------|---|-------------------------|----------------------|---|---------------------|---------------------------------|-----------------------|---|----------------------|-------|
| | | Cash and cash equivalents · Due from the Central Bank and call loans to banks | | | Securities purchased under resell agreements and debt instruments | | Other on balance sheet items | | Loan commitments and financial guarantee contracts | | Total |
| | | Discounts and loans | Receivables, net | instruments | Derivatives | | | | | | |
| Government institution | \$ | 247,450,712 | \$ 6,672,830 | \$ 538,836 | \$ 142,470,587 | \$ - | \$ 589 | \$ 18,118,396 | \$ | 415,251,950 | |
| Finance, investment and insurance | | 245,125,193 | 155,056,667 | 1,920,620 | 606,829,610 | 4,308,489 | 78,666 | 15,197,494 | | 1,028,516,739 | |
| Enterprise and commerce | | - | 1,230,350,092 | 26,663,683 | 202,102,616 | 359,923 | 61,329 | 278,587,219 | | 1,738,124,862 | |
| Individuals | | - | 523,590,175 | 8,298,599 | - | 15,639 | 179 | 97,109,598 | | 629,014,190 | |
| Others | | - | 3,454,425 | 1,571,728 | 777,165 | 73,928 | - | 3,371,250 | | 9,248,496 | |
| Total | | 492,575,905 | 1,919,124,189 | 38,993,466 | 952,179,978 | 4,757,979 | 140,763 | 412,383,957 | | 3,820,156,237 | |
| Less : allowance for bad debt · accumulated impairment and provisions for liabilities | (| 169) | (29,165,967) | (1,060,604) | (241,687) | - | (32,348) | (2,815,167) | (| 33,315,942) | |
| Net | \$ | 492,575,736 | \$ 1,889,958,222 | \$ 37,932,862 | \$ 951,938,291 | \$ 4,757,979 | \$ 108,415 | \$ 409,568,790 | \$ | 3,786,840,295 | |

Unit: In US Thousand Dollars

| | | December 31, 2020 | | | | | | | | | |
|---|-----------|---|----------------------|---------------------|---|-------------------|---------------------------------|----------------------|---|--------------------|-------|
| | | Cash and cash equivalents · Due from the Central Bank and call loans to banks | | | Securities purchased under resell agreements and debt instruments | | Other on balance sheet items | | Loan commitments and financial guarantee contracts | | Total |
| | | Discounts and loans | Receivables, net | instruments | Derivatives | | | | | | |
| Government institution | \$ | 8,807,642 | \$ 237,510 | \$ 19,179 | \$ 5,071,030 | \$ - | \$ 21 | \$ 644,897 | \$ | 14,780,279 | |
| Finance, investment and insurance | | 8,724,869 | 5,519,013 | 68,362 | 21,599,203 | 153,354 | 2,800 | 540,932 | | 36,608,533 | |
| Enterprise and commerce | | - | 43,792,493 | 949,054 | 7,193,544 | 12,811 | 2,183 | 9,915,900 | | 61,865,985 | |
| Individuals | | - | 18,636,418 | 295,376 | - | 557 | 6 | 3,456,473 | | 22,388,830 | |
| Others | | - | 122,955 | 55,944 | 27,663 | 2,631 | - | 119,995 | | 329,188 | |
| Total | | 17,532,511 | 68,308,389 | 1,387,915 | 33,891,440 | 169,353 | 5,010 | 14,678,197 | | 135,972,815 | |
| Less : allowance for bad debt · accumulated impairment and provisions for liabilities | (| 6) | (1,038,119) | (37,751) | (8,603) | - | (1,151) | (100,202) | (| 1,185,832) | |
| Net | \$ | 17,532,505 | \$ 67,270,270 | \$ 1,350,164 | \$ 33,882,837 | \$ 169,353 | \$ 3,859 | \$ 14,577,995 | \$ | 134,786,983 | |

The trade financing for corporates and businesses accounts for 7.19%, equivalent to NT\$88,453,647 thousand while the housing loans for individuals accounts for 77.30%, equivalent to NT\$404,729,015 thousand.

Unit: In NT Thousand Dollars

December 31, 2019

| | Cash and cash equivalents · Due from the Central Bank and call loans to banks | | | Securities purchased under resell agreements and debt instruments | | | Other on balance sheet items | Loan commitments and financial guarantee contracts | Total |
|--|---|------------------|---------------|---|--------------|--------------|---------------------------------|---|-------|
| | Discounts and loans | Receivables, net | Derivatives | | | | | | |
| Government institution | \$ 307,364,331 | \$ 8,017,535 | \$ 1,103,545 | \$ 156,424,425 | \$ - | \$ 1,858 | \$ 18,400,195 | \$ 491,311,889 | |
| Finance, investment and insurance | 327,631,228 | 182,067,939 | 2,823,379 | 428,128,256 | 4,133,424 | 2,510,000 | 17,329,894 | 964,624,120 | |
| Enterprise and commerce | - | 1,254,182,896 | 48,800,968 | 105,294,765 | 345,854 | 32,518 | 284,269,127 | 1,692,926,128 | |
| Individuals | - | 455,042,162 | 7,950,487 | - | 23,577 | 501 | 87,984,371 | 551,001,098 | |
| Other | - | 3,950,733 | 1,579,930 | 826,982 | 251,683 | - | 2,516,029 | 9,125,357 | |
| Total | 634,995,559 | 1,903,261,265 | 62,258,309 | 690,674,428 | 4,754,538 | 2,544,877 | 410,499,616 | 3,708,988,592 | |
| Less : allowance for bad debt · accumulated impairment and provisions for liabilities | (14,565) | (29,583,431) | (1,302,738) | (153,982) | - | (7,193) | (3,053,948) | (34,115,857) | |
| Net | \$ 634,980,994 | \$ 1,873,677,834 | \$ 60,955,571 | \$ 690,520,446 | \$ 4,754,538 | \$ 2,537,684 | \$ 407,445,668 | \$ 3,674,872,735 | |

The trade financing for corporates and businesses accounts for 8.24%, equivalent to NT\$103,304,206 thousand while the housing loans for individuals accounts for 80.46%, equivalent to NT\$366,141,750 thousand.

(Blank below)

d. Relevant financial information on effect of the collateral, master netting arrangements, and other credit enhancements of the Bank and subsidiaries' assets exposed to credit risk is as follows:

| Unit: In NT Thousand Dollars | | | | |
|--|---------------|---|---------------------------|---------------|
| December 31, 2020 | Collateral | Net settlement master netting arrangements | Other credit enhancements | Total |
| <u>On-Balance-Sheet Items</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - debt instruments | \$ - | \$ - | \$ 2,618,040 | \$ 2,618,040 |
| - derivatives | 2,978,667 | 365,769 | - | 3,344,436 |
| Securities purchased under resell agreements | 10,357,834 | - | - | 10,357,834 |
| Discounts and loans | 1,227,852,728 | - | 104,022,454 | 1,331,875,182 |
| Financial assets at fair value through other comprehensive income- debt instruments | - | - | 26,110,871 | 26,110,871 |
| Investments in debt instruments at amortised cost | - | - | 55,828,088 | 55,828,088 |
| <u>Off-Balance-Sheet Items</u> | | | | |
| Irrevocable commitments | 32,988,796 | - | 4,278,984 | 37,267,780 |
| Guarantees and letters of credit | 52,712,924 | - | 2,022,485 | 54,735,409 |
| Unit: In US Thousand Dollars | | | | |
| December 31, 2020 | Collateral | Net settlement master netting arrangements | Other credit enhancements | Total |
| <u>On-Balance-Sheet Items</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - debt instruments | \$ - | \$ - | \$ 93,185 | \$ 93,185 |
| - derivatives | 106,021 | 13,019 | - | 119,040 |
| Securities purchased under resell agreements | 368,672 | - | - | 368,672 |
| Discounts and loans | 43,703,603 | - | 3,702,526 | 47,406,129 |
| Financial assets at fair value through other comprehensive income- debt instrument | - | - | 929,378 | 929,378 |
| Investments in debt instruments at amortised cost | - | - | 1,987,118 | 1,987,118 |
| <u>Off-Balance-Sheet Items</u> | | | | |
| Irrevocable commitments | 1,174,187 | - | 152,304 | 1,326,491 |
| Guarantees and letters of credit | 1,876,239 | - | 71,987 | 1,948,226 |

Unit: In NT Thousand Dollars

| December 31, 2019 | Collateral | Net settlement master netting arrangements | Other credit enhancements | Total |
|--|---------------|---|---------------------------|---------------|
| <u>On-Balance-Sheet Items</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - debt instruments | \$ - | \$ - | \$ 5,187,937 | \$ 5,187,937 |
| - derivatives | 1,973,426 | 262,834 | - | 2,236,260 |
| Securities purchased under resell agreements | 7,522,949 | - | - | 7,522,949 |
| Discounts and loans | 1,149,068,826 | - | 73,351,554 | 1,222,420,380 |
| Financial assets at fair value through other comprehensive income- debt instruments | - | - | 17,549,291 | 17,549,291 |
| Investments in debt instruments at amortised cost | - | - | 42,530,178 | 42,530,178 |
| <u>Off-Balance-Sheet Items</u> | | | | |
| Irrevocable commitments | 26,729,775 | - | 4,148,331 | 30,878,106 |
| Guarantees and letters of credit | 45,740,357 | - | 1,903,697 | 47,644,054 |

Note 1: Collaterals include property, movable property, certification of authorization, securities, certificates of deposits, letter of credit and rights in property.

(1) Value of collaterals pledged for assets that arise from lending is the lower of collateral value/ market value and maximum exposure amount. If the collateral value cannot be obtained, appraised value may be used.

(2) Value of collaterals pledged for assets that do not arise from lending is the lower of market value and maximum exposure amount.

Note 2: Details master netting arrangements and other credit enhancements are provided in Note 8(3) D. (C) and (D).

- e. The Bank and subsidiaries closely monitor the value of the collateral of financial instruments and consider the credit-impaired financial assets that require impairment recognition. Information on credit-impaired assets and the value of collateral used to offset potential losses is as follows:

Unit: In NT Thousand Dollars

| December 31, 2020 | | | | |
|---|-----------------------|--------------------------|---|--------------------------------------|
| | Total carrying amount | Allowance for impairment | Total risk exposure (Amortized cost) | Fair value of Collateral / Guarantee |
| Receivables | \$ 949,487 | \$ 691,879 | \$ 257,608 | \$ - |
| - Credit card business | 65,980 | 59,183 | 6,797 | - |
| - Others | 883,506 | 632,696 | 250,810 | - |
| Discounts and loans | 13,710,547 | 2,400,562 | 11,309,985 | 7,279,545 |
| Other financial assets | 61,324 | 32,340 | 28,983 | - |
| Impaired financial assets on balance sheet | <u>\$ 14,721,358</u> | <u>\$ 3,124,781</u> | <u>\$ 11,596,576</u> | <u>\$ 7,279,545</u> |
| Irrevocable loan commitments | \$ 20,179 | \$ 6,673 | \$ 13,506 | \$ 196 |
| Guarantees and letters of credit | 284,045 | 55,419 | 228,626 | 166,130 |
| Impaired financial assets off balance sheet | <u>\$ 304,224</u> | <u>\$ 62,092</u> | <u>\$ 242,132</u> | <u>\$ 166,326</u> |

Unit: In US Thousand Dollars

| December 31, 2020 | | | | |
|---|-----------------------|--------------------------|---|--------------------------------------|
| | Total carrying amount | Allowance for impairment | Total risk exposure (Amortized cost) | Fair value of Collateral / Guarantee |
| Receivables | \$ 33,796 | \$ 24,627 | \$ 9,169 | \$ - |
| - Credit card business | 2,348 | 2,107 | 242 | - |
| - Others | 31,447 | 22,520 | 8,927 | - |
| Discounts and loans | 488,007 | 85,444 | 402,562 | 259,105 |
| Other financial assets | 2,183 | 1,151 | 1,032 | - |
| Impaired financial assets on balance sheet | <u>\$ 523,985</u> | <u>\$ 111,222</u> | <u>\$ 412,763</u> | <u>\$ 259,105</u> |
| Irrevocable loan commitments | \$ 718 | \$ 238 | \$ 481 | \$ 7 |
| Guarantees and letters of credit | 10,110 | 1,973 | 8,138 | 5,913 |
| Impaired financial assets off balance sheet | <u>\$ 10,828</u> | <u>\$ 2,211</u> | <u>\$ 8,619</u> | <u>\$ 5,920</u> |

Unit: In NT Thousand Dollars

December 31, 2019

| | Total carrying amount | Allowance for impairment | Total risk exposure (Amortized cost) | Fair value of Collateral/Guarantee |
|--|-----------------------|--------------------------|---|------------------------------------|
| Receivables | \$ 941,461 | \$ 740,662 | \$ 200,799 | \$ - |
| - Credit card business | 80,117 | 63,838 | 16,279 | - |
| - Others | 861,344 | 676,824 | 184,520 | - |
| Discounts and loans | 9,960,045 | 2,539,266 | 7,420,779 | 5,394,191 |
| Other financial assets | 32,392 | 7,168 | 25,224 | - |
| Impaired financial assets on balance sheet | <u>\$ 10,933,898</u> | <u>\$ 3,287,096</u> | <u>\$ 7,646,802</u> | <u>\$ 5,394,191</u> |
| Irrevocable loan commitments | \$ 386,132 | \$ 107 | \$ 386,025 | \$ - |
| Guarantees and letters of credit | 105,899 | 48,614 | 57,285 | 24,023 |
| Impaired financial assets off balance sheet | <u>\$ 492,031</u> | <u>\$ 48,721</u> | <u>\$ 443,310</u> | <u>\$ 24,023</u> |

F. Movements in allowance for bad debts, accumulated impairment and provisions for financial assets are as follows:

(A) The reconciliation from the beginning balance to ending balance of the allowance for bad debts arising from discounts and loans for the years ended December 31, 2020 and 2019, is shown below:

Unit: In NT Thousand Dollars

| December 31, 2020 | | | | | | | | |
|--|--|---|--|---|--|----------------------|--|--|
| Discounts and loans | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total impairment recognised under IFRS 9 | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total | | |
| Balance at the beginning of the period | \$ 2,736,126 | \$ 599,373 | \$ 2,350,961 | \$ 5,686,460 | \$ 23,896,971 | \$ 29,583,431 | | |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | | | |
| - Transferred to lifetime expected credit losses | (48,288) | 56,182 | (7,894) | - | - | - | | |
| - Transferred to credit impaired financial asset | (76,951) | (19,206) | 96,157 | - | - | - | | |
| - Transferred to 12-month expected credit losses | 211,042 | (204,858) | (6,184) | - | - | - | | |
| - Derecognised financial assets | (1,153,931) | (160,695) | (163,970) | 1,478,596 | - | (1,478,596) | | |
| - Additional provision and reversal | (126,753) | 167,691 | 2,334,985 | 2,375,923 | - | 2,375,923 | | |
| Originated or purchased new financial assets | 1,372,488 | 138,744 | 37,350 | 1,548,582 | - | 1,548,582 | | |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | - | (383,109) | (383,109) | | |
| Write-off of uncollectible amount | - | - | (2,584,979) | (2,584,979) | - | (2,584,979) | | |
| Foreign exchange and other changes | 47,431 | 4,591 | 52,693 | 104,715 | - | 104,715 | | |
| Balance at the end of the period | <u>\$ 2,961,164</u> | <u>\$ 581,822</u> | <u>\$ 2,109,119</u> | <u>\$ 5,652,105</u> | <u>\$ 23,513,862</u> | <u>\$ 29,165,967</u> | | |

December 31, 2020

| Discounts and loans | 12-month expected credit losses | | Lifetime expected credit losses (individual assessment) | | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) | | Total impairment recognised under IFRS 9 | | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | | Total |
|--|---------------------------------|-----------|---|------------|---|--------------|--|-----------|--|--|-------|
| | (Stage 1) | (Stage 2) | (Stage 3) | (Stage 3) | (Stage 3) | (Stage 3) | (Stage 3) | (Stage 3) | | | |
| Balance at the beginning of the period | \$ 97,388 | \$ 21,334 | \$ 83,679 | \$ 202,401 | \$ 850,577 | \$ 1,052,978 | | | | | |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | | | | | | |
| - Transferred to lifetime expected credit losses | (1,719) | 2,000 | (281) | - | - | - | | | | | |
| - Transferred to credit impaired financial asset | (2,739) | (684) | 3,423 | - | - | - | | | | | |
| - Transferred to 12-month expected credit losses | 7,512 | (7,292) | (220) | - | - | - | | | | | |
| - Derecognised financial assets | (41,072) | (5,720) | (5,836) | 52,628 | - | (52,628) | | | | | |
| - Additional provision and reversal | (4,512) | 5,969 | 83,110 | 84,567 | - | 84,567 | | | | | |
| Originated or purchased new financial assets | 48,852 | 4,939 | 1,329 | 55,120 | - | 55,120 | | | | | |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (-) | 13,636 | (13,636) | | | | | |
| Write-off of uncollectible amount | - | (-) | (92,009) | 92,009 | (-) | 92,009 | | | | | |
| Foreign exchange and other changes | 1,688 | 163 | 1,876 | 3,727 | - | 3,727 | | | | | |
| Balance at the end of the period | \$ 105,398 | \$ 20,709 | \$ 75,071 | \$ 201,178 | \$ 836,941 | \$ 1,038,119 | | | | | |

December 31, 2019

| Discounts and loans | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total impairment recognised under IFRS 9 | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|--|---|--|---|--|----------------------|
| Balance at the beginning of the period | \$ 2,625,625 | \$ 700,461 | \$ 2,956,493 | \$ 6,282,579 | \$ 23,976,668 | \$ 30,259,247 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | |
| - Transferred to lifetime expected credit losses | (22,819) | 28,018 | (5,199) | - | - | - |
| - Transferred to credit impaired financial asset | (13,770) | (13,117) | 26,887 | - | - | - |
| - Transferred to 12-month expected credit losses | 127,987 | (127,475) | (512) | - | - | - |
| - Derecognised financial assets | (1,076,827) | (201,197) | (908,237) | 2,186,261 | - | (2,186,261) |
| - Additional provision and reversal | (135,124) | 53,653 | 1,579,524 | 1,498,053 | - | 1,498,053 |
| Originated or purchased new financial assets | 1,270,122 | 138,170 | 160,800 | 1,569,092 | - | 1,569,092 |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | - | (79,697) | (79,697) |
| Write-off of uncollectible amount | - | - | (2,038,889) | (2,038,889) | - | (2,038,889) |
| Foreign exchange and other changes | (39,068) | 20,860 | 580,094 | 561,886 | - | 561,886 |
| Balance at the end of the period | <u>\$ 2,736,126</u> | <u>\$ 599,373</u> | <u>\$ 2,350,961</u> | <u>\$ 5,686,460</u> | <u>\$ 23,896,971</u> | <u>\$ 29,583,431</u> |

(B) The reconciliation from the beginning balance to ending balance of the allowance for bad debts arising from receivables for the years ended December 31, 2020 and 2019, is shown below:

Unit: In NT Thousand Dollars

| December 31, 2020 | | | | | | |
|--|--|---|--|---|---|---------------------|
| Receivables | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total impairment recognised under IFRS 9 | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
| Balance at the beginning of the period | \$ 145,892 | \$ 3,197 | \$ 108,528 | \$ 257,617 | \$ 1,045,121 | \$ 1,302,738 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | |
| - Transferred to lifetime expected credit losses | (294) | 1,379 | (1,085) | - | - | - |
| - Transferred to credit impaired financial asset | (77) | (272) | 349 | - | - | - |
| - Transferred to 12-month expected credit losses | 1,010 | (311) | (699) | - | - | - |
| - Derecognised financial assets | (128,613) | (2,251) | (102,796) | (233,660) | - | (233,660) |
| - Additional provision and reversal | (1,688) | 2,465 | 12,370 | 13,147 | - | 13,147 |
| Originated or purchased new financial assets | 80,559 | 17,204 | 5,492 | 103,255 | - | 103,255 |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | - | (135,985) | (135,985) |
| Write-off of uncollectible amount | (17,477) | (16,739) | (30,259) | (64,475) | - | (64,475) |
| Foreign exchange and other changes | 6 | - | 75,578 | 75,584 | - | 75,584 |
| Balance at the end of the period | <u>\$ 79,318</u> | <u>\$ 4,672</u> | <u>\$ 67,478</u> | <u>\$ 151,468</u> | <u>\$ 909,136</u> | <u>\$ 1,060,604</u> |

Unit: In US Thousand Dollars

| Receivables | December 31, 2020 | | | | | | Total |
|--|--|---|--|---|---|-----------|-------|
| | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total impairment recognised under IFRS 9 | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | | |
| Balance at the beginning of the period | \$ 5,193 | \$ 114 | \$ 3,863 | \$ 9,170 | \$ 37,200 | \$ 46,370 | |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | | |
| - Transferred to lifetime expected credit losses | (10) | 49 | (39) | - | - | - | |
| - Transferred to credit impaired financial asset | (3) | (10) | 13 | - | - | - | |
| - Transferred to 12-month expected credit losses | 36 | (11) | (25) | - | - | - | |
| - Derecognised financial assets | (4,578) | (80) | (3,659) | (8,317) | (-) | (8,317) | |
| - Additional provision and reversal | (60) | 88 | 440 | 468 | - | 468 | |
| Originated or purchased new financial assets | 2,867 | 612 | 196 | 3,675 | - | 3,675 | |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | (-) | (4,840) | (4,840) | |
| Write-off of uncollectible amount | (622) | (596) | (1,077) | (2,295) | (-) | (2,295) | |
| Foreign exchange and other changes | - | - | 2,690 | 2,690 | - | 2,690 | |
| Balance at the end of the period | \$ 2,823 | \$ 166 | \$ 2,402 | \$ 5,391 | \$ 32,360 | \$ 37,751 | |

December 31, 2019

| Receivables | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total impairment recognised under IFRS 9 | Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|--|---|--|---|---|---------------------|
| Balance at the beginning of the period | \$ 124,672 | \$ 4,685 | \$ 82,732 | \$ 212,089 | \$ 1,192,991 | \$ 1,405,080 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | |
| - Transferred to lifetime expected credit losses | (184) | 729 (| 545) | - | - | - |
| - Transferred to credit impaired financial asset | (96) | (251) | 347 | - | - | - |
| - Transferred to 12-month expected credit losses | 1,018 (| 600) | 418) | - | - | - |
| - Derecognised financial assets | (112,467) | (3,195) | (86,159) | (201,821) | - (| 201,821) |
| - Additional provision and reversal | (121) | 740 | 31,472 | 32,091 | - | 32,091 |
| Originated or purchased new financial assets | 144,703 | 12,416 | 30,474 | 187,593 | - | 187,593 |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | - (| 147,870) | (147,870) |
| Write-off of uncollectible amount | (11,626) | (11,328) | (20,001) | (42,955) | - (| 42,955) |
| Foreign exchange and other changes | (7) | 1 | 70,626 | 70,620 | - | 70,620 |
| Balance at the end of the period | <u>\$ 145,892</u> | <u>\$ 3,197</u> | <u>\$ 108,528</u> | <u>\$ 257,617</u> | <u>\$ 1,045,121</u> | <u>\$ 1,302,738</u> |

(C) The reconciliation from the beginning balance to ending balance of the accumulated impairment arising from debt instruments for the years ended December 31, 2020 and 2019, is shown below:

a. Financial assets at fair value through other comprehensive income

Unit: In NT Thousand Dollars

| | December 31, 2020 | | | |
|--|---|---|---|----------------|
| Financial assets at fair value through other comprehensive income | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
| Balance at the beginning of the period | \$ 132,652 | \$ - | \$ - | 132,652 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Transferred to lifetime expected credit losses | (756) | 756 | - | - |
| - The impairment allowance for financial assets derecognised in the current period | (14,265) | - | - | (14,265) |
| - Additional provision and reversal | 19,095 | 5,335 | - | 24,430 |
| Originated or purchased new financial assets | 67,205 | - | - | 67,205 |
| Foreign exchange and other changes | (668) | - | - | (668) |
| Balance at the end of the period | <u>\$ 203,263</u> | <u>\$ 6,091</u> | <u>\$ -</u> | <u>209,354</u> |

Unit: In US Thousand Dollars

December 31, 2020

| Financial assets at fair value through other comprehensive income | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
|--|---|---|---|----------|
| Balance at the beginning of the period | \$ 4,722 | \$ - | \$ - | \$ 4,722 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Transferred to lifetime expected credit losses | (\$ 27) | \$ 27 | \$ - | - |
| - The impairment allowance for financial assets derecognised in the current period | (508) | - | - | (508) |
| - Additional provision and reversal | 680 | 190 | - | 870 |
| Originated or purchased new financial assets | 2,392 | - | - | 2,392 |
| Foreign exchange and other changes | (24) | - | - | (24) |
| Balance at the end of the period | \$ 7,235 | \$ 217 | \$ - | \$ 7,452 |

Unit: In NT Thousand Dollars

December 31, 2019

| Financial assets at fair value through other comprehensive income | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
|--|---|---|---|-------------------|
| Balance at the beginning of the period | \$ 102,889 | \$ - | \$ - | \$ 102,889 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - The impairment allowance for financial assets derecognised in the current period | (5,309) | - | - | (5,309) |
| - Additional provision and reversal | (19,746) | - | - | (19,746) |
| Originated or purchased new financial assets | 54,017 | - | - | 54,017 |
| Foreign exchange and other changes | <u>801</u> | <u>-</u> | <u>-</u> | <u>801</u> |
| Balance at the end of the period | <u>\$ 132,652</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 132,652</u> |

b. Investments in debt instruments at amortised cost

Unit: In NT Thousand Dollars

December 31, 2020

| Investments in debt instruments at amortised cost | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
|--|--|---|--|---------------|
| Balance at the beginning of the period | \$ 21,330 | \$ - | \$ - | 21,330 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - The impairment allowance for financial assets derecognised in the current period | (15,212) | - | - | (15,212) |
| - Additional provision and reversal | (765) | - | - | (765) |
| Originated or purchased new financial assets | 26,980 | - | - | 26,980 |
| Balance at the end of the period | <u>\$ 32,333</u> | <u>\$ -</u> | <u>\$ -</u> | <u>32,333</u> |

Unit: In US Thousand Dollars

December 31, 2020

| Investments in debt instruments at amortised cost | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
|--|--|---|--|--------------|
| Balance at the beginning of the period | \$ 759 | \$ - | \$ - | 759 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - The impairment allowance for financial assets derecognised in the current period | (541) | - | - | (541) |
| - Additional provision and reversal | (27) | - | - | (27) |
| Originated or purchased new financial assets | 960 | - | - | 960 |
| Balance at the end of the period | <u>\$ 1,151</u> | <u>\$ -</u> | <u>\$ -</u> | <u>1,151</u> |

December 31, 2019

Unit: In NT Thousand Dollars

| Investments in debt instruments at amortised cost | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
|--|--|---|--|---------------|
| Balance at the beginning of the period | \$ 12,324 | \$ - | \$ - | 12,324 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - The impairment allowance for financial assets derecognised in the current period | (8,016) | - | - | 8,016 |
| - Additional provision and reversal | (1,052) | - | - | 1,052 |
| Originated or purchased new financial assets | 18,074 | - | - | 18,074 |
| Balance at the end of the period | <u>\$ 21,330</u> | <u>\$ -</u> | <u>\$ -</u> | <u>21,330</u> |

(Blank below)

(D) The reconciliation from the beginning balance to ending balance of the provisions for loan commitments and guarantee liabilities for the years ended December 31, 2020 and 2019, is shown below:

Unit: In NT Thousand Dollars

| December 31, 2020 | | | | | | | |
|--|--|---|---|---|---|---------------------|--|
| Provisions for loan commitments and guarantee liabilities | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total impairment recognised under IFRS 9 | Different in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total | |
| Balance at the beginning of the period | \$ 222,947 | \$ 50,071 | \$ 16,295 | \$ 289,313 | \$ 2,764,635 | \$ 3,053,948 | |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | | |
| - Transferred to lifetime expected credit losses | (3,768) | 3,768 | - | - | - | - | |
| - Transferred to credit impaired financial asset | (23) | (45) | 68 | - | - | - | |
| - Transferred to 12-month expected credit loss | 6,135 | (6,135) | - | - | - | - | |
| - Derecognised financial assets | (89,534) | (19,127) | (7,300) | (115,961) | - | (115,961) | |
| - Additional provision and reversal | (2,608) | 24,133 | 486 | 22,011 | - | 22,011 | |
| Originated or purchased new financial assets | 114,634 | 47,651 | 21,879 | 184,164 | - | 184,164 | |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | - | (354,310) | (354,310) | |
| Foreign exchange and other changes | 21,354 | 739 | 3,222 | 25,315 | - | 25,315 | |
| Balance at the end of the period | <u>\$ 269,137</u> | <u>\$ 101,055</u> | <u>\$ 34,650</u> | <u>\$ 404,842</u> | <u>\$ 2,410,325</u> | <u>\$ 2,815,167</u> | |

December 31, 2020

| Provisions for loan commitments and guarantee liabilities | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total impairment recognised under IFRS 9 | Different in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|--|---|---|---|---|-------------------|
| Balance at the beginning of the period | \$ 7,936 | \$ 1,782 | \$ 580 | \$ 10,298 | \$ 98,403 | \$ 108,701 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | |
| - Transferred to lifetime expected credit losses | (134) | 134 | - | - | - | - |
| - Transferred to credit impaired financial asset | (1) | (1) | 2 | - | - | - |
| - Transferred to 12-month expected credit loss | 218 | (218) | - | - | - | - |
| - Derecognised financial assets | (3,187) | (681) | (260) | (4,128) | - | (4,128) |
| - Additional provision and reversal | (92) | 859 | 17 | 784 | - | 784 |
| Originated or purchased new financial assets | 4,080 | 1,696 | 779 | 6,555 | - | 6,555 |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | - | (12,611) | (12,611) |
| Foreign exchange and other changes | 760 | 26 | 115 | 901 | - | 901 |
| Balance at the end of the period | <u>\$ 9,580</u> | <u>\$ 3,597</u> | <u>\$ 1,233</u> | <u>\$ 14,410</u> | <u>\$ 85,792</u> | <u>\$ 100,202</u> |

December 31, 2019

| Provisions for loan commitments and guarantee liabilities | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total impairment recognised under IFRS 9 | Different in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | Total |
|--|--|---|---|---|---|--------------|
| Balance at the beginning of the period | \$ 217,540 | \$ 41,389 | \$ 41,094 | \$ 300,023 | \$ 3,052,116 | \$ 3,352,139 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | | |
| - Transferred to lifetime expected credit losses | (3,398) | 17,916 | (14,518) | - | - | - |
| - Transferred to credit impaired financial asset | (16) | (49) | 65 | - | - | - |
| - Transferred to 12-month expected credit loss | 14,565 | (14,565) | - | - | - | - |
| - Derecognised financial assets | (89,067) | (12,589) | (8,305) | (109,961) | - | (109,961) |
| - Additional provision and reversal | (28,977) | 3,785 | (3,262) | 28,454 | - | 28,454 |
| Originated or purchased new financial assets | 104,751 | 15,263 | 5,183 | 125,197 | - | 125,197 |
| Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves | - | - | - | - | (287,481) | (287,481) |
| Foreign exchange and other changes | 7,549 | (1,079) | (3,962) | 2,508 | - | 2,508 |
| Balance at the end of the period | \$ 222,947 | \$ 50,071 | \$ 16,295 | \$ 289,313 | \$ 2,764,635 | \$ 3,053,948 |

G. Movements in the total carrying amount of financial assets

(A) The movement in the total carrying amount of discounts and loans of the Bank and subsidiaries for the years ended December 31, 2020 and 2019, is shown below:

Unit: In NT Thousand Dollars

| Discounts and loans | December 31, 2020 | | | | Total |
|---|---|---|---|----------------|----------------------|
| | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | | |
| Balance at the beginning of the period | \$ 1,826,594,076 | \$ 66,707,144 | \$ 9,960,045 | \$ | 1,903,261,265 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | |
| - Transferred to lifetime expected credit losses | (30,945,224) | 30,994,907 | (49,683) | | - |
| - Transferred to credit impaired financial asset | (6,449,997) | (811,330) | 7,261,327 | | - |
| - Transferred to 12-month expected credit losses | 20,827,902 | (20,780,543) | (47,359) | | - |
| - Derecognition(including recovery, write-off bad debt not included) | (705,287,614) | (23,040,828) | (882,074) | (729,210,516) | |
| - Increased(decreased) | (83,212,528) | (3,945,857) | (1,423,627) | (88,582,012) | |
| Originated or purchased new financial assets | 822,026,252 | 18,185,011 | 1,519,707 | | 841,730,970 |
| Write-off of uncollectible amount | - | - | (2,584,979) | (2,584,979) | |
| Foreign exchange and other changes | (5,415,918) | (31,811) | (42,810) | (5,490,539) | |
| Balance at the end of the period | <u>\$ 1,838,136,949</u> | <u>\$ 67,276,693</u> | <u>\$ 13,710,547</u> | <u>\$</u> | <u>1,919,124,189</u> |

Unit: In US Thousand Dollars

December 31, 2020

| Discounts and loans | Lifetime expected credit losses | | | Total |
|---|---|---|---|----------------------|
| | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | |
| Balance at the beginning of the period | \$ 65,014,916 | \$ 2,374,342 | \$ 354,513 | \$ 67,743,771 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Transferred to lifetime expected credit losses | (1,101,450) | 1,103,218 | (1,768) | - |
| - Transferred to credit impaired financial asset | (229,578) | (28,878) | 258,456 | - |
| - Transferred to 12-month expected credit losses | 741,339 | (739,653) | 1,686 | - |
| - Derecognition(including recovery, write-off bad debt not included) | (25,103,670) | (820,104) | (31,396) | (25,955,170) |
| - Increased(decreased) | (2,961,827) | (140,447) | (50,672) | (3,152,946) |
| Originated or purchased new financial assets | 29,258,810 | 647,268 | 54,092 | 29,960,170 |
| Write-off of uncollectible amount | - | - | (92,008) | (92,008) |
| Foreign exchange and other changes | (192,772) | (1,132) | (1,524) | (195,428) |
| Balance at the end of the period | <u>\$ 65,425,768</u> | <u>\$ 2,394,614</u> | <u>\$ 488,007</u> | <u>\$ 68,308,389</u> |

Unit: In NT Thousand Dollars

December 31, 2019

| Discounts and loans | Lifetime expected credit losses | | | Total |
|---|---|---|---|-------------------------|
| | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | |
| Balance at the beginning of the period | \$ 1,810,668,079 | \$ 74,633,965 | \$ 9,404,306 | \$ 1,894,706,350 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Transferred to lifetime expected credit losses | (16,674,461) | 16,693,674 | (19,213) | - |
| - Transferred to credit impaired financial asset | (3,288,999) | (649,337) | 3,938,336 | - |
| - Transferred to 12-month expected credit losses | 10,261,087 | (10,257,186) | (3,901) | - |
| - Derecognition(including recovery, write-off bad debt not included) | (693,635,495) | (30,531,719) | (1,948,411) | (726,115,625) |
| - Increased(decreased) | (76,048,854) | (5,075,421) | (151,528) | (81,275,803) |
| Originated or purchased new financial assets | 799,516,951 | 21,915,239 | 779,839 | 822,212,029 |
| Write-off of uncollectible amount | - | - | (2,038,889) | (2,038,889) |
| Foreign exchange and other changes | (4,204,232) | (22,071) | (494) | (4,226,797) |
| Balance at the end of the period | <u>\$ 1,826,594,076</u> | <u>\$ 66,707,144</u> | <u>\$ 9,960,045</u> | <u>\$ 1,903,261,265</u> |

(B) The movement in the total carrying amount of receivables of the Bank and subsidiaries for the years ended December 31, 2020 and 2019, is shown below:

Unit: In NT Thousand Dollars

| Receivables | December 31, 2020 | | | | Total |
|---|--|---|---|-----------|-------------------|
| | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | | |
| Balance at the beginning of the period | \$ 60,539,816 | \$ 777,032 | \$ 941,461 | \$ | 62,258,309 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | |
| - Transferred to lifetime expected credit losses | (215,570) | 217,143 | (1,573) | | - |
| - Transferred to credit impaired financial asset | (41,524) | (19,448) | 60,972 | | - |
| - Transferred to 12-month expected credit losses | 92,481 | (91,292) | (1,189) | | - |
| - Derecognition(including recovery, write-off bad debt not included) | (32,271,252) | (460,816) | (225,406) | (| 32,957,474) |
| - Increased(decreased) | (13,798,969) | 25,849 | 162,860 | (| 13,610,260) |
| Originated or purchased new financial assets | 23,500,455 | 252,559 | 105,600 | | 23,858,614 |
| Write-off of uncollectible amount | (17,477) | (16,739) | (30,259) | (| 64,475) |
| Foreign exchange and other changes | (428,269) | - | (62,979) | (| 491,248) |
| Balance at the end of the period | <u>\$ 37,359,691</u> | <u>\$ 684,288</u> | <u>\$ 949,487</u> | <u>\$</u> | <u>38,993,466</u> |

Unit: In US Thousand Dollars

December 31, 2020

| Receivables | December 31, 2020 | | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) | | Total |
|---|--|---|--|-----------|------------------|
| | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | (Stage 3) | | |
| Balance at the beginning of the period | \$ 2,154,825 | \$ 27,657 | \$ 33,510 | \$ | 2,215,992 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | |
| - Transferred to lifetime expected credit losses | (7,673) | (7,729) | (56) | | - |
| - Transferred to credit impaired financial asset | (1,478) | (692) | 2,170 | | - |
| - Transferred to 12-month expected credit losses | 3,291 | (3,249) | (42) | | - |
| - Derecognition(including recovery, write-off bad debt not included) | (1,148,647) | (16,402) | (8,023) | | (1,173,072) |
| - Increased(decreased) | (491,154) | 920 | (5,797) | | (484,437) |
| Originated or purchased new financial assets | 836,464 | 8,989 | 3,759 | | 849,212 |
| Write-off of uncollectible amount | (622) | (596) | (1,077) | | (2,295) |
| Foreign exchange and other changes | (15,243) | - | (2,242) | | (17,485) |
| Balance at the end of the period | <u>\$ 1,329,763</u> | <u>\$ 24,356</u> | <u>\$ 33,796</u> | <u>\$</u> | <u>1,387,915</u> |

Unit: In NT Thousand Dollars

December 31, 2019

| Receivables | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
|---|--|---|---|---------------|
| Balance at the beginning of the period | \$ 60,075,070 | \$ 1,181,902 | \$ 909,388 | \$ 62,166,360 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Transferred to lifetime expected credit losses | (150,103) | 150,881 | (778) | - |
| - Transferred to credit impaired financial asset | (53,151) | (13,708) | 66,859 | - |
| - Transferred to 12-month expected credit losses | 38,118 | (37,529) | (589) | - |
| - Derecognition(including recovery, write-off bad debt not included) | (43,962,399) | (925,340) | (198,766) | (45,086,505) |
| - Increased(decreased) | (1,042,766) | (224) | (16,671) | (1,026,319) |
| Originated or purchased new financial assets | 46,809,765 | 432,378 | 182,602 | 47,424,745 |
| Write-off of uncollectible amount | (60,759) | (11,328) | (20,001) | (92,088) |
| Foreign exchange and other changes | (1,113,959) | - | (13,925) | (1,127,884) |
| Balance at the end of the period | \$ 60,539,816 | \$ 777,032 | \$ 941,461 | \$ 62,258,309 |

(C) The movement in the total carrying amount of debt instruments of the Bank and subsidiaries for the years ended December 31, 2020 and 2019, is shown below:

a. Financial assets at fair value through other comprehensive income

Unit: In NT Thousand Dollars

| December 31, 2020 | | | | |
|---|--|---|--|-----------------------|
| Financial assets at fair value through other comprehensive income | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
| Balance at the beginning of the period | \$ 372,829,016 | \$ - | \$ - | \$ 372,829,016 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Transferred to lifetime expected losses | (850,071) | 850,071 | - | - |
| - Derecognition | (133,319,458) | - | - | (133,319,458) |
| - Increased(decreased) | (26,267,292) | (400,046) | - | (26,667,338) |
| Originated or purchased new financial assets | 165,010,851 | - | - | 165,010,851 |
| Foreign exchange and other changes | (151,943) | 3,615 | - | (148,328) |
| Balance at the end of the period | <u>\$ 377,251,103</u> | <u>\$ 453,640</u> | <u>\$ -</u> | <u>\$ 377,704,743</u> |

Unit: In US Thousand Dollars

December 31, 2020

| Financial assets at fair value through other comprehensive income | December 31, 2020 | | | | |
|---|--|---|--|--------------|---------------|
| | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | | Total |
| Balance at the beginning of the period | \$ 13,270,298 | \$ - | \$ - | \$ - | \$ 13,270,298 |
| Changes from financial instruments recognised at the beginning of the period: | | | | | |
| - Transferred to lifetime expected losses | (30,257) | 30,257 | - | - | - |
| - Derecognition | (4,745,309) | - | - | (4,745,309) | (4,745,309) |
| - Increased(decreased) | (934,946) | (14,239) | - | (949,185) | (949,185) |
| Originated or purchased new financial assets | 5,873,317 | - | - | - | 5,873,317 |
| Foreign exchange and other changes | (5,408) | 129 | - | (5,279) | (5,279) |
| Balance at the end of the period | \$ 13,427,695 | \$ 16,147 | \$ - | \$ - | \$ 13,443,842 |

Unit: In NT Thousand Dollars

December 31, 2019

| Financial assets at fair value through other comprehensive income | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
|---|--|---|--|----------------|
| Balance at the beginning of the period | \$ 251,759,346 | \$ - | \$ - | \$ 251,759,346 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Derecognition | (41,446,080) | - | - | (41,446,080) |
| - Increased(decreased) | 9,296,756 | - | - | 9,296,756 |
| Originated or purchased new financial assets | 152,886,985 | - | - | 152,886,985 |
| Foreign exchange and other changes | 332,009 | - | - | 332,009 |
| Balance at the end of the period | \$ 372,829,016 | \$ - | \$ - | \$ 372,829,016 |

(Blank below)

b. Investments in debt instruments at amortised cost

Unit: In NT Thousand Dollars

| December 31, 2020 | | | | |
|---|--|---|--|-----------------------|
| Investments in debt instruments at amortised cost | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
| Balance at the beginning of the period | \$ 271,155,425 | \$ - | \$ - | \$ 271,155,425 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Derecognition | (245,233,249) | - | - | (245,233,249) |
| - Increased(decreased) | (1,284,339) | - | - | (1,284,339) |
| Originated or purchased new financial assets | 505,482,060 | - | - | 505,482,060 |
| Foreign exchange and other changes | (3,565) | - | - | (3,565) |
| Balance at the end of the period | <u>\$ 530,116,332</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 530,116,332</u> |

Unit: In US Thousand Dollars

| December 31, 2020 | | | | |
|---|--|---|--|----------------------|
| Investments in debt instruments at amortised cost | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
| Balance at the beginning of the period | \$ 9,651,377 | \$ - | \$ - | \$ 9,651,377 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Derecognition | (8,728,715) | - | - | (8,728,715) |
| - Increased(decreased) | (45,714) | - | - | (45,714) |
| Originated or purchased new financial assets | 17,991,887 | - | - | 17,991,887 |
| Foreign exchange and other changes | (127) | - | - | (127) |
| Balance at the end of the period | <u>\$ 18,868,708</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,868,708</u> |

Unit: In NT Thousand Dollars

December 31, 2019

| Investments in debt instruments at amortised cost | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (individual assessment) (Stage 2) | Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3) | Total |
|---|--|---|--|-----------------------|
| Balance at the beginning of the period | \$ 269,676,210 | \$ - | \$ - | \$ 269,676,210 |
| Changes from financial instruments recognised at the beginning of the period: | | | | |
| - Derecognition | (252,980,473) | - | - | (252,980,473) |
| - Increased(decreased) | (387,989) | - | - | (387,989) |
| Originated or purchased new financial assets | 254,860,058 | - | - | 254,860,058 |
| Foreign exchange and other changes | (12,381) | - | - | (12,381) |
| Balance at the end of the period | <u>\$ 271,155,425</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 271,155,425</u> |

(Blank below)

H. Credit risk concentration

Extreme credit risk concentration will enhance risk degree, such as large amount of risk exposure concentrated on single credit product, single client, or a few clients, or a group of clients in the same industry or with similar business or in the same area or with the same risk characteristics. When adverse economic changes occur, financial institutions may incur significant loss.

To avoid extreme credit risk concentration, the Bank and subsidiaries have set credit limit and management rules for single client, single business group and large amount of risk exposure. The subsidiaries have to monitor and control the credit risk concentration not to exceed the limit. Status of credit risk concentration by industry, area/country, collateral and other forms must be analyzed in the risk report regularly.

(A) Loans and credit commitments of the Bank and subsidiaries are shown below by industry:

Unit: In Thousand Dollars

| | | Loans and credit commitments | | | | |
|-------------|---|------------------------------|---------------|---------------|-------------------|---------------|
| | | December 31, 2020 | | | December 31, 2019 | |
| | | Amount | | Percentage(%) | Amount | |
| | | NT\$ | US\$ | | NT\$ | Percentage(%) |
| Individuals | Individuals | \$ 620,699,773 | \$ 22,092,891 | 26.62% | \$ 543,026,533 | 23.47% |
| Corporation | Government organization | 24,791,226 | 882,407 | 1.06% | 26,417,729 | 1.14% |
| | Financial institution, investment and insurance | 170,254,161 | 6,059,945 | 7.30% | 199,397,833 | 8.62% |
| | Enterprise and commerce | | | | | |
| | - Manufacturing | 583,998,114 | 20,786,550 | 25.05% | 629,471,056 | 27.20% |
| | - Electricity and gas supply | 43,609,789 | 1,552,226 | 1.87% | 62,823,089 | 2.72% |
| | - Wholesale and retail | 162,901,566 | 5,798,240 | 6.99% | 163,043,472 | 7.05% |
| | - Transportation and storage | 158,265,341 | 5,633,221 | 6.79% | 157,621,173 | 6.81% |
| | - Real estate | 351,010,666 | 12,493,706 | 15.06% | 312,557,022 | 13.51% |
| | - Others | 209,151,835 | 7,444,450 | 8.97% | 212,936,212 | 9.20% |
| | Others | 6,825,675 | 242,950 | 0.29% | 6,466,762 | 0.28% |
| Total | | \$ 2,331,508,146 | \$ 82,986,586 | 100.00% | \$ 2,313,760,881 | 100.00% |

(B) Loans and credit commitments of the Bank and subsidiaries are shown below by location:

Unit: In Thousand Dollars

| | Loans and credit commitments | | | | |
|---------------|------------------------------|---------------|---------------|-------------------|---------------|
| | December 31, 2020 | | | December 31, 2019 | |
| | Amount | | Percentage(%) | Amount | Percentage(%) |
| | NT\$ | US\$ | | NT\$ | |
| ROC | \$ 1,760,896,541 | \$ 62,676,510 | 75.53% | \$ 1,732,573,520 | 74.88% |
| Asia, Pacific | 364,890,389 | 12,987,734 | 15.65% | 374,917,569 | 16.20% |
| North America | 111,881,691 | 3,982,263 | 4.80% | 94,063,181 | 4.07% |
| Others | 93,839,525 | 3,340,079 | 4.02% | 112,206,611 | 4.85% |
| Total | \$ 2,331,508,146 | \$ 82,986,586 | 100.00% | \$ 2,313,760,881 | 100.00% |

(C) Loans and credit commitments of the Bank and subsidiaries are shown below by collaterals:

Unit: In Thousand Dollars

| | Loans and credit commitments | | | | |
|----------------------------------|------------------------------|---------------|---------------|-------------------|---------------|
| | December 31, 2020 | | | December 31, 2019 | |
| | Amount | | Percentage(%) | Amount | Percentage(%) |
| | NT\$ | US\$ | | NT\$ | |
| Unsecured | \$ 907,629,774 | \$ 32,305,740 | 38.93% | \$ 1,012,818,340 | 43.77% |
| Secured | | | | | |
| - Secured by stocks | 31,789,633 | 1,131,505 | 1.36% | 31,665,095 | 1.37% |
| - Secured by bonds | 98,431,407 | 3,503,521 | 4.22% | 95,468,512 | 4.13% |
| - Secured by real estate | 1,038,579,526 | 36,966,703 | 44.55% | 943,795,562 | 40.79% |
| - Secured by chattel | 86,547,641 | 3,080,535 | 3.71% | 90,813,463 | 3.93% |
| - Secured by letter of guarantee | 110,323,923 | 3,926,817 | 4.73% | 79,403,582 | 3.43% |
| - Others | 58,206,242 | 2,071,765 | 2.50% | 59,796,327 | 2.58% |
| Total | \$ 2,331,508,146 | \$ 82,986,586 | 100.00% | \$ 2,313,760,881 | 100.00% |

I. Foreclosed properties management policy

As of December 31, 2020 and 2019, foreclosed properties under other assets in the consolidated balance sheet carried book value of NT\$0 thousand. According to the R.O.C. Banking Law, foreclosed properties of the Bank shall be sold within four years. except as otherwise approved by the competent authority.

J. Supplementary information in accordance with “Regulations Governing the Preparation of Financial Reports by Public Banks”
(A) Asset quality of non-performing loans and overdue accounts

Unit: In NT Thousand Dollars, %

| Month / Year | | December 31, 2020 | | | | | |
|-------------------------------------|---------------------------------------|---|--------------------------------|------------------------------------|---------------------------------|-------------------------|----------|
| Business / Items | | Amount of non-performing loans (Note 1) | Gross loans | Non-performing loan ratio (Note 2) | Allowance for doubtful accounts | Coverage ratio (Note 3) | |
| Corporate banking | Secured loans | \$ 2,308,060 | \$ 672,359,648 | 0.34% | \$ 9,849,332 | 426.74% | |
| | Unsecured loans | 1,078,301 | 723,174,366 | 0.15% | 11,736,554 | 1088.43% | |
| Consumer banking | Residential mortgage loans (Note 4) | 713,816 | 405,299,051 | 0.18% | 5,873,726 | 822.86% | |
| | Cash card services | - | - | - | - | - | |
| | Small amount of credit loans (Note 5) | 27,579 | 19,046,120 | 0.14% | 291,877 | 1058.33% | |
| | Others (Note 6) | Secured loans | 82,993 | 99,221,320 | 0.08% | 1,414,145 | 1703.93% |
| | | Unsecured loans | - | 23,684 | 0.00% | 333 | - |
| Gross loan business | | \$ 4,210,749 | \$ 1,919,124,189 | 0.22% | \$ 29,165,967 | 692.66% | |
| | | Amount of overdue accounts | Balance of accounts receivable | Overdue account ratio | Allowance for bad debts | Coverage ratio | |
| Credit card services | | \$ 15,930 | \$ 7,905,561 | 0.20% | \$ 72,304 | 453.89% | |
| Without recourse factoring (Note 7) | | \$ 25,628 | \$ 17,544,174 | 0.15% | \$ 258,860 | 1010.07% | |

Unit: In US Thousand Dollars, %

| Month / Year | | December 31, 2020 | | | | | |
|-------------------------------------|---------------------------------------|---|--------------------------------|------------------------------------|---------------------------------|-------------------------|----------|
| Business / Items | | Amount of non-performing loans (Note 1) | Gross loans | Non-performing loan ratio (Note 2) | Allowance for doubtful accounts | Coverage ratio (Note 3) | |
| Corporate banking | Secured loans | \$ 82,152 | \$ 23,931,648 | 0.34% | \$ 350,572 | 426.74% | |
| | Unsecured loans | 38,381 | 25,740,323 | 0.15% | 417,745 | 1088.43% | |
| Consumer banking | Residential mortgage loans (Note 4) | 25,407 | 14,426,021 | 0.18% | 209,067 | 822.86% | |
| | Cash card services | - | - | - | - | - | |
| | Small amount of credit loans (Note 5) | 982 | 677,918 | 0.14% | 10,389 | 1058.33% | |
| | Others (Note 6) | Secured loans | 2,954 | 3,531,636 | 0.08% | 50,334 | 1703.93% |
| | | Unsecured loans | - | 843 | 0.00% | 12 | - |
| Gross loan business | | \$ 149,876 | \$ 68,308,389 | 0.22% | \$ 1,038,119 | 692.66% | |
| | | Amount of overdue accounts | Balance of accounts receivable | Overdue account ratio | Allowance for bad debts | Coverage ratio | |
| Credit card services | | \$ 567 | \$ 281,387 | 0.20% | \$ 2,574 | 453.89% | |
| Without recourse factoring (Note 7) | | \$ 912 | \$ 624,459 | 0.15% | \$ 9,214 | 1010.07% | |

Unit: In NT Thousand Dollars, %

| Month / Year | | December 31, 2019 | | | | | |
|-------------------------------------|---------------------------------------|---|--------------------------------|------------------------------------|---------------------------------|-------------------------|---------|
| Business / Items | | Amount of non-performing loans (Note 1) | Gross loans | Non-performing loan ratio (Note 2) | Allowance for doubtful accounts | Coverage ratio (Note 3) | |
| Corporate banking | Secured loans | \$ 1,251,075 | \$ 650,715,921 | 0.19% | \$ 9,586,843 | 766.29% | |
| | Unsecured loans | 619,858 | 797,503,182 | 0.08% | 13,303,482 | 2146.21% | |
| Consumer banking | Residential mortgage loans (Note 4) | 719,382 | 345,499,682 | 0.21% | 5,096,522 | 708.46% | |
| | Cash card services | - | - | - | - | - | |
| | Small amount of credit loans (Note 5) | 25,223 | 17,615,811 | 0.14% | 255,537 | 1013.11% | |
| | Others (Note 6) | Secured loans | 135,908 | 91,894,180 | 0.15% | 1,340,578 | 986.39% |
| | | Unsecured loans | 137 | 32,489 | 0.42% | 469 | 342.34% |
| Gross loan business | | \$ 2,751,583 | \$ 1,903,261,265 | 0.14% | \$ 29,583,431 | 1075.14% | |
| | | Amount of overdue accounts | Balance of accounts receivable | Overdue account ratio | Allowance for bad debts | Coverage ratio | |
| Credit card services | | \$ 13,812 | \$ 7,542,405 | 0.18% | \$ 75,367 | 545.66% | |
| Without recourse factoring (Note 7) | | \$ - | \$ 28,218,088 | - | \$ 460,750 | - | |

Notes:

1. The amount recognized as non-performing loans is in accordance with the "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans". The amount included in overdue accounts for credit cards is in accordance with Financial-Supervisory-Banks (4) Letter No.0944000378 dated July 6, 2005.
2. Non-performing loan ratio = non-performing loans/gross loans. Overdue account ratio for credit cards=overdue accounts/balance of accounts receivable.
3. Coverage ratio for loans = allowance for bad debts of loans/non-performing loans. Coverage ratio for accounts receivable of credit cards = allowance for bad debts for accounts receivable of credit cards/overdue accounts.
4. For residential mortgage loans, the borrower provides his/her (or spouses' or minors') house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to a house.
5. Small amount of credit loans apply to the norms of the Financial-Supervisory-Banks (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.
6. Consumer banking-Others is specified as secured or unsecured consumer loans other than residential mortgage loans, cash card services and small amount of credit loans, and excluding credit card services.
7. Pursuant to Banking Bureau Letter No. 09850003180 dated August 24, 2009, the amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolves not to compensate the loss.

(B) Non-performing loans and overdue receivables exempted from reporting to the competent authority

Unit: In NT Thousand dollars

| | December 31, 2020 | |
|--|---|--|
| | Total amount of non-performing loans exempted from reporting to the competent authority | Total amount of overdue receivables exempted from reporting to the competent authority |
| Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1) | \$ - | \$ - |
| Performing amounts in accordance with debt liquidation program and restructuring program (Note 2) | 179 | 1,694 |
| Total | \$ 179 | \$ 1,694 |

Unit: In US Thousand dollars

| | December 31, 2020 | |
|--|---|--|
| | Total amount of non-performing loans exempted from reporting to the competent authority | Total amount of overdue receivables exempted from reporting to the competent authority |
| Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1) | \$ - | \$ - |
| Performing amounts in accordance with debt liquidation program and restructuring program (Note 2) | 6 | 60 |
| Total | \$ 6 | \$ 60 |

Unit: In NT Thousand dollars

| | December 31, 2019 | |
|--|---|--|
| | Total amount of non-performing loans exempted from reporting to the competent authority | Total amount of overdue receivables exempted from reporting to the competent authority |
| Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1) | \$ - | \$ - |
| Performing amounts in accordance with debt liquidation program and restructuring program (Note 2) | 220 | 2,149 |
| Total | \$ 220 | \$ 2,149 |

Note 1: The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt negotiation in accordance with Banking Bureau (1) Letter No. 09510001270 dated April 25, 2006.

Note 2: The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt liquidation program and

restructuring program in accordance with Banking Bureau (1) Letter No. 09700318940 dated September 15, 2008 and Banking Bureau (1) Letter No. 10500134790 dated September 20, 2016.

(C) The Bank and subsidiaries' credit risk concentration is as follows :

Unit: In NT Thousand dollars, In US Thousand dollars, %

| Year | December 31, 2020 | | | |
|---------------------|--|---|--------------|---|
| Ranking (Note 1) | Industry of Company/ Enterprise Group (Note 2) | Total outstanding loan amount (Note 3) | | Total outstanding loan amount / net worth of the current year (%) |
| | | NT\$ | US\$ | |
| 1 | A Company - Transport via Railways | \$ 46,504,072 | \$ 1,655,244 | 15.79% |
| 2 | B Group - Other Financial Service Activities Not Elsewhere Classified | 37,132,762 | 1,321,686 | 12.61% |
| 3 | C Group - Chemical Material Manufacturing | 32,211,469 | 1,146,520 | 10.93% |
| 4 | D Group - Ship Transportation | 23,880,651 | 849,996 | 8.11% |
| 5 | E Group - Real Estate Manufacturing | 17,032,558 | 606,249 | 5.78% |
| 6 | F Group - Manufacture of Liquid Crystal Panel and Components | 16,142,435 | 574,566 | 5.48% |
| 7 | G Group - Ship Transportation | 14,129,855 | 502,931 | 4.80% |
| 8 | H Group - Rolling and Extruding of Iron and Steel | 14,045,469 | 499,928 | 4.77% |
| 9 | I Group - Real Estate Development Activities | 13,162,180 | 468,488 | 4.47% |
| 10 | J Group - Real Estate Development Activities | 12,698,488 | 451,984 | 4.31% |

(Blank below)

Unit: In NT Thousand dollars, %

| Year | December 31, 2019 | | |
|---------------------|--|---|---|
| Ranking (Note 1) | Industry of Company/ Enterprise Group (Note 2) | Total outstanding loan amount (Note 3) | Total outstanding loan amount / net worth of the current year (%) |
| | | NT\$ | |
| 1 | A Company - Transport via Railways | \$ 49,843,216 | 17.06% |
| 2 | B Group - Real Estate Development Activities | 35,655,512 | 12.20% |
| 3 | C Group - Other Financial Service Activities Not Elsewhere Classified | 31,184,710 | 10.67% |
| 4 | D Group - Air Transport | 24,154,365 | 8.27% |
| 5 | E Group - Computer manufacturing | 23,143,632 | 7.92% |
| 6 | F Group - Ship Transportation | 18,874,575 | 6.46% |
| 7 | G Group - Smelting and Refining of Iron and Steel | 17,084,103 | 5.85% |
| 8 | H Group - Rolling and Extruding of Iron and Steel | 15,246,809 | 5.22% |
| 9 | I Group - Other Financial Service Activities Not Elsewhere Classified | 14,043,033 | 4.81% |
| 10 | J Group - Real Estate Development Activities | 13,441,553 | 4.60% |

Note 1: Ranking of the top ten enterprise groups other than government and government enterprise is based on their total outstanding loan amount. Outstanding loan that belongs to an enterprise group, should be categorized and listed in one lump sum, and disclosed by “code” with “industry type” (for example, company (or group) A - Liquid Crystal Panel and Components Manufacturing). If it is an enterprise group, industry type of maximum exposure of the enterprise group would be disclosed. Industry type should be filled in accordance with “Standard Industrial Classification System” of Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

Note 2: Definition of enterprise group is based on Article 6 of Supplementary Provisions to Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.

Note 3: Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased, without recourse factoring, acceptance receivable and guarantees.

(4) Liquidity risk

A. Definition and sources of liquidity risk

The Bank and subsidiaries define liquidity risk as the risk of financial loss to the Bank and subsidiaries arising from default by any companies of financial instruments on the payment obligations. For example, the companies are default on payment obligations, such as withdrawals paid to depositors and loans repayment. Or, the company is unable to obtain funds within a certain period at reasonable cost in response to increased demand for assets.

B. Procedures for liquidity risk management and measurement of liquidity risk

The Bank and subsidiaries are mainly engaged in financial services. Therefore, the management for capital liquidity is very important to the Bank and subsidiaries. The objectives for liquidity risk management are (a) Meet the liquidity index regulation (b) Maintain reasonable liquidity based on business development plans, ensure capability of daily payment obligations and meet business growth requirements with adequate highly-liquid assets and capability of raising funds from others in case of emergency.

The financial department of the Bank and subsidiaries is responsible for daily capital liquidity management. According to the limits authorized by the Board of (Managing) Directors, the Bank and subsidiaries monitor the indexes of liquidity risk, execute capital procurement trading and report the conditions of capital liquidity to the management. The management department reports the liquidity risk control to the Fund Management Committee, Risk Management Committee and the Board of (Managing) Directors regularly, and performs regular liquidity stress-testing to ensure sufficient capital to meet the funding requirements for increase in assets and payment obligations.

The Bank and subsidiaries daily perform intensive control over sources and the period gaps of fund and liquidity risk management. Future cash flows are estimated based on the financial liability contracts due date and expected cash collection date of financial assets. The Bank and subsidiaries also consider the extent of practical utilization of capital in contingent liabilities such as use of loan limits, guarantees and commitments.

Assets used to pay obligations and loan commitments include cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, securities purchased under resell agreements, bond investment, receivables, discounts and loans, financial assets at fair value through other comprehensive income, financial assets at amortized cost, and other financial assets held in response to unexpected cash outflows.

The liquidity management policies of the Bank and subsidiaries include:

- (A) Maintain the ability to perform all payment obligations immediately.
- (B) Maintain solid assets/liabilities structure to ensure medium and long-term liquidity safety.
- (C) Diversify fund sources and absorb stable core deposits to avoid depending on certain large-sum deposits.
- (D) Avoid risk of unexpected loss which will increase capital cost and capital procurement pressure.
- (E) Conduct due date management to ensure that cash inflow is greater than cash outflow in short term.
- (F) Keep liquidity ratio required by supervisory authorities.
- (G) Own assets of high-quality, and high-liquidity.

- (H) Be aware of the liquidity, safety and diversity of financial instruments.
- (I) The Bank and subsidiaries have capital emergency plans, which are reviewed regularly.
- (J) The overseas branches of the Bank and subsidiaries must obey the regulations of R.O.C. and the local supervisory authorities. Otherwise, they will be penalized for violation of these regulations.

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C. Maturity date analysis for non-derivatives

The table below lists analysis for cash inflow and outflow of the non-derivatives held by the Bank and subsidiaries for liquidity risk management based on the remaining period at the financial reporting date to the contractual maturity date.

The Bank and subsidiaries' analysis for capital maturity gaps

UNIT : In NT Thousand Dollars

| | December 31, 2020 | | | | | | |
|---|------------------------|-------------------------|----------------------|------------------------|------------------------|-----------------------|-----------------------|
| | 1-30 days | 31-90 days | 91-180 days | 181 days-1 year | 1 year-5 years | Over 5 years | Total |
| Primary funds inflow upon maturity | | | | | | | |
| Cash and cash equivalents | \$ 86,081,347 | \$ 11,313,622 | \$ 8,328,135 | \$ 9,748,691 | \$ - | \$ - | \$ 115,471,795 |
| Due from the Central Bank and call loans to banks | 320,242,968 | 50,124,518 | 6,500,921 | 702,375 | - | - | 377,570,782 |
| Financial assets at fair value through profit or loss | 19,322,188 | 944,081 | 882,486 | 3,638,770 | 22,189,677 | 5,278,778 | 52,255,980 |
| Financial assets at fair value through other comprehensive income | 21,813,091 | 13,442,440 | 15,334,890 | 28,934,918 | 171,189,711 | 162,624,807 | 413,339,857 |
| Investment in debt instruments at amortised cost | 283,694,037 | 68,212,776 | 52,143,221 | 90,700,495 | 31,084,868 | 4,750,536 | 530,585,933 |
| Securities purchased under resell agreements | 9,259,894 | 1,099,796 | - | - | - | - | 10,359,690 |
| Receivables | 145,979,535 | 13,414,749 | 4,754,580 | 7,139,780 | 27,193 | 579 | 171,316,416 |
| Discounts and loans | 91,546,523 | 169,625,294 | 248,794,088 | 233,206,139 | 739,209,458 | 535,161,003 | 2,017,542,505 |
| Other financial assets | 78,790 | 129 | 129 | 451 | - | 61,324 | 140,823 |
| Total | <u>978,018,373</u> | <u>328,177,405</u> | <u>336,738,450</u> | <u>374,071,619</u> | <u>963,700,907</u> | <u>707,877,027</u> | <u>3,688,583,781</u> |
| Primary funds outflow upon maturity | | | | | | | |
| Deposits from the Central Bank and banks | 315,366,316 | 19,179,815 | 3,599,273 | 7,319,784 | 43,919,996 | 908,800 | 390,293,984 |
| Due to the Central Bank and banks | 13,341,996 | 7,024,184 | - | - | - | - | 20,366,180 |
| Financial liabilities at fair value through profit or loss | 15,570,980 | - | - | - | - | - | 15,570,980 |
| Securities sold under repurchase agreements | 3,867,767 | 5,114,264 | 433,214 | - | 2,866,545 | - | 12,281,790 |
| Payables | 147,420,594 | 4,098,679 | 1,586,201 | 3,848,112 | 362 | 5,679,271 | 162,633,219 |
| Deposits and remittances | 498,333,954 | 434,748,656 | 249,743,349 | 423,518,914 | 1,003,230,568 | 20,804,618 | 2,630,380,059 |
| Bank notes payable | - | 4,989,300 | 7,217,150 | - | 1,012,000 | - | 13,218,450 |
| Other financial liabilities | 6,858,184 | 955,298 | 104,544 | 95,428 | 123,404 | - | 8,136,858 |
| Lease liabilities | 55,405 | 91,327 | 143,080 | 272,590 | 860,742 | 563,073 | 1,986,217 |
| Others | 367,412 | 734,823 | 734,823 | 2,571,880 | - | - | 4,408,938 |
| Total | <u>1,001,182,608</u> | <u>476,936,346</u> | <u>263,561,634</u> | <u>437,626,708</u> | <u>1,052,013,617</u> | <u>27,955,762</u> | <u>3,259,276,675</u> |
| Gap | <u>(\$ 23,164,235)</u> | <u>(\$ 148,758,941)</u> | <u>\$ 73,176,816</u> | <u>(\$ 63,555,089)</u> | <u>(\$ 88,312,710)</u> | <u>\$ 679,921,265</u> | <u>\$ 429,307,106</u> |

UNIT : In US Thousand Dollars

| | December 31, 2020 | | | | | | |
|---|---------------------|-----------------------|---------------------|-----------------------|-----------------------|----------------------|----------------------|
| | 1-30 days | 31-90 days | 91-180 days | 181 days-1 year | 1 year-5 years | Over 5 years | Total |
| Primary funds inflow upon maturity | | | | | | | |
| Cash and cash equivalents | \$ 3,063,938 | \$ 402,692 | \$ 296,428 | \$ 346,990 | \$ - | \$ - | \$ 4,110,048 |
| Due from the Central Bank and call loans to banks | 11,398,575 | 1,784,108 | 231,391 | 25,000 | - | - | 13,439,074 |
| Financial assets at fair value through profit or loss | 687,745 | 33,603 | 31,411 | 129,517 | 789,809 | 187,890 | 1,859,975 |
| Financial assets at fair value through other comprehensive income | 776,405 | 478,464 | 545,823 | 1,029,896 | 6,093,245 | 5,788,390 | 14,712,223 |
| Investment in debt instruments at amortised cost | 10,097,670 | 2,427,933 | 1,855,961 | 3,228,350 | 1,106,420 | 169,088 | 18,885,422 |
| Securities purchased under resell agreements | 329,592 | 39,146 | - | - | - | - | 368,738 |
| Receivables | 5,195,926 | 477,478 | 169,232 | 254,130 | 968 | 21 | 6,097,755 |
| Discounts and loans | 3,258,463 | 6,037,562 | 8,855,458 | 8,300,628 | 26,311,068 | 19,048,265 | 71,811,444 |
| Other financial assets | 2,804 | 5 | 5 | 16 | - | 2,183 | 5,013 |
| Total | 34,811,118 | 11,680,991 | 11,985,709 | 13,314,527 | 34,301,510 | 25,195,837 | 131,289,692 |
| Primary funds outflow upon maturity | | | | | | | |
| Deposits from the Central Bank and banks | 11,224,998 | 682,677 | 128,111 | 260,537 | 1,563,267 | 32,347 | 13,891,937 |
| Due to the Central Bank and banks | 474,889 | 250,015 | - | - | - | - | 724,904 |
| Financial liabilities at fair value through profit or loss | 554,226 | - | - | - | - | - | 554,226 |
| Securities sold under repurchase agreements | 137,667 | 182,035 | 15,420 | - | 102,030 | - | 437,152 |
| Payables | 5,247,218 | 145,886 | 56,458 | 136,968 | 13 | 202,145 | 5,788,688 |
| Deposits and remittances | 17,737,461 | 15,474,236 | 8,889,245 | 15,074,530 | 35,708,509 | 740,510 | 93,624,491 |
| Bank notes payable | - | 177,587 | 256,884 | - | 36,021 | - | 470,492 |
| Other financial liabilities | 244,107 | 34,002 | 3,721 | 3,397 | 4,392 | - | 289,619 |
| Lease liabilities | 1,972 | 3,251 | 5,093 | 9,702 | 30,637 | 20,042 | 70,697 |
| Others | 13,077 | 26,155 | 26,155 | 91,542 | - | - | 156,929 |
| Total | 35,635,615 | 16,975,844 | 9,381,087 | 15,576,676 | 37,444,869 | 995,044 | 116,009,135 |
| Gap | (\$ 824,497) | (\$ 5,294,853) | \$ 2,604,622 | (\$ 2,262,149) | (\$ 3,143,359) | \$ 24,200,793 | \$ 15,280,557 |

UNIT : In NT Thousand Dollars

| | December 31, 2019 | | | | | | |
|--|-----------------------|-------------------------|----------------------|------------------------|----------------------|-----------------------|-----------------------|
| | 1-30 days | 31-90 days | 91-180 days | 181 days-1 year | 1 year-5 years | Over 5 years | Total |
| Primary funds inflow upon maturity | | | | | | | |
| Cash and cash equivalents | \$ 98,751,279 | \$ 30,370,026 | \$ 7,149,709 | \$ 4,829,927 | \$ - | \$ - | \$ 141,100,941 |
| Due from the Central Bank and call loans to banks | 440,437,757 | 52,048,667 | 1,778,944 | - | - | - | 494,265,368 |
| Financial assets at fair value through profit or loss | 26,176,609 | 911,241 | 2,046,508 | 2,991,968 | 25,519,523 | 1,832,149 | 59,477,998 |
| Financial assets at fair value through other comprehensive income | 69,793,991 | 10,316,786 | 21,829,468 | 28,556,529 | 208,346,054 | 68,041,464 | 406,884,292 |
| Investment in debt instruments at amortised cost | 172,987,906 | 31,076,493 | 19,290,230 | 22,153,615 | 25,356,810 | 590,617 | 271,455,671 |
| Securities purchased under resell agreements | 7,536,981 | - | - | - | - | - | 7,536,981 |
| Receivables | 61,878,754 | 20,215,812 | 8,689,540 | 11,461,923 | 1,877,117 | 554 | 104,123,700 |
| Discounts and loans | 140,415,617 | 160,729,345 | 274,298,506 | 220,685,047 | 721,983,182 | 489,599,924 | 2,007,711,621 |
| Other financial assets | 205 | 410 | 421 | 1,242 | 207 | 32,392 | 34,877 |
| Total | 1,017,979,099 | 305,668,780 | 335,083,326 | 290,680,251 | 983,082,893 | 560,097,100 | 3,492,591,449 |
| Primary funds outflow upon maturity | | | | | | | |
| Deposits from the Central Bank and banks | 307,064,220 | 61,760,145 | 6,834,650 | 4,749,268 | 32,278,210 | 670,229 | 413,356,722 |
| Due to the Central Bank and banks | 3,768,861 | 13,567,833 | 3,920,679 | - | - | - | 21,257,373 |
| Financial liabilities at fair value through profit or loss | 17,362,339 | - | - | - | - | - | 17,362,339 |
| Securities sold under repurchase agreements | 2,241,783 | 21,272,207 | 8,614,979 | - | - | - | 32,128,969 |
| Payables | 58,713,487 | 3,627,747 | 1,766,229 | 3,976,329 | 412,466 | 5,679,275 | 74,175,533 |
| Deposits and remittances | 509,405,799 | 403,336,937 | 282,427,936 | 378,871,530 | 888,249,437 | 17,907,953 | 2,480,199,592 |
| Bank notes payable | - | 83,300 | 117,150 | - | 12,200,450 | - | 12,400,900 |
| Other financial liabilities | 5,400,230 | 2,460,737 | 127,011 | 2,926 | 2,216,185 | 71,495 | 10,278,584 |
| Lease liabilities | 53,915 | 92,831 | 142,850 | 271,819 | 973,528 | 529,017 | 2,063,960 |
| Others | 263,121 | 526,241 | 540,859 | 1,596,265 | 266,044 | - | 3,192,530 |
| Total | 904,273,755 | 506,727,978 | 304,492,343 | 389,468,137 | 936,596,320 | 24,857,969 | 3,066,416,502 |
| Gap | \$ 113,705,344 | (\$ 201,059,198) | \$ 30,590,983 | (\$ 98,787,886) | \$ 46,486,573 | \$ 535,239,131 | \$ 426,174,947 |

D. Structure analysis for maturity of derivatives

(A) Derivatives settled on a net basis

Derivatives of the Bank and subsidiaries settled on a net basis include:

- a. Foreign exchange derivatives: currency option, non-delivery forward
- b. Interest derivatives: forward rate agreement, interest rate swap, assets swap, interest rate option, bond option, interest rate futures
- c. Credit derivatives: credit default swaps (CDS)
- d. Equity derivatives: stock option
- e. Others: combined commodity

UNIT : In NT Thousand Dollars

| | December 31, 2020 | | | | | | |
|------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| | 1-30 days | 31-90 days | 91-180 days | 181 days-1 year | 1 year-5 years | Over 5 years | Total |
| Foreign exchange derivatives | | | | | | | |
| Inflow | \$ 89,056 | \$ 20,178 | \$ 20,646 | \$ 22,354 | \$ 25 | \$ - | \$ 152,259 |
| Outflow | 98,348 | 16,454 | 19,072 | 18,649 | - | - | 152,523 |
| Interest rate derivatives | | | | | | | |
| Inflow | 9,531 | 468,607 | 282,404 | 131,833 | 3,168,505 | 14,536,424 | 18,597,304 |
| Outflow | 116,324 | 111,231 | 99,905 | 304,749 | 976,389 | 4,995,413 | 6,604,011 |
| Credit derivatives | | | | | | | |
| Inflow | - | 18,110 | 25,459 | 28,407 | 265,335 | - | 337,311 |
| Outflow | - | - | - | - | - | - | - |
| Total inflows | <u>\$ 98,587</u> | <u>\$ 506,895</u> | <u>\$ 328,509</u> | <u>\$ 182,594</u> | <u>\$ 3,433,865</u> | <u>\$ 14,536,424</u> | <u>\$ 19,086,874</u> |
| Total outflows | <u>\$ 214,672</u> | <u>\$ 127,685</u> | <u>\$ 118,977</u> | <u>\$ 323,398</u> | <u>\$ 976,389</u> | <u>\$ 4,995,413</u> | <u>\$ 6,756,534</u> |

UNIT : In US Thousand Dollars

| | December 31, 2020 | | | | | | |
|------------------------------|-------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| | 1-30 days | 31-90 days | 91-180 days | 181 days-1 year | 1 year-5 years | Over 5 years | Total |
| Foreign exchange derivatives | | | | | | | |
| Inflow | \$ 3,170 | \$ 718 | \$ 735 | \$ 796 | \$ 1 | \$ - | \$ 5,420 |
| Outflow | 3,501 | 586 | 679 | 664 | - | - | 5,430 |
| Interest rate derivatives | | | | | | | |
| Inflow | 339 | 16,679 | 10,052 | 4,692 | 112,778 | 517,403 | 661,943 |
| Outflow | 4,140 | 3,959 | 3,556 | 10,847 | 34,753 | 177,804 | 235,059 |
| Credit derivatives | | | | | | | |
| Inflow | - | 645 | 906 | 1,011 | 9,444 | - | 12,006 |
| Outflow | - | - | - | - | - | - | - |
| Total inflows | <u>\$ 3,509</u> | <u>\$ 18,042</u> | <u>\$ 11,693</u> | <u>\$ 6,499</u> | <u>\$ 122,223</u> | <u>\$ 517,403</u> | <u>\$ 679,369</u> |
| Total outflows | <u>\$ 7,641</u> | <u>\$ 4,545</u> | <u>\$ 4,235</u> | <u>\$ 11,511</u> | <u>\$ 34,753</u> | <u>\$ 177,804</u> | <u>\$ 240,489</u> |

UNIT : In NT Thousand Dollars

| | December 31, 2019 | | | | | | |
|------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| | 1-30 days | 31-90 days | 91-180 days | 181 days-1 year | 1 year-5 years | Over 5 years | Total |
| Foreign exchange derivatives | | | | | | | |
| Inflow | \$ 50,725 | \$ 22,975 | \$ 5,461 | \$ 8,795 | \$ - | \$ - | \$ 87,956 |
| Outflow | 60,970 | 17,311 | 4,183 | 6,802 | - | - | 89,266 |
| Interest rate derivatives | | | | | | | |
| Inflow | 36,724 | 514,873 | 390,056 | 270,845 | 3,507,624 | 16,061,201 | 20,781,323 |
| Outflow | 99,679 | 127,260 | 148,324 | 375,661 | 1,982,014 | 7,170,514 | 9,903,452 |
| Credit derivatives | | | | | | | |
| Inflow | - | 49,011 | 52,857 | 135,822 | 318,786 | - | 556,476 |
| Outflow | - | - | - | - | - | - | - |
| Total inflows | <u>\$ 87,449</u> | <u>\$ 586,859</u> | <u>\$ 448,374</u> | <u>\$ 415,462</u> | <u>\$ 3,826,410</u> | <u>\$ 16,061,201</u> | <u>\$ 21,425,755</u> |
| Total outflows | <u>\$ 160,649</u> | <u>\$ 144,571</u> | <u>\$ 152,507</u> | <u>\$ 382,463</u> | <u>\$ 1,982,014</u> | <u>\$ 7,170,514</u> | <u>\$ 9,992,718</u> |

(B) Derivatives settled on a gross basis

Derivatives of the Bank and subsidiaries settled on a gross basis include:

- a. Foreign exchange derivatives: forward exchange
- b. Interest derivatives: cross currency swaps and currency swaps

UNIT : In NT Thousand Dollars

| | December 31, 2020 | | | | | | Total |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------|--------------|-----------------------|
| | 1-30 days | 31-90 days | 91-180 days | 181 days-1 year | 1 year-5 years | Over 5 years | |
| Foreign exchange derivatives | | | | | | | |
| Inflow | \$ 4,433,835 | \$ 8,508,368 | \$ 5,637,054 | \$ 1,804,144 | \$ - | \$ - | \$ 20,383,401 |
| Outflow | 4,382,351 | 8,423,913 | 5,675,465 | 1,802,305 | - | - | 20,284,034 |
| Interest rate derivatives | | | | | | | |
| Inflow | 487,558,404 | 163,920,240 | 120,661,921 | 114,396,829 | 38,138 | - | 886,575,532 |
| Outflow | 489,384,788 | 166,804,994 | 122,086,273 | 115,992,664 | 37,928 | - | 894,306,647 |
| Total inflows | \$ 491,992,239 | \$ 172,428,608 | \$ 126,298,975 | \$ 116,200,973 | \$ 38,138 | \$ - | \$ 906,958,933 |
| Total outflows | \$ 493,767,139 | \$ 175,228,907 | \$ 127,761,738 | \$ 117,794,969 | \$ 37,928 | \$ - | \$ 914,590,681 |

UNIT : In US Thousand Dollars

| | December 31, 2020 | | | | | | Total |
|------------------------------|----------------------|---------------------|---------------------|---------------------|-----------------|--------------|----------------------|
| | 1-30 days | 31-90 days | 91-180 days | 181 days-1 year | 1 year-5 years | Over 5 years | |
| Foreign exchange derivatives | | | | | | | |
| Inflow | \$ 157,816 | \$ 302,843 | \$ 200,643 | \$ 64,216 | \$ - | \$ - | \$ 725,518 |
| Outflow | 155,983 | 299,837 | 202,010 | 64,150 | - | - | 721,980 |
| Interest rate derivatives | | | | | | | |
| Inflow | 17,353,921 | 5,834,499 | 4,294,783 | 4,071,786 | 1,357 | - | 31,556,346 |
| Outflow | 17,418,928 | 5,937,177 | 4,345,480 | 4,128,587 | 1,350 | - | 31,831,522 |
| Total inflows | \$ 17,511,737 | \$ 6,137,342 | \$ 4,495,426 | \$ 4,136,002 | \$ 1,357 | \$ - | \$ 32,281,864 |
| Total outflows | \$ 17,574,911 | \$ 6,237,014 | \$ 4,547,490 | \$ 4,192,737 | \$ 1,350 | \$ - | \$ 32,553,502 |

UNIT : In NT Thousand Dollars

| | December 31, 2019 | | | | | | |
|------------------------------|-----------------------|-----------------------|----------------------|------------------------|-----------------------|---------------------|-----------------------|
| | <u>1-30 days</u> | <u>31-90 days</u> | <u>91-180 days</u> | <u>181 days-1 year</u> | <u>1 year-5 years</u> | <u>Over 5 years</u> | <u>Total</u> |
| Foreign exchange derivatives | | | | | | | |
| Inflow | \$ 6,840,123 | \$ 12,420,131 | \$ 4,136,111 | \$ 1,787,789 | \$ - | \$ - | \$ 25,184,154 |
| Outflow | 6,823,801 | 12,335,773 | 4,115,387 | 1,785,653 | - | - | 25,060,614 |
| Interest rate derivatives | | | | | | | |
| Inflow | 371,208,104 | 168,863,968 | 70,160,655 | 51,530,204 | 19,283 | - | 661,782,214 |
| Outflow | <u>372,165,660</u> | <u>169,704,375</u> | <u>70,812,304</u> | <u>51,817,042</u> | <u>19,492</u> | - | <u>664,518,873</u> |
| Total inflows | <u>\$ 378,048,227</u> | <u>\$ 181,284,099</u> | <u>\$ 74,296,766</u> | <u>\$ 53,317,993</u> | <u>\$ 19,283</u> | <u>\$ -</u> | <u>\$ 686,966,368</u> |
| Total outflows | <u>\$ 378,989,461</u> | <u>\$ 182,040,148</u> | <u>\$ 74,927,691</u> | <u>\$ 53,602,695</u> | <u>\$ 19,492</u> | <u>\$ -</u> | <u>\$ 689,579,487</u> |

E. Analysis for off-balance sheet contractual commitments

UNIT : In NT Thousand Dollars

| | December 31, 2020 | | | | | | |
|-------------------------------|----------------------|----------------------|-----------------------|------------------------|-----------------------|----------------------|-----------------------|
| | <u>1-30 days</u> | <u>31-90 days</u> | <u>91-180 days</u> | <u>181 days-1 year</u> | <u>1 year-5 years</u> | <u>Over 5 years</u> | <u>Total</u> |
| Irrevocable commitments | \$ 7,735,432 | \$ 1,803,458 | \$ 101,531,410 | \$ 26,483,638 | \$ 73,812,411 | \$ 13,164,114 | \$ 224,530,463 |
| Financial guarantee contracts | <u>38,470,602</u> | <u>59,970,706</u> | <u>27,593,885</u> | <u>43,809,804</u> | <u>17,605,880</u> | <u>402,617</u> | <u>187,853,494</u> |
| Total | <u>\$ 46,206,034</u> | <u>\$ 61,774,164</u> | <u>\$ 129,125,295</u> | <u>\$ 70,293,442</u> | <u>\$ 91,418,291</u> | <u>\$ 13,566,731</u> | <u>\$ 412,383,957</u> |

UNIT : In US Thousand Dollars

| | December 31, 2020 | | | | | | |
|-------------------------------|---------------------|---------------------|---------------------|------------------------|-----------------------|---------------------|----------------------|
| | <u>1-30 days</u> | <u>31-90 days</u> | <u>91-180 days</u> | <u>181 days-1 year</u> | <u>1 year-5 years</u> | <u>Over 5 years</u> | <u>Total</u> |
| Irrevocable commitments | \$ 275,331 | \$ 64,191 | \$ 3,613,860 | \$ 942,646 | \$ 2,627,244 | \$ 468,557 | \$ 7,991,829 |
| Financial guarantee contracts | <u>1,369,304</u> | <u>2,134,569</u> | <u>982,164</u> | <u>1,559,345</u> | <u>626,655</u> | <u>14,331</u> | <u>6,686,368</u> |
| Total | <u>\$ 1,644,635</u> | <u>\$ 2,198,760</u> | <u>\$ 4,596,024</u> | <u>\$ 2,501,991</u> | <u>\$ 3,253,899</u> | <u>\$ 482,888</u> | <u>\$ 14,678,197</u> |

UNIT : In NT Thousand Dollars

| | December 31, 2019 | | | | | | |
|-------------------------------|----------------------|----------------------|-----------------------|------------------------|-----------------------|---------------------|-----------------------|
| | <u>1-30 days</u> | <u>31-90 days</u> | <u>91-180 days</u> | <u>181 days-1 year</u> | <u>1 year-5 years</u> | <u>Over 5 years</u> | <u>Total</u> |
| Irrevocable commitments | \$ 1,886,980 | \$ 1,161,330 | \$ 92,601,152 | \$ 23,082,255 | \$ 76,038,555 | \$ 7,177,065 | \$ 201,947,337 |
| Financial guarantee contracts | <u>42,568,777</u> | <u>47,404,122</u> | <u>37,873,025</u> | <u>54,981,101</u> | <u>25,655,845</u> | <u>69,409</u> | <u>208,552,279</u> |
| Total | <u>\$ 44,455,757</u> | <u>\$ 48,565,452</u> | <u>\$ 130,474,177</u> | <u>\$ 78,063,356</u> | <u>\$ 101,694,400</u> | <u>\$ 7,246,474</u> | <u>\$ 410,499,616</u> |

- a. Off-balance sheet items include irrevocable commitments and financial guarantee contracts.
- b. Irrevocable commitments include irrevocable arranged financing limit and credit card line commitments.
- c. Financial guarantee contracts refer to guarantees and letters of credit issued.

(Blank below)

F. Disclosure requirements in the “Regulations Governing the Preparation of Financial Reports by Public Banks”

(A) NTD maturity analysis of the Bank

Unit: In NT Thousand Dollars

| | December 31, 2020 | | | | | | |
|-------------------------------------|-------------------|----------------|----------------|------------------|-----------------|------------------|------------------|
| | Total | 0-10 days | 11-30 days | 31-90 days | 91-180 days | 181 days-1 year | Over 1 year |
| Primary funds inflow upon maturity | \$ 2,308,429,403 | \$ 294,658,563 | \$ 281,497,169 | \$ 232,299,595 | \$ 242,988,126 | \$ 256,322,086 | \$ 1,000,663,864 |
| Primary funds outflow upon maturity | \$ 2,957,087,728 | 134,211,344 | 263,033,791 | 414,495,988 | 328,055,568 | 520,191,450 | 1,297,099,587 |
| Gap | (\$ 648,658,325) | \$ 160,447,219 | \$ 18,463,378 | (\$ 182,196,393) | (\$ 85,067,442) | (\$ 263,869,364) | (\$ 296,435,723) |

Unit: In US Thousand Dollars

| | December 31, 2020 | | | | | | |
|-------------------------------------|-------------------|---------------|---------------|----------------|----------------|-----------------|-----------------|
| | Total | 0-10 days | 11-30 days | 31-90 days | 91-180 days | 181 days-1 year | Over 1 year |
| Primary funds inflow upon maturity | \$ 82,165,133 | \$ 10,487,936 | \$ 10,019,476 | \$ 8,268,361 | \$ 8,648,803 | \$ 9,123,406 | \$ 35,617,151 |
| Primary funds outflow upon maturity | \$ 105,253,167 | 4,777,054 | 9,362,299 | 14,753,372 | 11,676,653 | 18,515,446 | 46,168,343 |
| Gap | (\$ 23,088,034) | \$ 5,710,882 | \$ 657,177 | (\$ 6,485,011) | (\$ 3,027,850) | (\$ 9,392,040) | (\$ 10,551,192) |

Unit: In NT Thousand Dollars

| | December 31, 2019 | | | | | | |
|-------------------------------------|-------------------|----------------|----------------|------------------|-----------------|------------------|------------------|
| | Total | 0-10 days | 11-30 days | 31-90 days | 91-180 days | 181 days-1 year | Over 1 year |
| Primary funds inflow upon maturity | \$ 1,915,318,243 | \$ 275,175,039 | \$ 198,450,965 | \$ 152,407,863 | \$ 224,375,175 | \$ 166,861,754 | \$ 898,047,447 |
| Primary funds outflow upon maturity | 2,459,536,895 | 107,110,773 | 180,406,137 | 321,925,179 | 252,697,632 | 428,131,098 | 1,169,266,076 |
| Gap | (\$ 544,218,652) | \$ 168,064,266 | \$ 18,044,828 | (\$ 169,517,316) | (\$ 28,322,457) | (\$ 261,269,344) | (\$ 271,218,629) |

(B) USD maturity analysis of the Bank

Unit: In US Thousand Dollars

| | December 31, 2020 | | | | | |
|-------------------------------------|-------------------|----------------|----------------|--------------|-----------------|----------------|
| | Total | 0-30 days | 31-90 days | 91-180 days | 181 days-1 year | Over 1 year |
| Primary funds inflow upon maturity | \$ 58,740,880 | \$ 25,993,208 | \$ 7,329,903 | \$ 5,747,349 | \$ 5,573,377 | \$ 14,097,043 |
| Primary funds outflow upon maturity | \$ 67,082,625 | 27,759,140 | 9,476,152 | 6,449,578 | 7,695,810 | 15,701,945 |
| Gap | (\$ 8,341,745) | (\$ 1,765,932) | (\$ 2,146,249) | (\$ 702,229) | (\$ 2,122,433) | (\$ 1,604,902) |

Unit: In US Thousand Dollars

| | December 31, 2019 | | | | | |
|-------------------------------------|-------------------|---------------|----------------|----------------|-----------------|---------------|
| | Total | 0-30 days | 31-90 days | 91-180 days | 181 days-1 year | Over 1 year |
| Primary funds inflow upon maturity | \$ 59,161,168 | \$ 26,065,330 | \$ 8,661,893 | \$ 3,825,506 | \$ 3,370,008 | \$ 17,238,431 |
| Primary funds outflow upon maturity | 68,087,117 | 25,567,497 | 12,994,797 | 6,958,351 | 6,962,965 | 15,603,507 |
| Gap | (\$ 8,925,949) | \$ 497,833 | (\$ 4,332,904) | (\$ 3,132,845) | (\$ 3,592,957) | \$ 1,634,924 |

Note 1: The funds denominated in US dollars means the amount of all US dollars of the Bank.

Note 2: If overseas assets exceed 10% of total assets of the Bank, supplementary information shall be disclosed.

(C) USD maturity analysis of foreign branches

Unit: In US Thousand Dollars

| | December 31, 2020 | | | | | |
|-------------------------------------|-------------------|----------------|--------------|--------------|-----------------|--------------|
| | Total | 0-30 days | 31-90 days | 91-180 days | 181 days-1 year | Over 1 year |
| Primary funds inflow upon maturity | \$ 18,272,277 | \$ 8,437,601 | \$ 1,886,839 | \$ 691,696 | \$ 1,203,907 | \$ 6,052,234 |
| Primary funds outflow upon maturity | \$ 19,850,415 | 11,485,495 | 1,724,870 | 1,180,507 | 1,089,376 | 4,370,167 |
| Gap | (\$ 1,578,138) | (\$ 3,047,894) | \$ 161,969 | (\$ 488,811) | \$ 114,531 | \$ 1,682,067 |

Unit: In US Thousand Dollars

| | December 31, 2019 | | | | | |
|-------------------------------------|-------------------|--------------|--------------|--------------|-----------------|----------------|
| | Total | 0-30 days | 31-90 days | 91-180 days | 181 days-1 year | Over 1 year |
| Primary funds inflow upon maturity | \$ 19,125,697 | \$ 9,301,792 | \$ 2,543,455 | \$ 751,666 | \$ 1,017,276 | \$ 5,511,508 |
| Primary funds outflow upon maturity | 20,741,754 | 10,026,119 | 1,514,538 | 1,227,448 | 1,006,878 | 6,966,771 |
| Gap | (\$ 1,616,057) | (\$ 724,327) | \$ 1,028,917 | (\$ 475,782) | \$ 10,398 | (\$ 1,455,263) |

(5) Market risk

A. Definition of market risk

Market risk refers to the potential loss of the Bank and subsidiaries' on-balance-sheet and off-balance-sheet positions due to the Bank and subsidiaries enduring fluctuations of market prices (for example: fluctuations of market interest, exchange rates, stock prices and price of products).

B. Objective of market risk management

The objective of the Bank and subsidiaries' market risk management is to confine risks within a tolerable scope to avoid the fluctuations of financial product prices impacting future returns and the value of assets and liabilities.

C. Market risk management policies and procedures

The Board of (Managing) Directors decided the degree of risk tolerance, position limits, and loss limits. Market risk management comprises trading book control and banking book control. Trading book operation is mainly for trading purposes and hedges against trading book position. Policies for financial instrument trading of bank are based on back-to-back operation principle. Banking book is based on held-to-maturity principle and adopts hedging measures.

D. Procedures for market risk management

(A) The Bank and subsidiaries' objectives of market risk management are respectively proposed by Treasury Department and Risk Management Department, and then Risk Management Department summarizes and reports these objectives to Risk Management Committee of Mega Financial Holdings and the Bank's Board of Directors for approval.

(B) Risk Management Department not only daily prepares statement of market risk position and profit and loss of various financial instruments but regularly compiles securities investment performance evaluation and reports to the Board of (Managing) Directors for the Board's to grasp the Bank and subsidiaries' risk control over securities investment and derivatives. Risk Management Department summarizes and analyzes various financial instrument position, profit and risk-sensitive factors. Also, it conducts stress testing and examines stress testing limits for senior management to grasp the Bank's market risk exposure.

E. Market risk measurement and control principle

- (A) The Bank and subsidiaries' market risk report contains interest rate, exchange rate, positions of equity securities, credit default swap (CDS) and profit and loss assessment. Every transaction has limit and stop-loss provisions, which shall be submitted to approval management in accordance with the Bank and subsidiaries' regulations. Stop-loss limit shall be implemented as soon as a transaction reaches the threshold. If no stop-loss limit will be implemented, trading units shall immediately make statement about reasons to not implement stop-loss limit and coping plan, which shall be submitted to senior management for approval and reported to the Board of (Managing) Directors regularly.
- (B) Non-hedging trading positions of derivatives are daily assessed based on the market value, whereas hedging trading positions of futures are daily assessed and others are assessed twice a month.
- (C) SUMMIT information system and DW information system for market risk provides functions in relation to risk management such as real-time limits, profit and loss assessment, analysis on risk-sensitive factors, stress testing, etc.

F. Policies and procedures of trading-book risk management

The Bank and subsidiaries daily monitor trading-book positions, changes in risk exposures, and various risk limits, including trading rooms, traders and product line risk limits.

If trading-book financial instruments have market price, the valuation of those instruments is conducted at least one time daily using the independent source and available information. If using mathematical model valuation, the assumptions and parameters used in the model are reviewed regularly.

The method of risk measurement is sensitivity analysis.

The Bank conducts stress test on the positions of its interest rate, equity securities, foreign exchange rate products and credit default swap (CDS) on the assumptions of the monthly change in interest rate, securities market index, foreign exchange rate and CDS by +1%, -15%, +3% and +100 basis points, respectively, and periodically reports to the Risk Management Committee.

G. Trading-book interest rate risk management

Trading-book interest rate risk refers to the financial loss of the decline in values of interest rate products held due to unfavorable changes in interest rates, including securities and derivatives with interest.

The Bank and subsidiaries interest rate products are traded mainly for hedging.

The trading group screens the credits and financial positions of issuers and selects investment objectives by judging interest rate trend and a variety of country risks and based on the authorized minimum investment criteria. The Bank and subsidiaries set trading-book trading limits and stop-loss limits (including trading rooms, traders, trading products, counterparties, and daily and overnight limits) based on business strategies and market conditions, and measure monthly the extent of impact of interest rate risk on investment portfolios using DV01 value.

H. Banking book interest rate risk management

Banking book interest rate risk mainly comes from the unmatched maturity dates of assets and liabilities or price resetting dates, and inconsistent changes in base interest rates for assets and liabilities. The Bank and subsidiaries' interest rate risk mainly comes from the unmatched periods of interest-rate sensitive assets and liabilities of the Bank and subsidiaries.

As the Bank and subsidiaries have interest-rate sensitive gaps, market interest rate fluctuations have good or bad impacts on the Bank and subsidiaries' earnings and cash flows.

The Bank and subsidiaries manage Banking book interest rate risk by using repricing gap analysis. The interest-rate repricing gap analysis is to estimate the difference between the assets and liabilities with interest bearing that are to be due near or repriced within a certain period and measure the impact of interest rate change on net interest revenue. The analysis assumes assets and liabilities structure remain unchanged and there are parallel movements of interest rate curves, and excludes the customer behavior, basis risk, option characteristics of early repayment of bonds. The Bank and subsidiaries calculate the change in net interest revenue for this year and also monitor the percentage of change in net interest revenue to the projection of net interest revenue for this year.

The Bank and subsidiaries monthly analyze and monitor interest rate risk positions limits and various interest rate risk management indexes. If any risk management index exceeds limit, the Bank and subsidiaries will adopt responding measures and report the analysis and monitoring results to the Fund Management Committee, the Risk Management Committee and the Board of Directors.

I. Foreign exchange risk management

Foreign exchange risk refers to the losses caused by the exchange of two different currencies at different times. The Bank and subsidiaries' foreign exchange risk mainly comes from its derivatives business such as spot foreign exchange, forward foreign exchange and foreign exchange options. The foreign exchange trading of the Bank and subsidiaries are mainly for offsetting customers' positions on the same day; therefore, foreign exchange risk is relatively low.

To control trading-book foreign exchange risk, subsidiaries have set trading limits and stop-loss limits for trading rooms and traders and also set the annual maximum loss limits to control the losses within the tolerable scopes.

(Blank below)

J. The Bank and subsidiaries' foreign exchange risk gaps

UNIT: In NT Thousand Dollars

| | December 31, 2020 | | | | |
|--|----------------------|--------------------|--------------------|-------------------|-------------------|
| | USD | AUD | RMB | EUR | JPY |
| Assets | | | | | |
| Cash and cash equivalents | \$ 61,596,113 | \$ 1,360,623 | \$ 18,852,568 | \$ 1,898,738 | \$ 17,693,882 |
| Due from the Central Bank and call loans to banks | 241,782,705 | 1,465,549 | 5,854,730 | 570,020 | 22,967,796 |
| Financial assets at fair value through profit or loss | 31,882,091 | 1,565,293 | 1,191 | 6,690 | 1,540 |
| Financial assets at fair value through other comprehensive income | 133,515,555 | 72,258,455 | 21,232,609 | 2,034,996 | 7,216,857 |
| Investment in debt instruments at amortised cost | 37,740,129 | 544,070 | 4,014,252 | 345,288 | 545,355 |
| Securities purchased under resell agreements | - | - | - | - | - |
| Receivables | 15,100,123 | 7,658,215 | 1,175,875 | 628,382 | 2,220,524 |
| Discounts and loans | 409,115,672 | 72,859,761 | 18,011,683 | 33,493,559 | 31,355,772 |
| Other assets | 5,882,005 | 77,666 | 84,461 | 1,322,016 | 86,609 |
| Total assets | 936,614,393 | 157,789,632 | 69,227,369 | 40,299,689 | 82,088,335 |
| Liabilities | | | | | |
| Deposits from the Central Bank and banks | \$ 326,167,813 | \$ 4,766,128 | \$ 5,598,908 | \$ 2,556,223 | \$ 34,400,847 |
| Due to the Central Bank and banks | 10,609,839 | - | - | - | - |
| Financial liabilities at fair value through profit or loss | 18,213,683 | 3,023 | 1,197 | 2,440 | 1,417 |
| Securities sold under repurchase agreements | - | 12,138,684 | - | - | - |
| Payables | 14,886,935 | 223,218 | 1,069,279 | 462,395 | 2,163,864 |
| Deposits and remittances | 878,064,833 | 36,901,607 | 94,594,146 | 27,704,130 | 25,513,443 |
| Other liabilities | 8,214,771 | 2,972,700 | 1,368,298 | 729,516 | 394,725 |
| Total liabilities | 1,256,157,874 | 57,005,360 | 102,631,828 | 31,454,704 | 62,474,296 |
| On-balance sheet foreign exchange gap | (\$ 319,543,481) | \$ 100,784,272 | (\$ 33,404,459) | \$ 8,844,985 | \$ 19,614,039 |
| Off-balance sheet commitments | \$ 78,197,927 | \$ 1,083,087 | \$ 5,374,052 | \$ 12,654,674 | \$ 4,922,544 |
| NTD exchange rate | 28.0950 | 21.6472 | 4.3190 | 34.5709 | 0.2724 |

UNIT: In NT Thousand Dollars

| | December 31, 2019 | | | | |
|---|----------------------|--------------------|--------------------|-------------------|-------------------|
| | USD | AUD | RMB | EUR | JPY |
| Assets | | | | | |
| Cash and cash equivalents | \$ 90,619,231 | \$ 352,948 | \$ 17,353,638 | \$ 1,877,948 | \$ 12,279,100 |
| Due from the Central Bank and call loans to banks | 380,402,426 | 3,495,475 | 9,294,280 | 356,215 | 27,434,206 |
| Financial assets at fair value through profit or loss | 35,666,317 | 2,681,798 | 749 | 11,094 | 524 |
| Financial assets at fair value through other comprehensive income | 119,734,387 | 78,736,145 | 14,753,549 | 4,268,305 | 9,155,888 |
| Investment in debt instruments at amortised cost | 29,368,643 | 844,746 | 4,810,484 | 420,330 | 552,474 |
| Securities purchased under resell agreements | 1,438,626 | - | - | - | - |
| Receivables | 29,360,759 | 9,429,084 | 1,362,262 | 875,486 | 1,474,250 |
| Discounts and loans | 473,653,541 | 57,195,287 | 17,341,313 | 31,143,294 | 32,294,330 |
| Other assets | 1,249,756 | 68,991 | 738,989 | 1,766,115 | 89,449 |
| Total assets | <u>1,161,493,686</u> | <u>152,804,474</u> | <u>65,655,264</u> | <u>40,718,787</u> | <u>83,280,221</u> |
| Liabilities | | | | | |
| Deposits from the Central Bank and banks | \$ 322,460,725 | \$ 3,357,858 | \$ 13,305,132 | \$ 3,033,681 | \$ 39,175,827 |
| Due to the Central Bank and banks | 21,161,321 | - | - | - | - |
| Financial liabilities at fair value through profit or loss | 19,586,617 | 9,329 | 754 | 4,886 | 546 |
| Securities sold under repurchase agreements | 17,192,940 | 14,686,716 | - | - | - |
| Payables | 16,352,059 | 269,673 | 1,704,548 | 470,161 | 1,106,354 |
| Deposits and remittances | 951,662,036 | 36,636,223 | 95,792,969 | 30,471,713 | 26,049,106 |
| Other liabilities | \$ 9,940,727 | \$ 3,830,503 | \$ 1,205,129 | \$ 1,132,947 | \$ 338,810 |
| Total liabilities | <u>1,358,356,425</u> | <u>58,790,302</u> | <u>112,008,532</u> | <u>35,113,388</u> | <u>66,670,643</u> |
| On-balance sheet foreign exchange gap | (\$ 196,862,739) | \$ 94,014,172 | (\$ 46,353,268) | \$ 5,605,399 | \$ 16,609,578 |
| Off-balance sheet commitments | \$ 90,507,888 | \$ 1,574,650 | \$ 3,884,941 | \$ 13,123,161 | \$ 3,542,948 |
| NTD exchange rate | <u>29.9870</u> | <u>21.0059</u> | <u>4.2974</u> | <u>33.6214</u> | <u>0.2759</u> |

K. Risk management for equity securities

Due to needs of proprietary, make market and tactic, etc., the Bank held equity securities within the regulations of the law. That market risk comprises the risk of individual equity security arising from the security's market price changes and the general market risk arising from overall equity securities market price changes.

The investment operating group mainly selects blue chip stocks which have high liquidity and sets the investment price according to fundamentals and market transactions. After the investment has been approved by the Investment Deliberation Committee, the operational personnel purchase the stock within the maximum percentage of the approved price, as the case may be.

Daily trading records, details of investment portfolios and overview of profit or loss shall report to the management and measurement of the extent of the impact of systematic risk on investment portfolios using β value monthly. The Bank and subsidiaries generally set a stop loss, stop interest, pre-warning and exception handling requirements, and limit control to held individual stock and industry concentration.

L. Sensitivity analysis

Sensitivity analysis of the Bank and subsidiaries' financial instruments (including trading book and non-trading book):

December 31, 2020

UNIT : In NT Thousand Dollars

| Risks | Extent of Variation | Effect on Profit or Loss | Effect on Equity |
|------------------------|--|--------------------------|------------------|
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1.32% | (\$ 84,477) | \$ - |
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1.32% | 84,477 | - |
| Interest rate risk | Increases in major interest rates by 1BPS | 8,218 | (86,185) |
| Interest rate risk | Declines in major interest rates by 1BPS | (8,218) | 86,185 |
| Equity securities risk | TAIEX declined by 1% | (36,790) | (65,541) |
| Equity securities risk | TAIEX increased by 1% | 36,790 | 65,541 |

December 31, 2020

UNIT : In US Thousand Dollars

| Risks | Extent of Variation | Effect on Profit or Loss | Effect on Equity |
|------------------------|--|--------------------------|------------------|
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1.32% | (\$ 3,007) | \$ - |
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1.32% | 3,007 | - |
| Interest rate risk | Increases in major interest rates by 1BPS | 293 | (3,068) |
| Interest rate risk | Declines in major interest rates by 1BPS | (293) | 3,068 |
| Equity securities risk | TAIEX declined by 1% | (1,309) | (2,333) |
| Equity securities risk | TAIEX increased by 1% | 1,309 | 2,333 |

December 31, 2019

UNIT : In NT Thousand Dollars

| Risks | Extent of Variation | Effect on Profit or Loss | Effect on Equity |
|------------------------|---|--------------------------|------------------|
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1% | (\$ 31,928) | \$ - |
| Foreign exchange risk | Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1% | 31,928 | - |
| Interest rate risk | Increases in major interest rates by 1BPS | 14,235 | (106,752) |
| Interest rate risk | Declines in major interest rates by 1BPS | (14,235) | 106,752 |
| Equity securities risk | TAIEX declined by 1% | (54,754) | (50,470) |
| Equity securities risk | TAIEX increased by 1% | 54,754 | 50,470 |

M. Disclosure requirements in the “Regulations Governing the Preparation of Financial Reports by Public Banks”

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)

December 31, 2020

UNIT: In NT Thousand Dollars, %

| Item | 1-90 days | 91-180 days | 181 days to 1 year | Over 1 year | Total |
|--|----------------|----------------|-----------------------|----------------|------------------|
| Interest rate sensitive assets | \$ 796,396,316 | \$ 942,391,694 | \$ 92,156,355 | \$ 137,990,275 | \$ 1,968,934,640 |
| Interest rate sensitive liabilities | 610,349,253 | 844,287,606 | 55,429,074 | 9,522,032 | 1,519,587,965 |
| Interest rate sensitive gap | \$ 186,047,063 | \$ 98,104,088 | \$ 36,727,281 | \$ 128,468,243 | \$ 449,346,675 |
| Net worth | | | | | \$ 282,209,651 |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities | | | | | 129.57% |
| Ratio of interest rate sensitivity gap to net worth | | | | | 159.22% |

Interest rate sensitivity analysis on assets and liabilities (US Dollars)

December 31, 2020

UNIT: In US Thousand Dollars, %

| Item | 1-90 days | 91-180 days | 181 days to 1 year | Over 1 year | Total |
|--|---------------|---------------|-----------------------|--------------|---------------|
| Interest rate sensitive assets | \$ 28,346,550 | \$ 33,543,039 | \$ 3,280,169 | \$ 4,911,560 | \$ 70,081,318 |
| Interest rate sensitive liabilities | 21,724,480 | 30,051,169 | 1,972,916 | 338,923 | 54,087,488 |
| Interest rate sensitive gap | \$ 6,622,070 | \$ 3,491,870 | \$ 1,307,253 | \$ 4,572,637 | \$ 15,993,830 |
| Net worth | | | | | \$ 10,044,835 |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities | | | | | 129.57% |
| Ratio of interest rate sensitivity gap to net worth | | | | | 159.22% |

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)

December 31, 2019

UNIT: In NT Thousand Dollars, %

| Item | 1-90 days | 91-180 days | 181 days to 1 year | Over 1 year | Total |
|--|----------------|----------------|-----------------------|----------------|------------------|
| Interest rate sensitive assets | \$ 555,584,995 | \$ 913,074,565 | \$ 22,892,052 | \$ 154,092,044 | \$ 1,645,643,656 |
| Interest rate sensitive liabilities | 481,824,600 | 726,722,387 | 53,519,867 | 18,785,106 | 1,280,851,960 |
| Interest rate sensitive gap | \$ 73,760,395 | \$ 186,352,178 | (\$ 30,627,815) | \$ 135,306,938 | \$ 364,791,696 |
| Net worth | | | | | \$ 278,923,929 |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities | | | | | 128.48% |
| Ratio of interest rate sensitivity gap to net worth | | | | | 130.79% |

Notes:

1. The above amounts included only New Taiwan dollar amounts by the Bank and its domestic and foreign branches (i.e. excluding foreign currency).
2. Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
3. Interest rate sensitivity gap = Interest rate sensitive assets - Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities

Interest rate sensitivity analysis on assets and liabilities (US Dollars)

December 31, 2020

UNIT: In US Thousand Dollars, %

| | 1-90 days | 91-180 days | 181 days to 1 year | Over 1 year | Total |
|--|----------------|----------------|-----------------------|-------------|-----------------|
| Interest rate sensitive assets | \$ 30,413,504 | \$ 783,232 | \$ 398,409 | \$ 671,968 | \$ 32,267,113 |
| Interest rate sensitive liabilities | 37,787,700 | 3,079,796 | 2,078,458 | - | 42,945,954 |
| Interest rate sensitive gap | (\$ 7,374,186) | (\$ 2,296,564) | (\$ 1,680,049) | \$ 671,968 | (\$ 10,678,841) |
| Net worth | | | | | \$ 537,724 |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities | | | | | 75.13% |
| Ratio of interest rate sensitivity gap to net worth | | | | | (1,985.93%) |

Interest rate sensitivity analysis on assets and liabilities (US Dollars)

December 31, 2019

UNIT : In US Thousand Dollars, %

| | 1-90 days | 91-180 days | 181 days to 1 year | Over 1 year | Total |
|--|----------------|----------------|-----------------------|-------------|----------------|
| Interest rate sensitive assets | \$ 35,667,502 | \$ 1,158,572 | \$ 396,606 | \$ 297,548 | \$ 37,520,228 |
| Interest rate sensitive liabilities | 37,941,456 | 3,756,806 | 1,798,327 | 7,509 | 43,504,098 |
| Interest rate sensitive gap | (\$ 2,273,954) | (\$ 2,598,234) | (\$ 1,401,721) | \$ 290,039 | (\$ 5,983,870) |
| Net worth | | | | | \$ 479,434 |
| Ratio of interest rate sensitive assets to interest rate sensitive liabilities | | | | | 86.25% |
| Ratio of interest rate sensitivity gap to net worth | | | | | (1,248.11%) |

Note:

1. The above amounts included only US dollars denominated assets and liabilities of head office, domestic and foreign branches, and the OBU branch. Contingent assets and liabilities are excluded.
2. Interest rate sensitivity gap = Interest rate sensitive assets - Interest rate sensitive liabilities.
3. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities

(6) Transfer of financial assets

Transferred financial assets that are not derecognised in their entirety

The Bank and subsidiaries' transferred financial assets that do not meet derecognition conditions are mainly debt instruments that are used as collaterals by counterparties repurchase agreements. These transactions are fundamentally pledged loans, and reflects the fact that related liabilities of transferred financial assets that will be repurchased at a fixed price in the future. The Bank and subsidiaries may not use, sell or pledge the transferred financial assets during the valid period of the transaction, but the Bank and subsidiaries are still exposed to interest rate risk and credit risk. Financial assets that do not meet the derecognition conditions and related financial liabilities are analysed as follows:

| UNIT: In NT Thousand Dollars | | |
|---|---|---|
| December 31, 2020 | | |
| Financial assets category | Carrying amount of financial assets transferred | Carrying amount of associated financial liabilities |
| Financial assets at fair value through other comprehensive income | | |
| Repurchase agreement | \$ 13,622,680 | \$ 12,138,684 |

| UNIT: In US Thousand Dollars | | |
|---|---|---|
| December 31, 2020 | | |
| Financial assets category | Carrying amount of financial assets transferred | Carrying amount of associated financial liabilities |
| Financial assets at fair value through other comprehensive income | | |
| Repurchase agreement | \$ 484,879 | \$ 432,059 |

| UNIT: In NT Thousand Dollars | | |
|---|---|---|
| December 31, 2019 | | |
| Financial assets category | Carrying amount of financial assets transferred | Carrying amount of associated financial liabilities |
| Financial assets at fair value through profit or loss | | |
| Repurchase agreement | \$ 6,242,069 | \$ 5,872,336 |
| Financial assets at fair value through other comprehensive income | | |
| Repurchase agreement | \$ 27,808,698 | \$ 26,007,320 |

(7) Offsetting financial assets and financial liabilities

The Bank and subsidiaries have engaged in financial instrument transactions that apply the offsetting requirements in Paragraph 42 of IAS 32 as endorsed by the FSC. Financial assets and financial liabilities related to these transactions are reported at net amount on the balance sheet.

The Bank and subsidiaries have also engaged in offsetting terms that do not conform to the IFRSs. However, they have entered into enforceable master netting arrangements or similar agreements with counterparties. For example: global master repurchase agreements or similar repurchase or reverse repurchase agreements. When the above-mentioned enforceable master netting arrangements or similar agreements are elected by both parties to be settled by net amount, settlements may be made by using the net amount after the offsetting of financial assets and financial liabilities. Conversely if no such arrangements are made, settlements are made using the gross amount. However, upon the event of a default of a party, the counterparty may choose settle by net amount.

The following table lists information related to the above-mentioned offsetting of financial assets and financial liabilities:

December 31, 2020

Financial assets that are offset, or can be settled under agreements of master netting arrangements or similar arrangements

Unit: In NT Thousand Dollars

| Description | Gross amounts of recognized financial assets (a) | Gross amounts of recognized financial liabilities offset in the balance sheet (b) | Net amounts of financial assets presented in the balance sheet (c) = (a) - (b) | Not offset in the balance sheet (d) | | Net amount (e) = (c) - (d) |
|------------------|---|--|---|-------------------------------------|--------------------------|-------------------------------|
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivatives | \$ 4,757,979 | \$ - | \$ 4,757,979 | \$ 3,282,887 | \$ 61,549 | \$ 1,413,543 |
| Resell agreement | - | - | - | - | - | - |
| Total | \$ 4,757,979 | \$ - | \$ 4,757,979 | \$ 3,282,887 | \$ 61,549 | \$ 1,413,543 |

Financial liabilities that are offset, or can be settled under agreements of master netting arrangements or similar arrangements

| Description | Gross amounts of recognized financial liabilities (a) | Gross amounts of recognized financial assets offset in the balance sheet (b) | Net amounts of financial liabilities presented in the balance sheet (c) = (a) - (b) | Not offset in the balance sheet (d) | | Net amount (e) = (c) - (d) |
|----------------------|--|---|--|-------------------------------------|-------------------------|-------------------------------|
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivatives | \$ 3,300,350 | \$ - | \$ 3,300,350 | \$ 365,769 | \$ 11,693 | \$ 2,922,888 |
| Repurchase agreement | 12,138,684 | - | 12,138,684 | 12,093,030 | 45,654 | - |
| Total | \$ 15,439,034 | \$ - | \$ 15,439,034 | \$ 12,458,799 | \$ 57,347 | \$ 2,922,888 |

December 31, 2020

Financial assets that are offset, or can be settled under agreements of master netting arrangements or similar arrangements

Unit: In US Thousand Dollars

| Description | Gross amounts of recognized financial assets (a) | Gross amounts of recognized financial liabilities offset in the balance sheet (b) | Net amounts of financial assets presented in the balance sheet (c) = (a) - (b) | Not offset in the balance sheet (d) | | Net amount (e) = (c) - (d) |
|------------------|---|--|---|-------------------------------------|--------------------------|-------------------------------|
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivatives | \$ 169,353 | \$ - | \$ 169,353 | \$ 116,849 | \$ 2,191 | \$ 50,313 |
| Resell agreement | - | - | - | - | - | - |
| Total | \$ 169,353 | \$ - | \$ 169,353 | \$ 116,849 | \$ 2,191 | \$ 50,313 |

Financial liabilities that are offset, or can be settled under agreements of master netting arrangements or similar arrangements

| Description | Gross amounts of recognized financial liabilities (a) | Gross amounts of recognized financial assets offset in the balance sheet (b) | Net amounts of financial liabilities presented in the balance sheet (c) = (a) - (b) | Not offset in the balance sheet (d) | | Net amount (e) = (c) - (d) |
|----------------------|---|--|---|-------------------------------------|-------------------------|----------------------------|
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivatives | \$ 117,471 | \$ - | \$ 117,471 | \$ 13,019 | \$ 416 | \$ 104,036 |
| Repurchase agreement | 432,059 | - | 432,059 | 430,434 | 1,625 | - |
| Total | \$ 549,530 | \$ - | \$ 549,530 | \$ 443,453 | \$ 2,041 | \$ 104,036 |

December 31, 2019

Financial assets that are offset, or can be settled under agreements of master netting arrangements or similar arrangements

Unit: In NT Thousand Dollars

| Description | Gross amounts of recognized financial assets (a) | Gross amounts of recognized financial liabilities offset in the balance sheet (b) | Net amounts of financial assets presented in the balance sheet (c) = (a) - (b) | Not offset in the balance sheet (d) | | Net amount (e) = (c) - (d) |
|------------------|--|---|--|-------------------------------------|--------------------------|----------------------------|
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivatives | \$ 4,754,538 | \$ - | \$ 4,754,538 | \$ 2,160,932 | \$ 75,328 | \$ 2,518,278 |
| Resell agreement | 1,438,626 | - | 1,438,626 | 1,438,626 | - | - |
| Total | \$ 6,193,164 | \$ - | \$ 6,193,164 | \$ 3,599,558 | \$ 75,328 | \$ 2,518,278 |

Financial liabilities that are offset, or can be settled under agreements of master netting arrangements or similar arrangements

| Description | Gross amounts of recognized financial liabilities (a) | Gross amounts of recognized financial assets offset in the balance sheet (b) | Net amounts of financial liabilities presented in the balance sheet (c) = (a) - (b) | Not offset in the balance sheet (d) | | Net amount (e) = (c) - (d) |
|----------------------|---|--|---|-------------------------------------|-------------------------|----------------------------|
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivatives | \$ 2,853,050 | \$ - | \$ 2,853,050 | \$ 262,834 | \$ 12,129 | \$ 2,578,087 |
| Repurchase agreement | 31,879,656 | - | 31,879,656 | 30,598,188 | 1,281,468 | - |
| Total | \$ 34,732,706 | \$ - | \$ 34,732,706 | \$ 30,861,022 | \$ 1,293,597 | \$ 2,578,087 |

(Note) Including master netting arrangements and non-cash collaterals.

9. CAPITAL MANAGEMENT

(1) Objective of capital management

- A. The Bank and subsidiaries' qualifying self-owned capital should meet the regulatory requirements and meet the minimum regulated capital adequacy ratio. This is the basic objective of capital management of the Bank and subsidiaries. The calculation and provision of qualifying self-owned capital and regulated capital shall follow the regulations of the competent authority.
- B. In order to have adequate capital to take various risks, the Bank and subsidiaries shall assess the required capital with consideration of the risk portfolio it faces and the risk characteristics, and manages risk through capital allocation to realize optimum utilization of capital allocation.

(2) Capital management procedures

- A. Following the “Regulations Governing the Capital Adequacy Ratio of Banks” of the Financial Supervisory Commission, the Bank calculates capital adequacy ratio on a consolidated basis and reports this information regularly.
- B. The calculation of capital adequacy ratio of subsidiaries shall follow the regulations of regulatory authorities; if without regulations, capital adequacy ratio is computed as net of qualifying self-own capital divided by regulated capital.

(3) Capital adequacy ratio

Capital adequacy shown in the following table was calculated in accordance with “Regulations Governing the Capital Adequacy Ratio of Banks” effective on December 31, 2020 and 2019.

UNIT: In NT Thousand Dollars, %

| Items | | Annual | December 31, 2020 | December 31, 2019 |
|--|--------------------------|---|-------------------|-------------------|
| | | | | |
| Self-owned capital | Capital of Common equity | | \$ 276,182,111 | \$ 274,907,180 |
| | Other Tier 1 Capital | | - | - |
| | Tier 2 Capital, net | | 31,640,197 | 30,180,451 |
| | Self-owned capital, net | | 307,822,308 | 305,087,631 |
| Total risk -weighted assets (Note 1) | Credit risk | Standardized Approach | 2,035,086,854 | 2,020,197,737 |
| | | Internal Ratings-Based Approach | - | - |
| | | Asset securitization | 12,893,858 | 9,392,641 |
| | Operation risk | Basic Indicator Approach | 94,724,225 | 97,333,175 |
| | | Standardized Approach / Alternative Standardized Approach | - | - |
| | | Advanced Measurement Approaches | - | - |
| | Market risk | Standardized Approach | 33,465,838 | 45,775,875 |
| | | Internal Models Approach | - | - |
| Total risk-weighted assets | | | 2,176,170,775 | 2,172,699,428 |
| Capital adequacy ratio (Note 2) | | | 14.15% | 14.04% |
| Common equity to total risk assets, net Ratio | | | 12.69% | 12.65% |
| Tier 1 Capital to total risk assets, net Ratio | | | 12.69% | 12.65% |
| Leverage ratio | | | 7.41% | 7.61% |

Note 1: The self-owned capital, risk-weighted assets and exposures amount in the table above should be filled in accordance with “Regulations Governing the Capital Adequacy Ratio of Banks” and “calculation method and table of self-owned capital and risk-weighted assets”.

Note 2: Current and prior year's capital adequacy ratio should be disclosed in the annual reports. In addition to current and prior year's capital adequacy, capital adequacy ratio at the end of prior year should be disclosed in the semi-annual reports.

Note 3: The relevant formulas are as follows:

1. Self-owned capital = Tier 1 Capital of Common equity, net + Other Tier 1 Capital, net + Tier 2 Capital, net
2. Total risk-weighted assets = credit risk-weighted assets + (operation risk charge + market risk charge) * 12.5
3. Capital adequacy ratio = Self-owned capital / Total risk-weighted assets
4. Common equity to total risk assets, net Ratio = Common equity / Total risk-weighted assets
5. Tier 1 Capital to total risk assets, net Ratio = (Common equity + Other Tier 1 Capital,) / Total risk-weighted assets
6. Leverage ratio = Tier 1 capital / Risk exposure amount

Note 4: For 1st quarter and 3rd quarter financial reports, the table of capital adequacy ratio is not required to be disclosed.

10. OPERATING SEGMENTS INFORMATION

(1) General information

The Bank and subsidiaries use reported information to the Chief Operating Decision-Maker (CODM) to identify segments and geographic information. The Bank and subsidiaries mainly focus on the businesses in Asia and North America. The disclosed operating segment by the Bank and subsidiaries is stipulated in Article 3 of the Banking Law, and the generated income is the main source of income.

(2) Information of segment profit or loss, assets and liabilities

The Bank and subsidiaries' management mainly focuses on the operating results of the whole bank, which is consistent with that of the consolidated statements of comprehensive income. Please refer to the consolidated statements of comprehensive income.

(3) Information of major customers

The Bank and subsidiaries' source of income is not concentrated on transactions with a single customer or single counterparty.

(4) Information by products and services

All operating segments' operating results of the Bank and subsidiaries mainly come from interest income from external clients and is measured on a consistent basis compared with the statement of comprehensive income. The segmental income also consist of internal profit and loss appropriated by the terms agreed amongst segments other than external revenue. Please refer to the information by geography for relevant components of income balances.

(5) Financial Information By Geographic Area

| For the year ended December 31, 2020 | | | | | | |
|---|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|-------------------------|
| (Unit: In NT Thousand Dollars) | | | | | | |
| | Domestic | Asia | North | Other Overseas | Adjustment and | Total |
| | Department | (Note) | America | Operating | Write-off | |
| | | | | Department | | |
| Revenue from customers outside the Bank | \$ 38,956,691 | \$ 5,653,719 | \$ 2,396,582 | \$ 2,090,341 | (\$ 191,281) | \$ 48,906,052 |
| Revenue from departments within the Bank | 800,458 | (220,565) | (114,705) | (453,119) | (12,069) | - |
| Total revenue | <u>\$ 39,757,149</u> | <u>\$ 5,433,154</u> | <u>\$ 2,281,877</u> | <u>\$ 1,637,222</u> | <u>(\$ 203,350)</u> | <u>\$ 48,906,052</u> |
| Profit or loss | <u>\$ 20,520,668</u> | <u>\$ 3,334,200</u> | <u>(\$ 399,007)</u> | <u>\$ 201,554</u> | <u>(\$ 197,165)</u> | <u>\$ 23,460,250</u> |
| Assets attributable to specific departments | <u>\$ 2,835,728,488</u> | <u>\$ 252,548,941</u> | <u>\$ 267,409,258</u> | <u>\$ 106,712,176</u> | <u>(\$ 10,720,643)</u> | <u>\$ 3,451,678,220</u> |

| For the year ended December 31, 2020 | | | | | | |
|---|-----------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| (Unit: In US Thousand Dollars) | | | | | | |
| | Domestic | Asia | North | Other Overseas | Adjustment and | Total |
| | Department | (Note) | America | Operating | Write-off | |
| | | | | Department | | |
| Revenue from customers outside the Bank | \$ 1,386,606 | \$ 201,235 | \$ 85,303 | \$ 74,402 | (\$ 6,808) | \$ 1,740,738 |
| Revenue from departments within the Bank | 28,491 | (7,851) | (4,083) | (16,128) | (429) | - |
| Total revenue | <u>\$ 1,415,097</u> | <u>\$ 193,384</u> | <u>\$ 81,220</u> | <u>\$ 58,274</u> | <u>(\$ 7,237)</u> | <u>\$ 1,740,738</u> |
| Profit or loss | <u>\$ 730,403</u> | <u>\$ 118,676</u> | <u>(\$ 14,202)</u> | <u>\$ 7,174</u> | <u>(\$ 7,018)</u> | <u>\$ 835,033</u> |
| Assets attributable to specific departments | <u>\$ 100,933,564</u> | <u>\$ 8,989,106</u> | <u>\$ 9,518,038</u> | <u>\$ 3,798,262</u> | <u>(\$ 381,585)</u> | <u>\$ 122,857,385</u> |

For the year ended December 31, 2019

(Unit: In NT Thousand Dollars)

| | Domestic Department | Asia (Note) | North America | Other Overseas Operating Department | Adjustment and Write-off | Total |
|---|-------------------------|-----------------------|-----------------------|---|-----------------------------|-------------------------|
| Revenue from customers outside the Bank | \$ 43,243,877 | \$ 7,283,832 | \$ 2,645,023 | \$ 2,616,018 | (\$ 313,264) | \$ 55,475,486 |
| Revenue from departments within the Bank | 2,659,180 | (943,426) | (606,172) | (1,100,965) | (8,617) | - |
| Total revenue | <u>\$ 45,903,057</u> | <u>\$ 6,340,406</u> | <u>\$ 2,038,851</u> | <u>\$ 1,515,053</u> | <u>(\$ 321,881)</u> | <u>\$ 55,475,486</u> |
| Profit or loss | <u>\$ 25,615,924</u> | <u>\$ 4,612,396</u> | <u>(\$ 1,787,171)</u> | <u>\$ 779,327</u> | <u>(\$ 333,005)</u> | <u>\$ 28,887,471</u> |
| Assets attributable to specific departments | <u>\$ 2,744,606,472</u> | <u>\$ 273,677,359</u> | <u>\$ 235,458,868</u> | <u>\$ 87,529,615</u> | <u>(\$ 6,932,022)</u> | <u>\$ 3,334,340,292</u> |

Note: amounts in Asia do not include those originating from the Republic of China.

(Blank below)

11. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Bank and subsidiaries are controlled by Mega Financial Holding Co., Ltd, which owns 100% of the Bank's shares. The ultimate controlling party of the Bank and subsidiaries is Mega Financial Holding Co., Ltd.

(2) Names of the related parties and their relationship with the Bank

| <u>Names of related parties</u> | <u>Short name of related parties</u> | <u>Relationship with the Bank</u> |
|---|--|---|
| Mega Bills Finance Co., Ltd. | Mega Bills | Jointly controlled by Mega Financial Holdings |
| Mega Securities Co., Ltd. | Mega Securities | Jointly controlled by Mega Financial Holdings |
| Mega Investment Trust Co., Ltd. | Mega Investment Trust | Jointly controlled by Mega Financial Holdings |
| Chung Kuo Insurance Co., Ltd. | Chung Kuo Insurance | Jointly controlled by Mega Financial Holdings |
| Mega Asset Management Co., Ltd. | Mega Asset | Jointly controlled by Mega Financial Holdings |
| Mega CTB Venture Capital Co., Ltd. | Mega Venture | Jointly controlled by Mega Financial Holdings |
| Mega International Investment Service Corp. | Mega International Investment Service | Jointly controlled by Mega Financial Holdings |
| Mega Futures Co., Ltd. | Mega Futures | Jointly controlled by Mega Financial Holdings |
| Chunghwa Post Corporation Limited | Chunghwa Post | Director of Mega Financial Holdings |
| Bank of Taiwan Corp. | Bank of Taiwan | Director of Mega Financial Holdings |
| Yung-Shing Industries Co. | Yung-Shing Industries | Subsidiary of the Bank |
| China Products Trading Company | China Products | Subsidiary of the Bank |
| Mega Management Consulting Co., Ltd. | Mega Management Consulting | Subsidiary of the Bank |
| Cathay Investment & Warehousing Co., S.A. | Cathay Investment & Warehousing (Panama) | Subsidiary of the Bank |
| Win Card Co., Ltd. | Win Card | Indirect subsidiary of the Bank |
| ICBC Assets Management & Consulting Co., Ltd. | ICBC Consulting | Indirect subsidiary of the Bank |
| Everstrong Iron & Steel Foundry & Mfg Corp. | Everstrong Iron Steel | Equity investees |
| China Real Estate Management Co., Ltd. | China Real Estate | Equity investees |

| <u>Names of related parties</u> | <u>Short name of related parties</u> | <u>Relationship with the Bank</u> |
|--|--------------------------------------|---|
| Taiwan Finance Co., Ltd. | Taiwan Finance | Equity investees |
| An Feng Enterprise Co., Ltd. | An Fang | Equity investees |
| Ramlett Finance Holdings Inc. | Ramlett | Equity investees |
| Mega Growth Venture Capital Co., Ltd. | Mega Growth Venture Capital | Equity investees |
| Universal Venture Capital Investment Corporation | Universal Venture Capital | Equity investees |
| Next Commercial Bank Co., Ltd. | Next bank | Equity investees |
| Others | | Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager |

(Blank below)

(3) Major transactions and balances with related parties

A. Due from and due to banks

| For the year ended December 31, 2020 | | | | |
|--------------------------------------|--------------------------------------|--|--------------------------|--|
| | <u>Balance as of December 31</u> | <u>Highest Outstanding Balance</u> | <u>Interest Rate (%)</u> | <u>Total Interest Income (Expense)</u> |
| (In NT Thousand Dollars) | | | | |
| <u>Due from banks</u> | | | | |
| Fellow subsidiary: | | | | |
| Mega Bills | \$ 2,000,000 | \$ 7,770,108 | 0.20%~2.94% | \$ 15,267 |
| Other related parties: | | | | |
| Bank of Taiwan | 18,853,149 | 41,530,071 | 0.06%~3.42% | 7,271 |
| <u>Due to banks</u> | | | | |
| Other related parties: | | | | |
| China Post | \$ 39,343 | \$ 71,410 | 0.81%~1.06% | (\$ 499) |
| Bank of Taiwan | 4,457,199 | 18,920,218 | 0.05%~3.40% | (2,922) |
| For the year ended December 31, 2020 | | | | |
| | <u>Balance as of December 31</u> | <u>Highest Outstanding Balance</u> | <u>Interest Rate (%)</u> | <u>Total Interest Income (Expense)</u> |
| (In US Thousand Dollars) | | | | |
| <u>Due from banks</u> | | | | |
| Fellow subsidiary: | | | | |
| Mega Bills | \$ 71,187 | \$ 276,566 | 0.20%~2.94% | \$ 543 |
| Other related parties: | | | | |
| Bank of Taiwan | 671,050 | 1,478,201 | 0.06%~3.42% | 259 |
| <u>Due to banks</u> | | | | |
| Other related parties: | | | | |
| China Post | \$ 1,400 | \$ 2,542 | 0.81%~1.06% | (\$ 18) |
| Bank of Taiwan | 158,647 | 673,437 | 0.05%~3.40% | (104) |

| For the year ended December 31, 2019 | | | | |
|--------------------------------------|------------------------------|--------------------------------|-------------------|------------------------------------|
| | Balance as of December 31 | Highest Outstanding Balance | Interest Rate (%) | Total Interest Income (Expense) |
| (In NT Thousand Dollars) | | | | |
| <u>Due from banks</u> | | | | |
| Fellow subsidiary: | | | | |
| Mega Bills | \$ 6,492,053 | \$ 11,419,228 | 0.41%~4.80% | \$ 51,325 |
| Other related parties: | | | | |
| Bank of Taiwan | 19,692,644 | 43,657,184 | 0.03%~3.25% | 4,504 |
| <u>Due to banks</u> | | | | |
| Other related parties: | | | | |
| China Post | \$ 71,410 | \$ 889,524 | 1.06%~1.10% | (\$ 4,459) |
| Bank of Taiwan | 7,679,864 | 14,990,467 | 0.17%~4.00% | (5,133) |

B. Loans and deposits

| | Item | Counterparty | December 31, 2020 | | % of Total | Interest Rate (%) | Total Interest Income (Expense) | | % of Total |
|---|----------|---|-------------------|------------|------------|-------------------|------------------------------------|-------|------------|
| | | | NT\$ | US\$ | | | | | |
| For the year ended December 31, 2020 | Deposits | Next bank | \$ 7,812,142 | \$ 278,062 | 0.30% | 0.02%~0.78% | (\$ 28,620) | 0.17% | |
| | Deposits | All related parties (Note) | 5,374,520 | 191,298 | 0.21% | 0.00%~13.00% | (38,473) | 0.23% | |
| | Loans | All related parties (Note) Next bank excluded. | 2,214,123 | 78,808 | 0.12% | 0.88%~2.49% | 13,566 | 0.03% | |
| | Item | Counterparty | December 31, 2019 | | % of Total | Interest Rate (%) | Total Interest Income (Expense) | | % of Total |
| | | | NT\$ | | | | | | |
| For the year ended December 31, 2019 | Deposits | All related parties | \$ 4,029,301 | | 0.16% | 0.00%~13.00% | (\$ 33,989) | 0.10% | |
| | Loans | All related parties | | 273,835 | 0.01% | 1.00%~2.63% | 6,459 | 0.01% | |

The interest rates shown above are similar, or approximate, to those offered to third parties. But the interest rates for savings deposits of Bank managers within the prescribed amounts are the same as for savings deposits of employees.

In compliance with the Articles 32 and 33 of Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party shall be fully secured, and the terms of such extended credit shall not be more favorable than those terms offered to other customers of the same genre..

The Bank presents its transactions or account balances with related parties, in aggregate, except for those which add up to over 10% of the account balance.

C. Lease agreements

| Lessor | For the year ended December 31, 2020 | | | | |
|--------------------------------------|--------------------------------------|-----------------|-----------------------------|--------------------------|--------------------------|
| | Related Party | Lease Period | Lease Receipt | Rental Revenue (NT\$) | Rental Revenue (US\$) |
| The parent: | | | | | |
| | Mega Financial Holdings | 2018.08-2022.11 | Monthly | \$ 408 | \$ 15 |
| Fellow subsidiary: | | | | | |
| | Mega Securities | 2016.02-2025.05 | Monthly | 20,493 | 729 |
| | Mega Bills | 2019.01-2021.12 | Monthly | 30,644 | 1,091 |
| | Chung Kuo Insurance | 2018.05-2025.10 | Quarterly/ Semi-Annually | 1,499 | 53 |
| | Mega Asset | 2019.01-2021.12 | Monthly | 6,695 | 238 |
| The subsidiary: | | | | | |
| | Yung-Shing Industries | 2018.10-2023.06 | Quarterly/Annually | 2,822 | 100 |
| | Mega Management Consulting | 2019.01-2021.12 | Monthly | 1,525 | 54 |
| The indirect subsidiary: | | | | | |
| | Win Card | 2019.01-2023.05 | Quarterly | 4,559 | 162 |
| | ICBC Consulting | 2020.07-2023.06 | Annually | 15 | 1 |
| For the year ended December 31, 2019 | | | | | |
| | Related Party | Lease Period | Lease Receipt | Rental Revenue (NT\$) | |
| The parent: | | | | | |
| | Mega Financial Holdings | 2018.08-2022.11 | Monthly | \$ | 408 |
| Fellow subsidiary: | | | | | |
| | Mega Securities | 2016.02-2024.07 | Monthly | | 19,643 |
| | Mega Bills | 2019.01-2021.12 | Monthly | | 30,644 |
| | Chung Kuo Insurance | 2018.05-2022.08 | Quarterly/ Semi-Annually | | 1,499 |
| | Mega Asset | 2019.01-2021.12 | Monthly | | 6,695 |
| | Mega Investment Trust | 2016.01-2019.04 | Monthly | | 4,045 |
| The subsidiary: | | | | | |
| | Yung-Shing Industries | 2017.07-2021.09 | Quarterly/Annually | | 3,100 |
| | Mega Management Consulting | 2019.01-2021.12 | Monthly | | 1,525 |
| The indirect subsidiary: | | | | | |
| | Win Card | 2019.01-2020.05 | Quarterly | | 4,388 |
| | ICBC Consulting | 2017.07-2020.06 | Annually | | 15 |

Lessee

For the year ended December 31, 2020

| Related Party | Lease Period | Lease Payment Method | Right-of-use assets | Lease liabilities | Interest expenses |
|-------------------------|-----------------|----------------------|---------------------|-------------------|-------------------|
| (NT\$) | | | | | |
| The parent: | | | | | |
| Mega Financial Holdings | 2019.01-2023.12 | Monthly | \$ 35,771 | \$ 36,331 | \$ 306 |
| Fellow subsidiary: | | | | | |
| Mega Bills | 2019.01-2021.12 | Monthly | 84,775 | 85,431 | 962 |
| Chung Kuo Insurance | 2003.12-2022.07 | Monthly | 59,656 | 60,161 | 594 |
| Subsidiary: | | | | | |
| Yung-Shing Industries | 2014.12-2044.11 | Monthly | 463,838 | 467,656 | 4,041 |

For the year ended December 31, 2020

| Related Party | Lease Period | Lease Payment Method | Right-of-use assets | Lease liabilities | Interest expenses |
|-------------------------|-----------------|----------------------|---------------------|-------------------|-------------------|
| (US\$) | | | | | |
| The parent: | | | | | |
| Mega Financial Holdings | 2019.01-2023.12 | Monthly | \$ 1,273 | \$ 1,293 | \$ 11 |
| Fellow subsidiary: | | | | | |
| Mega Bills | 2019.01-2021.12 | Monthly | 3,017 | 3,041 | 34 |
| Chung Kuo Insurance | 2003.12-2022.07 | Monthly | 2,123 | 2,141 | 21 |
| Subsidiary: | | | | | |
| Yung-Shing Industries | 2014.12-2044.11 | Monthly | 16,510 | 16,646 | 144 |

For the year ended December 31, 2019

| Related Party | Lease Period | Lease Payment Method | Right-of-use assets | Lease liabilities | Interest expenses |
|-------------------------|-----------------|----------------------|---------------------|-------------------|-------------------|
| (NT\$) | | | | | |
| The parent: | | | | | |
| Mega Financial Holdings | 2019.01-2023.12 | Monthly | \$ 32,731 | \$ 32,869 | \$ 314 |
| Fellow subsidiary: | | | | | |
| Mega Bills | 2019.01-2021.12 | Monthly | 169,550 | 170,204 | 1,615 |
| Chung Kuo Insurance | 2003.12-2022.07 | Monthly | 81,064 | 81,407 | 773 |
| Subsidiary: | | | | | |
| Yung-Shing Industries | 2014.12-2044.11 | Monthly | 483,232 | 485,215 | 4,189 |
| Equity investees: | | | | | |
| Ramlett | 2019.06-2021.05 | Monthly | 45,286 | 45,882 | 183 |

Note: The Bank sets up offices for collection / payment of securities trading for customers in all operating bases. There are neither formal contracts nor actual lease terms. The rental fees are paid according to a certain percentage of deposit balance of each operating base.

D. Securities purchased under resell agreements

| For the year ended December 31, 2020 | | | |
|--------------------------------------|-----------------------|---------------------|------------------|
| | Amount | NT\$ | |
| | | Ending balance | Interest revenue |
| Fellow subsidiary: | | | |
| Mega Bills | \$ 90,991,001 | \$ 9,207,613 | \$ 23,337 |
| Mega Securities | 60,412,344 | 200,084 | 6,138 |
| | <u>\$ 151,403,345</u> | <u>\$ 9,407,697</u> | <u>\$ 29,475</u> |
| For the year ended December 31, 2020 | | | |
| | Amount | US\$ | |
| | | Ending balance | Interest revenue |
| Fellow subsidiary: | | | |
| Mega Bills | \$ 3,238,690 | \$ 327,731 | \$ 831 |
| Mega Securities | 2,150,288 | 7,122 | 218 |
| | <u>\$ 5,388,978</u> | <u>\$ 334,853</u> | <u>\$ 1,049</u> |
| For the year ended December 31, 2019 | | | |
| | Amount | NT\$ | |
| | | Ending balance | Interest revenue |
| Fellow subsidiary: | | | |
| Mega Bills | \$ 60,723,145 | \$ 3,294,416 | \$ 43,497 |
| Mega Securities | 41,417,020 | 900,136 | 5,595 |
| | <u>\$ 102,140,165</u> | <u>\$ 4,194,552</u> | <u>\$ 49,092</u> |

E. Current income tax liabilities

| | December 31, 2020 | | December 31, 2019 |
|-----------------------------------|-------------------|-------------|-------------------|
| | NT\$ Amount | US\$ Amount | NT\$ Amount |
| Parent company: | | | |
| Mega Financial Holdings (Note) | \$ 1,724,725 | \$ 61,389 | \$ 2,168,523 |

Note: Consolidated tax payable to the parent company.

F. Service fees revenues

| | For the years ended December 31, | | |
|-----------------------------------|----------------------------------|-----------------|------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Fellow subsidiary: | | | |
| Mega Investment Trust (Note 1) | \$ 22,081 | \$ 786 | \$ 37,203 |
| Chung Kuo Insurance (Note 2) | 18,606 | 662 | 17,870 |
| | <u>\$ 40,687</u> | <u>\$ 1,448</u> | <u>\$ 55,073</u> |

Note 1: The above amount represents service fee of sale funds revenues earned from Mega Investment Trust.

Note 2: The above amount represents service fee of revenues earned from acting as an agent for Chung Kuo Insurance.

G. Insurance expense

| | For the years ended December 31, | | |
|---------------------|----------------------------------|-----------------|------------------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NT\$ |
| Fellow subsidiary: | | | |
| Chung Kuo Insurance | <u>\$ 28,878</u> | <u>\$ 1,028</u> | <u>\$ 31,669</u> |

H. The Bank's processes of printing, packaging documents and labor outsourcing have been outsourced to Yung-Shing Industries Co. Under this arrangement, the Bank paid operating expenses and labor outsourcing of NT\$161,540 thousand and NT\$188,886 thousand for the years ended December 31, 2020 and 2019, respectively.

I. Starting 2001, a portion of the Bank's credit card business and car loan collection business have been commissioned to its indirect subsidiary, Win Card Co., Ltd, for operation. For the years ended December 31, 2020 and 2019, operating expenses payable in accordance with agreements was NT\$162,554 thousand and NT\$181,326 thousand, respectively.

J. Loans

December 31, 2020

(Unit: In NT Thousand dollars)

| Type | Number of accounts or names of related party | Highest balance | Ending balance | Default possibility | | Collateral | Whether terms and conditions of the related party transactions are different from those of transactions with third parties. |
|------------------------------|--|-----------------|----------------|---------------------|------------------|--|---|
| | | | | Normal loans | Overdue accounts | | |
| Consumer loans for employees | 9 | \$ 5,037 | \$ 2,487 | V | | None | None |
| Home mortgage loans | 94 | 804,823 | 677,395 | V | | Real estate | None |
| Other loans | 6 | 2,127,021 | 2,091,760 | V | | Real estate/ The Bank's time deposits/ Credit insurance fund | None |

December 31, 2020

(Unit: In US Thousand dollars)

| Type | Number of accounts or names of related party | Highest balance | Ending balance | Default possibility | | Collateral | Whether terms and conditions of the related party transactions are different from those of transactions with third parties. |
|------------------------------|--|-----------------|----------------|---------------------|------------------|--|---|
| | | | | Normal loans | Overdue accounts | | |
| Consumer loans for employees | 9 | \$ 179 | \$ 89 | V | | None | None |
| Home mortgage loans | 94 | 28,646 | 24,111 | V | | Real estate | None |
| Other loans | 6 | 75,708 | 74,453 | V | | Real estate/ The Bank's time deposits/ Credit insurance fund | None |

December 31, 2019

(Unit: In NT Thousand dollars)

| Type | Number of accounts or names of related party | Highest balance | Ending balance | Default possibility | | Collateral | Whether terms and conditions of the related party transactions are different from those of transactions with third parties. |
|------------------------------|--|-----------------|----------------|---------------------|------------------|---------------------------------------|---|
| | | | | Normal loans | Overdue accounts | | |
| Consumer loans for employees | 8 | \$ 4,612 | \$ 3,997 | V | | None | None |
| Home mortgage loans | 90 | 792,314 | 725,435 | V | | Real estate | None |
| Other loans | 6 | 1,222,078 | 488,286 | V | | Real estate/ The Bank's time deposits | None |

K. Financial guarantees for related parties:

(Unit: In NT Thousand dollars)

| Date | Names of related party | Highest balance | Ending balance | Provision for guarantee reserve | Rate | Collateral |
|-------------------|------------------------|-----------------|----------------|---------------------------------|------|---------------------|
| December 31, 2020 | Chung Kuo Insurance | \$ 9,004 | \$ 8,377 | \$ 113 | 1% | The bank's deposits |

(Unit: In US Thousand dollars)

| Date | Names of related party | Highest balance | Ending balance | Provision for guarantee reserve | Rate | Collateral |
|-------------------|------------------------|-----------------|----------------|---------------------------------|------|---------------------|
| December 31, 2020 | Chung Kuo Insurance | \$ 320 | \$ 298 | \$ 4 | 1% | The bank's deposits |

(Unit: In NT Thousand dollars)

| Date | Names of related party | Highest balance | Ending balance | Provision for guarantee reserve | Rate | Collateral |
|-------------------|------------------------|-----------------|----------------|---------------------------------|------|---------------------|
| December 31, 2019 | Chung Kuo Insurance | \$ 9,258 | \$ 8,941 | \$ 125 | 1% | The bank's deposits |

L. Information on remunerations to the Bank's directors, supervisors, general managers and vice general manager:

| | For the years ended December 31, | | |
|---|----------------------------------|----------|-----------|
| | 2020 | | 2019 |
| | NT\$ | US\$ | NTS |
| Salaries and other short-term employee benefits | \$ 82,680 | \$ 2,943 | \$ 86,773 |
| Post-employment benefits | 2,183 | 78 | 2,377 |
| Total | \$ 84,863 | \$ 3,021 | \$ 89,150 |

12. PLEGGED ASSETS

The details for assets of the Bank and subsidiaries pledged as collateral as of December 31, 2020 and 2019, are provided in the Notes 6(3), (4), (5), (8) and (13).

13. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Significant commitments

A. The New York State Department of Financial Services (NYDFS) fined the Bank and Mega New York Branch for failing to comply with Bank Secrecy Act (BSA) anti-money laundering laws (AML). The 180 million US dollar fine was part of a consent order entered into with the NYDFS on August 19, 2016, pursuant to which the Bank and Mega New York Branch shall take immediate steps to correct the non-compliance. According to the consent order, the Bank and Mega New York Branch shall engage an independent compliance consultant of NYDFS'

selection for six months to immediately consult about, oversee and address deficiencies in Mega New York Branch's compliance function, including compliance with BSA/AML requirements. In addition, the Bank and Mega New York Branch shall retain an independent monitor to conduct a comprehensive review of the effectiveness of the Branch's program for compliance with BSA/AML requirements, laws and regulations and prepare a written report of findings, conclusions, and recommendations and conduct a review of Mega New York Branch's U.S. dollar clearing transaction activity from January 1, 2012 through December 31, 2014, to determine whether the Mega New York Branch's suspicious transaction activity can be recognized appropriately and be declared in accordance with relevant reporting regulations, and transactions are inconsistent with or in violation of the Office of Foreign Asset Control Regulations.

As of reporting date, the Bank and Mega New York Branch have completed various supervision and consultation on the abovementioned issues and have positively strengthened, improved and complied with various suggestions. A retrospective review on Mega New York Branch's U.S. dollar clearing transaction activity was conducted by the independent third party, which was completed in the end of February 2020. All the results identified during the review period have been reported to the Board of Directors and related competent authorities. After the review, the competent authority has also notified the close of the case.

- B. Following the examination of the Mega New York Branch, the Mega Chicago Branch and the Mega Silicon Valley Branch (collectively, the "Branches") of June 30, 2016, December 31, 2016, and September 30, 2016, the supervisory authorities disclosed deficiencies relating to the Branches' risk management and compliance with the BSA/AML requirements. Therefore, on January 17, 2018, the Bank, the Branches, the Board of Governors of the Federal Reserve System (FED) and the Illinois Department of Financial and Professional Regulation (IDFPR), Division of Banking entered into a Consent Order to Cease and Desist and Order of Assessment of a Civil Money Penalty (C&D). The Bank and the Branches were imposed a fine amounting to \$29 million and shall jointly submit an individual written plan as well as retain an independent third party to conduct a review of Mega New York Branch's U.S. dollar clearing transaction activity from January 1, 2015 through June 30, 2015.

As of reporting date, except certain items of the New York Branch that needed continuous improvements, the Chicago Branch and the Silicon Valley Branch have completed improvements on the abovementioned issues. Those written action plans were seasonally reported to the Board of Directors and submitted to the Federal Reserve Bank and the Illinois Department of Financial and Professional Regulation. A retrospective investigation on Mega New York Branch's U.S. dollar clearing transaction activity was conducted by the independent third party during the abovementioned period, which was completed in the end of February 2020. All the results identified during the review period have been reported to the Board of Directors and related competent authorities. After the review, the competent authority has also notified the close of the case.

(2) As of December 31, 2020 and 2019, the Bank and subsidiaries had the following commitments

| | <u>December 31, 2020</u> | | <u>December 31, 2019</u> |
|---|--------------------------|--------------|--------------------------|
| | <u>NT\$</u> | <u>US\$</u> | <u>NT\$</u> |
| Irrevocable loan commitments | \$ 129,021,778 | \$ 4,592,339 | \$ 115,208,577 |
| Securities sold under repurchase agreement | 12,281,790 | 437,152 | 32,128,969 |
| Securities purchased under resell agreement | 10,359,690 | 368,738 | 7,536,981 |
| Credit card line commitments | 95,508,685 | 3,399,490 | 86,738,760 |
| Guarantees issued | 137,972,817 | 4,910,939 | 161,294,237 |
| Outstanding guarantees issued | - | - | 25,401 |
| Letters of credit | 49,880,677 | 1,775,429 | 47,258,042 |
| Customers' securities under custody | 266,554,468 | 9,487,612 | 309,916,421 |
| Properties under custody | 2,341,529 | 83,343 | 2,701,974 |
| Guarantee effects | 111,217,213 | 3,958,612 | 112,655,731 |
| Collections for customers | 73,816,145 | 2,627,377 | 74,940,360 |
| Agency loans payable | 349,396 | 12,436 | 476,536 |
| Travelers' checks consigned-in | - | - | 871,120 |
| Payables on consignments-in | 846 | 30 | 985 |
| Goods and tickets consignments-in | 1,612 | 57 | 1,654 |
| Agent for government bonds | 115,577,800 | 4,113,821 | 184,033,700 |
| Short-dated securities under custody | 113,993,056 | 4,057,414 | 86,740,467 |
| Trust liability | 595,586,435 | 21,199,019 | 569,150,273 |
| Certified notes paid | 3,869,744 | 137,738 | 4,108,949 |

(3) The Bank promises to provide Next Bank with necessary financial support under certain circumstances in accordance with relevant laws and regulations in the future. Unless the law and regulations are changed or any other bank or financial holding company is willing to take over the bank shares and the shareholding ratio exceeds 25%, the Bank will continue to hold more than 25% of the Next Bank equity.

14. SIGNIFICANT DISASTER LOSS

None.

15. SIGNIFICANT SUBSEQUENT EVENT

None.

16. OTHERS

(1) Information for financial assets transfers and liabilities extinguishing

None.

(2) Significant adjustment in the organisation and significant changes in the management system

- A. On April 2, 2019, the Bank and subsidiaries set up Foreign Exchange Business Management Department to enhance the synergy of foreign exchange operating management.
- B. The Bank merged with Mega Life Insurance Agency Co., Ltd. (“Mega Life Insurance Agency”) on May 12, 2020 and applied the related interpretations issued in R.O.C. since there are no definite rules for business combination under common control in IFRS ‘Business combinations’ as explained in the IFRS Q&A ‘Explanations to IFRS 3 Business Combinations under Common Control’ issued by Accounting Research and Development Foundation. When the Bank merged with Mega Life Insurance Agency, the book value of all assets and liabilities of Mega Life Insurance Agency was recorded by the Bank. The net assets of Mega Life Insurance Agency that were consolidated by the Bank amounted to NT\$141,187 thousand. The consolidated balance sheet was prepared based on the aforementioned amount, and when preparing the comparative financial statements, the comparative financial statements of prior years were restated as if the combining entities had always been merged.

The financial performance of Mega Life Insurance Agency as of May 11, 2020 has been recognised in the Bank’s statement of comprehensive income for the year ended December 31, 2020, resulting in an increase in earnings after tax of NT\$80,204 thousand. The Bank’s financial statements for the year ended December 31, 2019 has been retrospectively restated.

The amounts before and after the restatement are provided in the following tables:

(a) Reconciliation of assets and liabilities, December 31, 2019

| | Before Restatement | After Restatement |
|-----------------------------|--------------------|-------------------|
| | December 31, 2019 | December 31, 2019 |
| Assets | | |
| Cash and cash equivalents | \$ 141,035,478 | \$ 141,035,478 |
| Receivables, net | 60,936,001 | 60,955,571 |
| Property and equipment, net | 14,960,999 | 14,962,513 |
| Right-of-use assets, net | 1,902,983 | 1,918,253 |
| Other assets, net | 6,170,658 | 6,181,657 |
| Liabilities | | |
| Payables | 35,786,043 | 35,849,726 |
| Current tax liabilities | 7,396,473 | 7,457,513 |
| Deposits and remittances | 2,461,114,068 | 2,460,554,855 |
| Provisions | 16,289,343 | 16,289,362 |
| Lease liabilities | 1,928,148 | 1,943,483 |

(b) Reconciliation of comprehensive income items, 2019

| | Before Restatement | After Restatement |
|--|-------------------------|-------------------------|
| | For the Year Ended 2019 | For the Year Ended 2019 |
| Interest expenses | (\$ 34,458,122) | (\$ 34,456,774) |
| Net service fee revenue (charge) | 6,590,169 | 7,185,257 |
| Employee benefits expenses | (16,009,344) | (16,039,009) |
| Depreciation and amortization expense | (1,301,986) | (1,308,380) |
| Other general and administrative expense | (8,440,281) | (8,493,767) |
| Income tax expense | (3,735,704) | (3,837,082) |

(3) Significant impact arising from changes in government laws and regulations

None.

(4) Information for Company's share held by subsidiaries

None.

(5) Information for private placement securities

None.

(6) Information for discontinued operations

None.

(7) Major operating assets or liabilities transferred from (or to) other financial institutions

None.

(8) Profitability of the Bank and subsidiaries

Units : %

| Item | | December 31, 2020 | December 31, 2019 |
|------------------------------------|------------|-------------------|-------------------|
| Return on total assets (%) | Before tax | 0.69 | 0.88 |
| | After tax | 0.60 | 0.77 |
| Return on stockholders' equity (%) | Before tax | 8.00 | 10.05 |
| | After tax | 6.93 | 8.71 |
| Net profit margin ratio (%) | | 41.57 | 45.16 |

Note 1: Return on total assets = Income before (after) income tax/average total assets.

Note 2: Return on stockholders' equity = Income before (after) income tax / average stockholders' equity.

Note 3: Net profit margin ratio = Income after income tax / total operating income.

Note 4: The term "Income before (after) income tax" represents net income accrued from January 1 to the balance sheet date of the reporting period.

(9) In accordance with Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet, trust income statement and trust property list are as follows:

A. Trust Balance Sheet

(In NT Thousand Dollars)

| Trust Balance Sheet | | | |
|-------------------------------|-----------------------|-----------------------------|-----------------------|
| December 31, 2020 | | | |
| Trust assets | | Trust liabilities | |
| Bank deposits | \$ 11,805,684 | Capital borrowed | \$ 4,500,525 |
| Receivables | 3,910 | Payables | 13,082 |
| Bonds | 15,922,140 | Account collected in | |
| Stocks | 48,596,573 | advance | 28,947 |
| Mutual funds | 136,976,273 | Tax payable | 29,017 |
| Structured products | 14,331,102 | Accounts withholding | 137 |
| Properties, net | 54,598 | Customers' securities under | |
| Real estate | | custody | 242,365,585 |
| Land | 97,176,372 | Other liabilities | 1,510,126 |
| Buildings and Structures, net | 13,921,767 | Trust capital | 341,511,549 |
| Construction in Process | 9,868,083 | Accumulated profit or loss | |
| Customers' securities under | | for reserves | |
| custody | 242,365,585 | Net income for current | |
| | | period | 1,861,245 |
| Other assets | 4,564,348 | Accumulated profit | 3,766,222 |
| Total trust assets | <u>\$ 595,586,435</u> | | <u>\$ 595,586,435</u> |

(Blank below)

(In US Thousand Dollars)

| Trust Balance Sheet | | | | | |
|-------------------------------|----|-------------------|-----------------------------|----|-------------------|
| December 31, 2020 | | | | | |
| Trust assets | | Trust liabilities | | | |
| Bank deposits | \$ | 420,206 | Capital borrowed | \$ | 160,189 |
| Receivables | | 139 | Payables | | 465 |
| Bonds | | 566,725 | Account collected in | | |
| Stocks | | 1,729,723 | advance | | 1,030 |
| Mutual funds | | 4,875,468 | Tax payable | | 1,033 |
| Structured products | | 510,094 | Accounts withholding | | 5 |
| Properties, net | | 1,943 | Customers' securities under | | |
| Real estate | | | custody | | 8,626,645 |
| Land | | 3,458,849 | Other liabilities | | 53,751 |
| Buildings and Structures, net | | 495,525 | Trust capital | | 12,155,599 |
| Construction in Process | | 351,240 | Accumulated profit or loss | | |
| Customers' securities under | | | for reserves | | |
| custody | | 8,626,645 | Net income for current | | |
| Other assets | | 162,461 | period | | 66,248 |
| Total trust assets | \$ | <u>21,199,018</u> | Accumulated profit | | <u>134,053</u> |
| | | | | \$ | <u>21,199,018</u> |

(In NT Thousand Dollars)

| Trust Balance Sheet | | | | | |
|-------------------------------|----|--------------------|-----------------------------|----|--------------------|
| December 31, 2019 | | | | | |
| Trust assets | | Trust liabilities | | | |
| Bank deposits | \$ | 12,027,913 | Capital borrowed | \$ | 4,500,525 |
| Receivables | | 5,285 | Payables | | 13,637 |
| Bonds | | 14,129,513 | Account collected in | | |
| Stocks | | 43,941,116 | advance | | 28,009 |
| Mutual funds | | 127,231,077 | Tax payable | | 29,387 |
| Structured products | | 21,663,493 | Accounts withholding | | 1,093 |
| Properties, net | | 45,766 | Customers' securities under | | |
| Real estate | | | custody | | 230,093,808 |
| Land | | 89,133,495 | Other liabilities | | 1,458,445 |
| Buildings and Structures, net | | 13,578,098 | Trust capital | | 327,014,533 |
| Construction in Process | | 13,788,887 | Accumulated profit or loss | | |
| Customers' securities under | | | for reserves | | |
| custody | | 230,093,808 | Net income for current | | |
| Other assets | | 3,511,822 | period | | 2,238,817 |
| Total trust assets | \$ | <u>569,150,273</u> | Accumulated profit | | <u>3,772,019</u> |
| | | | | \$ | <u>569,150,273</u> |

B. Trust Income Statement

| | For the years ended December 31, | | |
|--|----------------------------------|------------------|---------------------|
| | 2020 | | 2019 |
| | (NT\$) | (US\$) | (NT\$) |
| <u>Trust income:</u> | | | |
| Interest income | \$ 31,739 | \$ 1,130 | \$ 36,515 |
| Rental income | 1,186,180 | 42,220 | 1,727,562 |
| Dividend income | 1,176,852 | 41,888 | 1,396,341 |
| Realized capital gain-Stock | 10,499 | 374 | 21,818 |
| Realized capital gain-Funds | 9,097 | 324 | 9,592 |
| Other income | 45,771 | 1,629 | 56,528 |
| Total trust income | <u>2,460,138</u> | <u>87,565</u> | <u>3,248,356</u> |
| <u>Trust expenses:</u> | | | |
| Management expense | (91,369) | (3,252) | (130,766) |
| Repairing expense | (48,531) | (1,727) | (68,874) |
| Insurance | (13,674) | (487) | (20,689) |
| Depreciation expense | (8,425) | (300) | (8,490) |
| Land and housing tax | (137,802) | (4,905) | (204,526) |
| Interest expense | (57,154) | (2,034) | (106,883) |
| Service charge abstract | (10,110) | (360) | (15,145) |
| Accountant fees | (1,014) | (36) | (1,790) |
| Lawyer fees | (1,360) | (48) | - |
| Realized capital loss-Stock | (129,146) | (4,597) | (298,415) |
| Realized capital loss-Funds | - | - | (2) |
| Losses on disposal of property | (49) | (2) | - |
| Other expenses | (100,259) | (3,569) | (153,959) |
| Total trust expenses | <u>(598,893)</u> | <u>(21,317)</u> | <u>(1,009,539)</u> |
| Net income before income tax (Net investment income) | 1,861,245 | 66,248 | 2,238,817 |
| Income tax expense | - | - | - |
| Net income after income tax | <u>\$ 1,861,245</u> | <u>\$ 66,248</u> | <u>\$ 2,238,817</u> |

C. Trust Property List

| | December 31, 2020 | | December 31, 2019 |
|-------------------------------------|-----------------------|----------------------|-----------------------|
| | (NT\$) | (US\$) | (NT\$) |
| Bank deposits | \$ 11,805,684 | \$ 420,206 | \$ 12,027,913 |
| Bonds | 15,922,140 | 566,725 | 14,129,513 |
| Stock | 48,596,573 | 1,729,723 | 43,941,116 |
| Mutual funds | 136,976,273 | 4,875,468 | 127,231,077 |
| Structured products | 14,331,102 | 510,094 | 21,663,493 |
| Properties, net | 54,598 | 1,943 | 45,766 |
| Real estate | | | |
| Land | 97,176,372 | 3,458,849 | 89,133,495 |
| Buildings and structures, net | 13,921,767 | 495,525 | 13,578,098 |
| Construction in process | 9,868,083 | 351,240 | 13,788,887 |
| Customers' securities under custody | 242,365,585 | 8,626,645 | 230,093,808 |
| Other assets | 4,564,348 | 162,461 | 3,511,822 |
| Total | <u>\$ 595,582,525</u> | <u>\$ 21,198,879</u> | <u>\$ 569,144,988</u> |

Note: The amount of Non-discretionary Money Trust Investments in Foreign Securities of OBU branch is NT\$25,912,527 thousand and NT\$29,729,306 thousand as of December 31, 2020 and 2019, respectively.

(10) Information for cross-selling

A. Businesses and transactions: Please refer to Note 11.

B. Joint promotion of businesses:

In order to create synergies within the Bank and subsidiaries and provide customers financial services in all aspects, the Bank has continuously established other financial consulting service centers (including banking services, securities trading services, and insurance services) in its subsidiaries and simultaneously promoted service business in banking, securities and insurance areas.

C. Sharing of information or operating facilities or premises

Under the Financial Holding Company Act, Personal Data Protection Law, and the related regulations stipulated by MOF, when customers' information of a financial holding company's subsidiary is disclosed to other subsidiaries under the Bank and subsidiaries or exchanged between the subsidiaries for the purpose of cross selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are restricted to use the information for the joint promotion purposes only. In addition, the Bank is required to disclose its "Measures for Protection of Customers' Information" in its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

17. SUPPLEMENTARY DISCLOSURES

(1) Related information on material transaction items of the Bank and subsidiaries:

A. Information regarding stock of short-term equity investment for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Bank's paid-in capital:

| Investor | Marketable securities | General ledger account | Counterparty | Relationship | Balance as of January 1, 2020 | | Addition | | Disposal | | | Balance as of December 31, 2020 | |
|----------|--|---|--------------|--------------|--------------------------------|------------|--------------------------------|-----------|--------------------------------|------------|-------------------------|---------------------------------|-----------|
| | | | | | Number of shares(in thousands) | Amount | Number of shares(in thousands) | Amount | Number of shares(in thousands) | Amount | Gain (loss) on disposal | Number of shares(in thousands) | Amount |
| The Bank | Taiwan Cement Corp. | Financial assets at fair value through profit or loss, net | - | - | 2,900 | \$ 120,694 | 360 | \$ 15,390 | 2,935 | \$ 123,601 | \$ 3,325 | 325 | \$ 15,808 |
| " | Formosa Plastics Corporation | " | - | - | 870 | 85,934 | 650 | 63,547 | 1,520 | 120,818 | (28,663) | - | - |
| " | Far Eastern New Century Corp. | " | - | - | 2,850 | 83,538 | 230 | 6,457 | 3,080 | 68,017 | (21,978) | - | - |
| " | Taiwan Fertilizer Co., Ltd. | " | - | - | 520 | 24,888 | 370 | 17,719 | 160 | 8,283 | 621 | 730 | 34,945 |
| " | China Steel Corporation | " | - | - | 3,000 | 71,247 | 500 | 11,781 | 3,500 | 70,682 | (12,346) | - | - |
| " | Taiwan Semiconductor Manufacturing Company | " | - | - | 1,525 | 405,020 | 1,885 | 677,296 | 1,870 | 736,370 | 90,159 | 1,540 | 436,105 |
| " | MediaTek Inc. | " | - | - | 265 | 106,699 | 1,123 | 619,689 | 1,388 | 726,455 | 67 | - | - |
| " | Chang Hwa Commercial Bank | " | - | - | 194,299 | 3,981,152 | - | - | 12,894 | 255,061 | (3,149) | 181,405 | 3,722,942 |
| " | Taiwan Mobile Co., Ltd. | " | - | - | 400 | 45,575 | - | - | 400 | 42,403 | (3,172) | - | - |
| " | Taiwania Capital Buffalo Ventures, LP | " | - | - | - | 300,000 | - | 300,000 | - | 21,600 | - | - | 578,400 |
| " | Taiwan Cement Corp. | Financial assets at fair value through other comprehensive income | - | - | 2,674 | 98,134 | 9,041 | 395,277 | - | - | - | 11,715 | 493,411 |
| " | Asia Cement Corp. | " | - | - | 735 | 34,935 | 9,755 | 421,620 | - | - | - | 10,490 | 456,555 |
| " | Formosa Plastics Corporation | " | - | - | 5,200 | 542,349 | 200 | 19,790 | 5,400 | 380,125 | (182,014) | - | - |
| " | Far Eastern New Century Corp. | " | - | - | 6,400 | 190,747 | 17,800 | 494,402 | 6,700 | 148,626 | (50,986) | 17,500 | 485,537 |
| " | Taiwan Fertilizer Co., Ltd. | " | - | - | 1,650 | 79,222 | 8,850 | 469,370 | - | - | - | 10,500 | 548,592 |

| Investor | Marketable securities | General ledger account | Counterparty | Relationship | Balance as of January 1, 2020 | | Addition | | Disposal | | | Balance as of December 31, 2020 | |
|----------|--|---|--------------|--------------|--------------------------------|------------|--------------------------------|-----------|--------------------------------|------------|-------------------------|---------------------------------|-----------|
| | | | | | Number of shares(in thousands) | Amount | Number of shares(in thousands) | Amount | Number of shares(in thousands) | Amount | Gain (loss) on disposal | Number of shares(in thousands) | Amount |
| The Bank | China Steel Corporation | Financial assets at fair value through other comprehensive income | - | - | 10,600 | \$ 264,173 | 2,200 | \$ 51,056 | 12,800 | \$ 244,857 | (\$ 70,372) | - | \$ - |
| " | Taiwan Semiconductor Manufacturing Company | " | - | - | - | - | 380 | 109,938 | - | - | - | 380 | 109,938 |
| " | Chunghwa Telecom Co., Ltd. | " | - | - | 2,300 | 254,538 | 8,200 | 891,019 | - | - | - | 10,500 | 1,145,557 |
| " | Chang Hwa Commercial Bank | " | - | - | 5,700 | 129,768 | 21,950 | 439,500 | - | - | - | 27,650 | 569,268 |
| " | Taiwan Mobile Co., Ltd. | " | - | - | 4,400 | 494,335 | 6,478 | 664,752 | - | - | - | 10,878 | 1,159,087 |
| " | Next Commercial Bank Co., Ltd. | Investments measured by equity method, net | None | None | - | - | 251,000 | 2,510,000 | - | - | - | 251,000 | 2,510,000 |

B. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

C. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

D. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT\$5 million: None.

E. Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

F. Information regarding selling non-performing loans:

1. The information regarding selling non-performing loans for the year 2020 is as follows:

UNIT: In NT Thousand dollars

| Transaction Date | Counterparty | Contents of right of claim | Carring value | Sale price | Gain or loss from disposal | Attached conditions | Relationship with the Company | Note |
|------------------|------------------------------------|----------------------------|---------------|------------|----------------------------|---------------------|-------------------------------|------|
| 2020.11.13 | Goldman Sachs Lending Partners LLC | Corporate lending | \$ 86,149 | \$ 86,811 | \$ 662 | None | None | Note |

(Note) The book value and disposal price of loan transaction were US\$2,931 and US\$2,953. The Bank exchange rate of USD to NTD was 1 : 29.3955.

2. Information regarding selling non-performing loans single batch amount exceeded NT\$1 billion (excluding sales to related parties): None.

G. Information on and categories of securitized assets which are approved by the authority pursuant to Financial Asset Securitization Act or the Real Estate Securitization Act: None.

H. Other material transaction items which were significant to the users of the financial statements: None.

(2) Supplementary disclosure regarding investee companies:

A. Supplementary disclosure regarding investee companies as of December 31, 2020:

(In NT Thousand Dollars)

| Investee companies | Address | Main service | Percentage of ownership(%) | Share-holdings of the Bank and related enterprises | | | | | | | Note |
|--|--|--|----------------------------|--|--------------------------|---------------------|--|---------------------|----------------------------|--|------|
| | | | | Book value | Investment income (loss) | Share(in thousands) | Proforma information on number of stock held | Total | | | |
| | | | | | | | | Share(in thousands) | Percentage of ownership(%) | | |
| Cathay Investment & Warehousing Co., S.A. | Calle 16 Colon Free Zone Local NO.4 Edificio NO.49 P. O. Box 4036 Colon Free Zone,Colon,Republic of Panama | Real estate investment industry | 100.00% | \$ 34,119 | (\$ 4,611) | 1 | None | 1 | 100.00% | | |
| Mega Management Consulting Co., Ltd. | 7F., No.91, Hengyang Rd., Taipei City | Venture capital and management consulting etc. | 100.00% | 64,007 | 34,327 | 1,000 | None | 1,000 | 100.00% | | |
| Ramlett Finance Holdings Inc. | Calle 50 y Esquina Margarita A de Vallarino Entrada Nuevo Campo Alegre Edificio ICBC, Panama | Real estate investment industry | 100.00% | - | (6,653) | 2 | None | 2 | 100.00% | | |
| Yung-Shing Industries Co. | 7F., No.100, Jilin Rd., Taipei City | Packaging, printing and agency of manpower service. | 99.56% | 704,125 | 51,556 | 299 | None | 299 | 99.56% | | |
| China Products Trading Company | 7F., No.100, Jilin Rd., Taipei City | Investments in products businesses, storage businesses and other businesses | 68.27% | 27,916 | 708 | 68 | None | 68 | 68.27% | | |
| Next Commercial Bank Co., Ltd. | 6F., No.95, Sec. 2, Dunhua Rd., Taipei City | Internet-only bank | 25.10% | 2,284,743 | (225,257) | 251,000 | None | 251,000 | 25.10% | | |
| An Feng Enterprise Co., Ltd. | 3F., No.139, Jhengjhou Rd., Taipei City | Automatic Teller Machine rental, configure and maintain | 25.00% | 12,034 | 979 | 900 | None | 900 | 30.00% | | |
| Taiwan Finance Co., Ltd | 3F., No.123, Sec. 2, Nanjing E. Rd., Taipei City | Brokerage underwriting attestation guarantee and endorsement of commercial papers, proprietary trading of government bonds and corporate bonds | 24.55% | 1,776,306 | 116,366 | 126,714 | None | 126,714 | 24.55% | | |
| Everstrong Iron & Steel Foundry & Mfg Corp | NO.1 Shiquan Rd., Xiaogang Dist., Kaohsiung City | Iron and steel making | 22.22% | 46,333 | 3,992 | 1,760 | None | 1,760 | 22.22% | | |
| China Real Estate Management Co., Ltd | 11F., No.35, Guangfu S. Rd., Taipei City | Real estate and property selling | 20.00% | 180,215 | 4,041 | 9,000 | None | 9,000 | 20.00% | | |

(In NT Thousand Dollars)

| Investee companies | Address | Main service | Percentage of ownership(%) | Share-holdings of the Bank and related enterprises | | | | | | | Note |
|--|--|---|----------------------------|--|--------------------------|---------------------|--|---------------------|----------------------------|---------------------------------|------|
| | | | | Book value | Investment income (loss) | Share(in thousands) | Proforma information on number of stock held | Total | | | |
| | | | | | | | | Share(in thousands) | Percentage of ownership(%) | | |
| Universal Venture Capital Investment Corporation | 7F., No.91, Hengyang Rd., Taipei City | Venture capital | 11.84% | \$ 125,335 | (\$ 2,654) | 14,250 | None | 14,250 | 11.84% | | |
| Mega Growth Venture Capital Co., Ltd. | 7F., No.91, Hengyang Rd., Taipei City | Venture capital | 11.81% | 153,817 | 4,314 | 25,500 | None | 25,500 | 20.08% | | |
| Win Card Co., Ltd. | 4-6F., No.99, Sec. 3, Chongyang Rd., Sanchong Dist., New Taipei City | Corporate management consulting, data processing business and general advertising services | 100.00% | 40,832 | 7,456 | 200 | None | 200 | 100.00% | Indirect subsidiary of the Bank | |
| ICBC Assets Management & Consulting Co., Ltd | 8F, No.100, Jilin Rd., Taipei City | Investment consulting, corporate management consulting and venture investment management consulting | 100.00% | 22,913 | 1,680 | 2,000 | None | 2,000 | 100.00% | Indirect subsidiary of the Bank | |

B. For those investee companies that the Bank has direct or indirect control interest over, further disclosures are as follows:

- (A) Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.
- (B) Information on the disposal of the real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.
- (C) Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT\$5 million: None.
- (D) Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.
- (E) Information regarding selling non-performing loans: None.
- (F) Information on and categories of securitized assets which are approved by the authority pursuant to the Financial Asset Securitization Act or the Real Estate Securitization Act: None.
- (G) Lending to other parties: None.
- (H) Guarantees and endorsements for other parties: None.

(I) Information regarding securities held as of December 31, 2020:

(Expressed in NT Thousand dollars)

| Name of Holding Company | Type and Name of Marketable Securities | Relationship with the Securities Issuer | Account | At year-end | | | | Market value | Note |
|---------------------------|---|---|---------------------------------------|------------------------------|------------|--------------------------|--------------|--------------|------|
| | | | | Share / Units (in thousands) | Book value | Ownership Percentage (%) | Market value | | |
| Yung-Shing Industries Co. | Stocks | | | | | | | | |
| " | Hi-Scene World Enterprise Co., Ltd. | None | Investments measured by cost method | 2,370 | \$ 5,272 | 1.54% | \$ 5,272 | | |
| " | Hua-sheng Venture Capital Investment Corp. | " | " | 3 | 26 | 1.67% | 26 | | |
| " | Win Card Co., Ltd. | Equity investees | Investments measured by equity method | 200 | 40,832 | 100.00% | 40,832 | | |
| " | ICBC Assets Management & Consulting Co., Ltd. | " | " | 2,000 | 22,913 | 100.00% | 22,913 | | |
| " | An Feng Enterprise Co., Ltd. | " | " | 150 | 2,308 | 5.00% | 2,308 | | |
| | Total | | | | \$ 71,351 | | | | |

(J) Information regarding securities for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

(K) Information regarding trading in derivatives: None.

(L) Other material transaction items which were significant to the users of the financial statements: None.

(Blank below)

(3) Investments in People's Republic of China:

Unit : In NT Thousand Dollars

| Name of Investee Company in Mainland China | Main Business | Paid-in Capital | Investment method | Accumulated amount of investment as of January 1, 2020 | For the year ended December 31, 2020 | | Accumulated amount of investments as of December 31, 2020 | Net income of investee as of December 31, 2020 | The Company's Direct/ Indirect Percentage of Ownership (%) | Investment Income (Loss) for the period (Note 2) | Carrying amount of investment as of December 31, 2020 | Investment income remitted as of December 31, 2020 |
|--|---|----------------------|-------------------|--|--------------------------------------|------------|---|--|--|--|---|--|
| | | | | | Reinvestment | Withdrawal | | | | | | |
| Mega International Commercial Bank Suzhou Branch (Including Wujiang Sub-Branch and Kunshan Sub-Branch) | Banking businesses approved by the local government | \$4,796,000 (Note 3) | Branch | \$4,796,000 (Note 3) | \$ - | \$ - | \$4,796,000 (Note 3) | \$ 408,964 | None | \$ 408,964 | \$ - | \$ - |
| Mega International Commercial Bank Ningbo Branch | Banking businesses approved by the local government | \$5,122,458 (Note 4) | Branch | \$5,122,458 (Note 4) | \$ - | \$ - | \$5,122,458 (Note 4) | \$ 221,470 | None | \$ 221,470 | \$ - | \$ - |

| Accumulated investment amounts in Mainland China as of December 31, 2020 | Investment amount approved by the investment audit committee of the Ministry of Economic Affairs | Limits on investment amounts established by the investment audit committee of the Ministry of Economic Affairs (Note 1) |
|--|--|---|
| \$9,918,458 (Note 3) (Note 4) | \$9,918,458 (Note 3) (Note 4) | \$176,750,057 |

Note 1: Limit calculation is as follows (The Bank's net worth is NT\$294,583,429 thousand) NT\$294,583,429 thousand x 60% = NT\$176,750,057 thousand.

Note 2: Relevant operating income and expense of the subsidiary, Mega International Commercial Bank Suzhou(Including Wujiang Sub-Branch and Kunshan Sub-Branch) and Ningbo Branch have been included the gains and losses of the Bank.

Note 3: Based on the approved investment amount (RMB\$1 billion, approximately US\$160,000 thousand) pursuant to Jing-Shen-II-Zi Letter No. 10000045990 issued by the Investment Commission of the Ministry of Economic Affairs on March 31, 2011. The actual remitted amount, converted using the exchange rate at the date of remittance, was approximately US\$157,347 thousand, which converted to NTD was NT\$4,796,000 thousand.

Note 4: Based on the approved investment amount (RMB\$1 billion, approximately US\$167,000 thousand) pursuant to Jing-Shen-II-Zi Letter No. 10300306930 issued by the Investment Commission of the Ministry of Economic Affairs on December 9, 2014. The actual remitted amount, converted using the exchange rate at the date of remittance, was approximately US\$162,411 thousand, which converted to NTD was NT\$5,122,458 thousand.

Note5: Unit: NT thousand dollars (unless otherwise noted).

(4) Significant transactions between parent company and subsidiaries

Unit : In NT Thousand Dollars

| No. (Note 1) | Company | Counterparty | Relationship (Note 2) | Details of transactions | | | |
|-----------------|--|--|--------------------------|---------------------------|-----------|--|--|
| | | | | Account | Amount | Conditions | Percentage (%) of total consolidated net revenues or assets (Note 3) |
| 0 | Mega International Commercial Bank Co., Ltd. | Mega ICBC(Thailand) | 1 | Due from Commercial Banks | \$ 44,468 | No significant difference from general customers | 0.00% |
| 0 | " | " | 1 | Call Loans to Banks | 281,958 | " | 0.01% |
| 0 | " | " | 1 | Deposits from Other Banks | 159,326 | " | 0.00% |
| 0 | " | " | 1 | Due to other banks | 4,071 | " | 0.00% |
| 0 | " | " | 1 | Interest Revenue | 3,884 | " | 0.00% |
| 0 | " | " | 1 | Interest Expenses | 432 | " | 0.00% |
| 1 | Mega ICBC(Thailand) | Mega International Commercial Bank Co., Ltd. | 2 | Due from Commercial Banks | 159,326 | " | 0.00% |
| 1 | " | " | 2 | Call Loans to Banks | 4,071 | " | 0.00% |
| 1 | " | " | 2 | Deposits from Other Banks | 44,468 | " | 0.00% |
| 1 | " | " | 2 | Due to other banks | 281,958 | " | 0.01% |
| 1 | " | " | 2 | Interest Revenue | 432 | " | 0.00% |
| 1 | " | " | 2 | Interest Expenses | 3,884 | " | 0.00% |

(Note 1) The numbers in the No. column represent as follows:

1. 0 for the parent company
2. According to the sequential order, subsidiaries are numbered from 1.

(Note 2) Relationship between transaction company and counterparty is classified into the following three categories;

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

(Note 3) Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

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**Board of Directors and Supervisors
of Mega International Commercial Bank Co., Ltd.**

2020/12/31

| Name & Title | Current Position & Occupation |
|---|---|
| Chao-Shun Chang Chairman of the Board 張兆順 | Chairman of the Board Mega Financial Holding Company and Mega Bank |
| Kuang-Hua Hu Managing Director 胡光華 | President Mega Financial Holding Company |
| Yong-Yi Tsai Managing Director & President 蔡永義 | President Mega Bank |
| Chien-Liang Chiu Managing Director 邱建良 | Professor Department of Banking and Finance, Tamkang University |
| Fu-Long Chen Independent Managing Director 陳福隆 | |
| Ying Wu Independent Director 吳瑛 | |
| Chih-Jen Hsu Independent Director 許志仁 | Chairman of the Board Spring House Entertainment Technology Incorporation |
| Ching-Wen Lin Director 林靜雯 | Professor CTBC Business School |
| Shao-Pin Lin Director 林少斌 | Associate Professor Department of Finance and Banking, Shih Chien University |
| Chao-Huang Kuo Director 郭昭宏 | President TAIWAN-CA Inc. |

| Name & Title | Current Position & Occupation |
|---|--|
| Sui-Chang Liang Director 梁穗昌 | Principal Attorney Liang & Associates, Attorneys-At-Law |
| Chih-Yang Cheng Director 鄭智陽 | Managing lawyer LexFaith Law Office |
| Wen-Ling Hung Director 洪文玲 | Professor Department of Administration Police, Central Police University |
| Cheng-Chiang Hsu Director 許鎮強 | Assistant Vice President Mega Bank |
| Sheng-Chang Liu Resident Supervisor 劉昇昌 | Director C.H. CHANG & Co. Certified Public Accountants |
| Yu-ling Hung Supervisor 洪佑伶 | CPA Earnest & Co., CPAs |
| Jiin-Feng Chen Supervisor 陳錦烽 | Associate Professor and Director English Taught Program in International Business, College of Management, Shih-Chien University |