

Code: 5830

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ANNUAL REPORT 2019

COTA COMMERCIAL BANK



COTA Commercial Bank



COTA Commercial Bank

**ANNUAL REPORT
2019**



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To Our Shareholders



1-1. Year 2019 Business Report

1-1-1. Financial Environment

In 2019, The financial markets circumstances have been very volatile under the influence of several factors, including the repeated trade conflicts between USA and China, the chaotic situation of the Brexit, Hong Kong anti-extradition bill protestors. According to the international economic forecasters, The Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF), the global economic growth continues to be weak, Meanwhile, The global central banks' monetary policies have become more accommodative and some countries have implemented various fiscal stimulus policies to deal with the reduce speed in economic growth, the global economic is expected to moderate rather than decline with growth range of 2.9% to 3.4% in 2020. However, the financial market may continue to be affected and increase volatility due to the risks such as COVID-19, trade disputes, the USA presidential election, the Brexit and geopolitical conflicts in the Middle East.

In terms of the domestic economic, despite the international trade disputes, the domestic economy has become more stable. As a result of the benefit of the order transfer efficiency, the Taiwan businessmen's return investment program and the growth of domestic demand, the company has been able to increase its investment in Taiwan. It is expected to support stock market fundamentals and boost related performance as the government actively optimizes the domestic investment environment, the semiconductor industry continues to invest in advanced manufacturing processes, Taiwan companies increase their domestic production capacity and private consumption is stable. Besides, There are still many variables affecting the future scenario, such as COVID-19 epidemic, trade protectionism, ECB monetary policy direction and geopolitical conflict.

Looking forward, the global economy will increase uncertainty, including the USA presidential election, future economic and trade relations between the UK and the EU, as well as geographical conflicts and financial risks. COTA will adopt flexible business strategies and be cautious in responding to the variable business environment

1-1-2. Organization Development

None

1-1-3. Business Plans and Strategies Performance

1-1-3-1. Main Achievements

- "Easy credit card" service launched.
- Establishment the control system of "Principles of internal control practices relating to the prevention of misappropriation of customers' account by the bank's wealth specialist"
- Mobile Internet Banking added the "Taiwan Pay QR Code" service.
- "Foreign Currency Specific Sole Management of Utilized Money Trusts" service launched.
- National payment service "Internet Banking Online Appointment Service" launched.
- Certified of International Standard by ISO27001(Information Security Management System, ISMS)

1-1-3-2. Budget Execution

As of Dec. 31, 2019, our deposits balance with sum of TWD153.7 billion (excluding deposits from banks) increased by TWD4.1 billion compared with previous year; our loans balance with sum of TWD113 billion decrease by TWD3.7billion compared with previous year. COTA would be commit to strengthen the Fintech services, expansion e-banking services, provide diversified products to satisfy the requirement of the customer, to develop new financial products, to achieve better structure of quality between deposits and loans and higher multi-source income.

Main business budget executions reported as follows:

- Final account of average deposits balance amounted to TWD152.4 billion, achieved 102.63% budgeting goal of TWD148.5 billion.
- Final account of average loans balance amounted to TWD114.7 billion, achieved 97.45% budgeting goal of TWD117.7 billion.
- Final account of trust assets balance amounted TWD5.493 billion, achieved 103.29% budgeting goal of TWD5.318 billion.

1-1-3-3. Financial Structure and Profitability

In 2019, COTA solo financial report earnings before income-tax figured as TWD889,032 thousand turned into EPS before income-tax as TWD1.06, turned into EPS after income-tax as TWD0.89. Our BIS ratio maintained at a level of 13.19% and net worth of per share stood at TWD13.63. Our non-performing loan coverage ratio to 323.93%. Overdue loan ratio decreased to 0.44%. Nevertheless, we would constant improve business effectiveness and risk control to boost operation capability and competitive edge.

1-1-3-4. Research and Development

To keep in line with critical issues of international and domestic political and economic environments and demands of banking business expansion, our H.O. departments compiled assorted analyses and reports regarding financial situations, banking business development, industrial insight and tendency periodically or non-periodically. Such analyses and reports would circulate to our staff for reference and application through our electronic official document system to prompt business development.

1-2. Year 2020 Business Plans Outline

We have always held the spirit of “Integrity, Innovation, Affability, and Service”, and fulfill compliance and legal affairs on business management. Meanwhile, strive more deeply rooted in corporate culture to satisfy the requirement of the customer and intensify managerial strength. Main business plans are described as follows.

1-2-1. Business Operating Policy

- In response to changes in the financial environment, we will strengthen the handling of various operational force test operations, review and correct improvements as appropriate, and promptly formulate response measures and amendments to internal regulations or operating procedures in response to changes in various regulations or business environments, and adjust operations in accordance with market and economic conditions. Strategy to strengthen the competitiveness of the Bank.
- Continuously improve the function of e-banking, close up to the requirement of customers financial as a goal, improve customer willingness to use and the ration of penetration.
- Continue to promote the mobile payment business, such as the cooperation with Financial Information Service Co., Ltd to promote the Taiwan Pay scan code payment service and participation in the marketing application platform, client can use mobile phone to transfer money, make purchases and pay bills by using mobile phone to bind client's account via COTA Bank mobile internet banking service to improve mobile online banking usage.
- Strictly implement the standard operating procedures for solicitation and granting of credit, strengthen the examination function, evaluate and control the quota in detail, Meanwhile, strengthen the tracking and management of credit, continue to implement the review and follow-up assessment of credit cases after lending, truly grasp the operation of customers funds flow, strictly control the overdue ratio, avoid or reduce credit losses, and maintain the safety of credit assets.
- Continuously pay attention to the global market fluctuation and changes in laws and regulations, effectively and dynamically manage market investment risks, and attach importance to the suitability of KYP and KYC, providing professional market reports

1 To Our Shareholders

on a regular basis in accordance with general economic indicators, political and economic aspects and chips. We also take into account opportunities and risk management, read market trends and clients' investment requirements, provide clients with institutionalized financial advice, and construct asset allocation plans for steady growth to meet clients' financial requirements at different stages.

- Continue to strengthen the business practices and professional ethics, legal compliance and risk control mechanisms of financial management personnel to implement the implementation of internal control and auditing systems, and promote the practice of internal control three lines of defense to eliminate possible shortcomings.
- Increase and improve the management of capital structure, and maintain compliant BIS ratio. The operation strategy is mainly to stabilize spreads, and carefully adjust the proportion of liquidity and stability to facilitate the recapitalization of funds.
- Promote diversified trust commodities and provide customized services based on customer requirements to implement the substantive purpose of the trust business.

1-2-2. Business Target

1-2-2-1. Main Operating Volume

Unit: TWD thousand: %

| Main Business | Budget of Year 2020 | Result of Year 2019 | Increase volume | |
|-------------------|---------------------|---------------------|-----------------|-------|
| | | | Amount | % |
| Average Deposits | 151,000,000 | 152,424,259 | -1,424,259 | -0.93 |
| Average Loans | 116,000,000 | 114,715,020 | 1,284,980 | 1.12 |
| Wealth Management | 4,785,000 | 5,493,721 | -708,721 | -12.9 |



1-2-2.2. Schemed Targets

- To invests in financial commodities with better yield and safety, and enhances the management of surplus funds to improve the performance of financial operations with interest income and capital gains.
- To optimize the system operation process, expand online service functions by customer demand, and facilitate customers to complete various business applications online to improve service quality and operation efficiency.
- In response to digitalization and customers' financial demands, we continue to expand our online business and services to enhance our competitiveness.
- Continue to pay attention to the development of emerging financial technology applications, discuss the feasibility of introducing financial technology resources into the business, and improve service efficiency.
- Cooperate with the New Basel III (Basel III) to strengthen risk management functions, strictly control the overdue ratio, improve asset quality, and strengthen the monitoring and management of various credit risks.
- To establish the control ratio for the credit limit of each industry, strengthened the pre-collection of corporate credit, prevented excessive risk concentration, and paid attention to the general economic and market fluctuations.
- To strengthen the professional knowledge of wealth management and enhance the professional knowledge and marketing skills of our staff through comprehensive wealth management training.

1-3. Long-term Development Strategy

- Actively cooperate with financial policies and various regulations, strengthen management and capital structure, enhance operational efficiency, and develop towards the vision of quality financial institutions.
- Strengthen the capital structure and intensify managerial strength, achieve the risk management and corporate governance, promote medium-term and long-term risk response ability.
- Strictly monitor the limits of market risk to achieve a balance between risk and remuneration and optimization of capital allocation to maintain the safety and profitability of capital.
- Strengthen the risk control, implement reasonable pricing and uphold the 5P principle of credit, maintain outstanding credit asset quality, and improve capital efficiency.
- Strengthen the capabilities of the risk control to enhance asset quality, and execute regularly to review consumer credit business in the operation status and asset quality, then, adjusting the pricing and credit policy of the product at any time, meanwhile, establish the management structure of the bank's business as the result reflect product performance.
- Cooperate with the government's policies to promote economic development and promote industrial upgrading, and provide enterprises with overall credit schemes and promotion strategies to meet the funding needs of various stages of industrial and commercial enterprises.
- Financial planning suitable for customers' demand and risk tolerance, and specific understanding of the asset utilization status. Continue to offer a wide range of financial products to meet the demands of our customers' temporary capital demands and to enhance the depth and quality of our services.
- The financial investment strategy focuses on strengthening financial operations and stable liquidity, diversifying investment targets, and ensuring asset contribution to achieve profitable performance.

To Our Shareholders

- Cooperate with the implementation of the Personal Data Protection Law to continuously develop and build related software and hardware systems.
- Implement corporate social responsibility, actively help disadvantaged public welfare groups, and inject good energy into society.
- Plan the business to be mobile, electronic and paperless, and introduce a virtual and integrated service model to improve service efficiency.

1-4. Impact of Competitive, Regulative and Banking Environments

To promote the sustainable development of the financial industry, In 2019, FSC has opened up the establishment of pure Internet banking, promoted “open banking” services, approved cross-border remittances for foreign migrant workers and other financial technology innovation experiments, counseled high-quality Taiwanese companies to return to Taiwan, promoted the “National Retirement Independent Investment Experimental Project” and expanded the scope of online insurance, etc. In order to build the friendly environment for innovation and entrepreneurship, the fair and freedom competitive market, and deepen international regulatory cooperation to promote upgrade of financial industry.

Overviewed the banking laws and regulations environment, COTA will impact more greater on the compliance “Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions” (CRS), mainly to promote Taiwan’s CRS regulations issued by the OECD, improve the transparency of account information, and accordingly exchange financial account information with other countries or areas, in order to facilitate Taiwan and national tax authorities to grasp the account information of overseas taxpayers. Therefore, it is particularly important to establish the set of evaluation criteria and logic as the basis for identity identification procedures. In the future, we will continue to cooperate with the policies of the competent authority, to develop diversified financial products, to innovate financial services, to construct more comprehensive services network so as to grasp developing opportunity, enhance profitability and expand the scale of operation.

1-5. Corporate Rating

| Category | Rating Agent | Rating | | Outlook | Released Date |
|----------|-------------------------|-----------|------------|---------|---------------|
| | | Long-term | Short-term | | |
| Local | Taiwan Rating Corporate | twBBB+ | twA-2 | Stable | Dec.23, 2019 |

Heading for new coming year, COTA will continuous commitment to extend and expand various business areas, meanwhile, develop multiple sources of income, and satisfy the diverse financial demands of our customers. In the changeable business environment, COTA all staff work together to create new values and add new elements of revolutionize. At last, we would like to express sincere appreciations to our shareholders, directors, and the elites in all fields. We look forward to obtaining continued support and advice from all of you.



Corporate Profile



Corporate Profile

2-1. Bank Features

| | |
|--------------------------------------|---|
| Bank Name | COTA Commercial Bank, Ltd. |
| Chairman | Song-Yie Liao |
| President | Jung-Hsien Chiu |
| Date of Business Registration | Jan. 01, 1999 |
| Date of Inauguration | Jan. 01, 1999 |
| Location of Head Office | No.32-1, Gongyuan Road, Taichung City 400, Taiwan, R.O.C. |
| Number of Employee | 1,106 |
| Paid-in Capital | TWD8,406,376,590 |
| Capital Shares | Common Stock in 840,637,659 Shares |



2-2. Historical Highlights

COTA Bank was formerly named "Liability Taichung Third Credit Cooperative". Founded in 1915, we have consistently conveyed the corporate philosophy featuring, well-sustained to combat in the financial environment characterized by severe competition, as "Integrity, Innovation, Cordiality and Service", in response to the increasingly competitive financial market. In accordance with the promulgation of "Regulations and Criteria Governing Reorganization of Credit Cooperative into Commercial Banks", COTA Bank started the reorganization task and launched reorganization in Dec. 1995. On Jul. 27, 1998, COTA Bank was officially approved by Ministry of Finance to be transformed into "COTA Commercial Bank".

In 2005, COTA Bank invited Fengyuan Credit Cooperative to consider a merger proposal for mutual benefits to enhance competitive capacity by expanding business scale. After sincere bilateral negotiation and consideration, COTA Bank decided to wholly acquire Fengyuan Credit Cooperative. Approved by shareholders' meeting of both parties, Fengyuan Credit Cooperative was formally merged into COTA Bank on Jan. 01, 2006.

Outlook for the future, COTA Bank is determined to become a full-array commercial bank in spite of quick-changing financial market. Under the support of shareholders and members of board, and the endeavor of all staffs, introduce a broader range of online application service. We are committed to providing all-aspect services for our customers by constant business growth, scale expansion and product diversification.



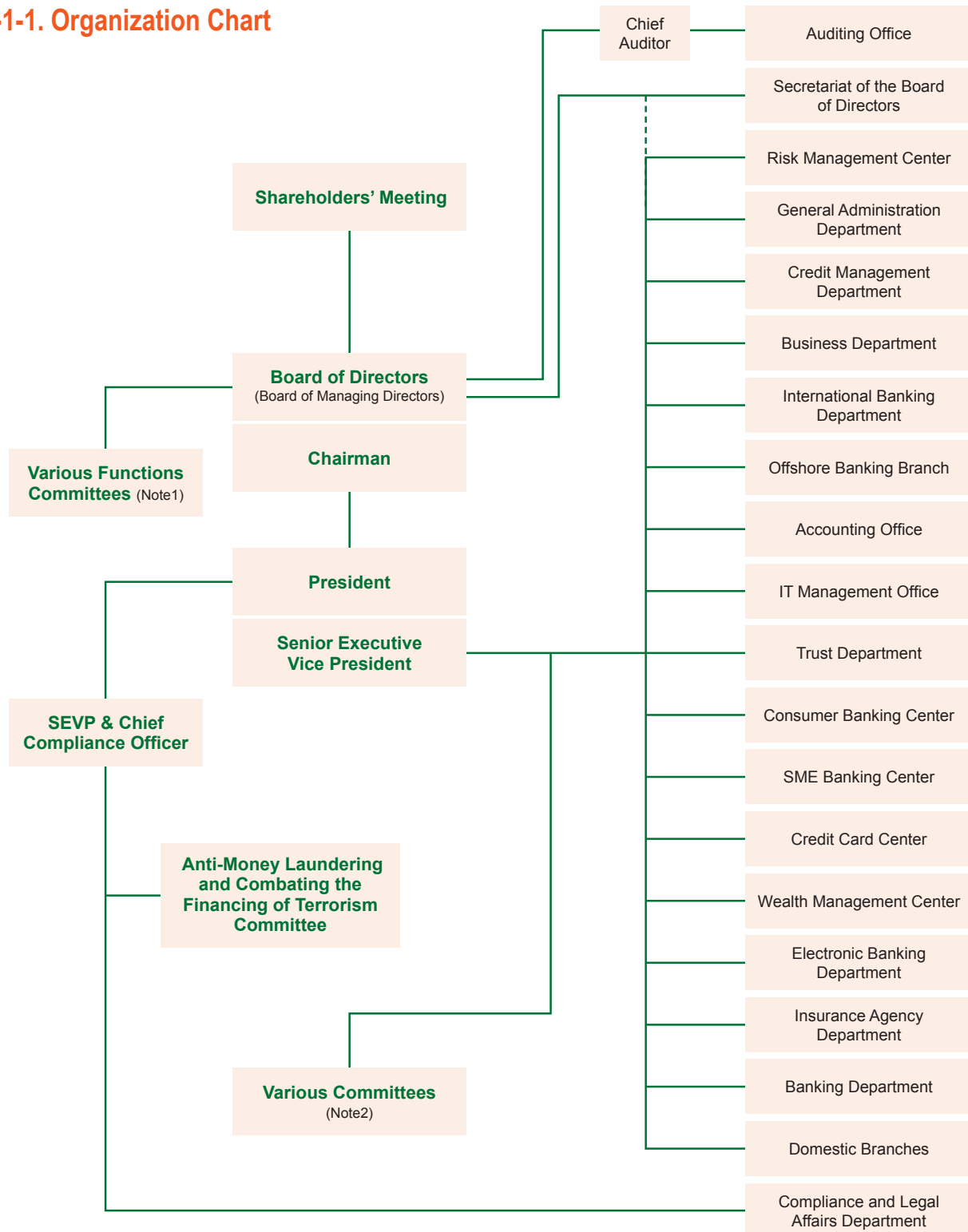
3

Corporate Governance



3-1. Organization

3-1-1. Organization Chart



NOTE1. Audit Committee, Remuneration Committee, Nomination of Directors Committee, etc.

NOTE2. Loan Committee, Personnel Appraisal Committee, Trust Assets Screening Committee, Financial Product & Regulation Committee, Asset & Liability and Risk Management Committee, Security Council supervision Committee, TWD Securities Investment Committee, Foreign Securities Investment Committee, etc

3-1-2. Major Business of Each Division

3-1-2-1. Secretariat of the Board of Directors

Taking charge of such key tasks of the Board of the Directors and official seal keeping, bank affairs, corporate governance, convening of shareholders' meeting, the Board of the directors and related meetings, election for director and supervisor, etc.

3-1-2-2. General Administration Department

Taking charge of bank's official seals, documentation, construction and repair, procurement, property control, public relations, general affairs, personnel affairs, organization management, and affairs not designed to other departments.

3-1-2-3. Credit Management Department

Taking charge of planning, review and recheck of all loan affairs of the bank, credit investigation, promotion and management for corporate banking, etc.

3-1-2-4. Business Department

The Department takes charge of deposits, remittance, affairs of the cashier, warehousing, custody, agency, investment, and safe protection.

3-1-2-5. International Banking Department

Taking charge of the bank's foreign currency funds management and foreign exchange related operation, planning, administration and promotion.

3-1-2-6. Offshore Banking Branch

Taking charge of the offshore banking related operation, management and investment.

3-1-2-7. Audit Office

Auditing over bank's business, accounting, finance, bank affairs, and reserved inventory.

3-1-2-8. Accounting Office

Taking charge of bank's accounting, statistics, calculate annual revenues, and analyze financial statement.

3-1-2-9. IT Management Office

Taking charge of the bank's IT related planning automation, development, operation and management.

3-1-2-10. Banking Department

Engaging in the commercial bank services (Approved by the Central Bank of R.O.C.) as well as trust banking services.

3-3-1-2-11. Trust Department

Planning, promoting, and managing the trust banking related affairs.

3-1-2-12. Risk Management Center

Taking charge of formulation and revise for risk management policies, plan and design for risk management system, establishment and integration for risk management guidelines, monitoring the performance and others; the Bank's non-performing loans related planning, tracing and management.

3-1-2-13. Consumer Banking Center

Taking charge of planning, review, dunning on overdue receivables, credit investigation, recheck of all loan affairs of the consumer and promote financial products.

3-1-2-14. SME Banking Center

Taking charge of planning, review, dunning on overdue receivables, credit investigation, recheck of all loan affairs of the SME and promote financial products.

3-1-2-15. Credit Card Center

Taking charge of bank's credit card affairs related planning, promotion and management.

3-1-2-16. Wealth Management Center

Taking charge the business of the Wealth Management, planning the sales for non-wealth management customers, and managing financial representatives.

3-1-2-17. Compliance and Legal Affairs Department

Taking charge the planning, management and implement of the regulatory compliance system and legal affairs in regulatory compliance office. Taking charge the prevention of money laundry and fighting against terrorism in anti-money-laundry office.

3-1-2-18. Electronic Banking Department

Taking charge the planning and promotion of the electronic banking channel.

3-1-2-19. Insurance Agency Department

Taking charge the planning, marketing, training and managing sales of the life and property insurance agency business.

Above-mentioned department, office or center may, based on business need, propose for Board of Directors' resolution to establish, dismiss or combine. Units of H.O. may institute north or south regional centers and their joint office.

3-2. Major Information of Directors, Supervisors, Executives and the Principal Officers

3-2-1-1. List of Directors and Supervisors

| Title (Nationality) | Name (Gender) | Elected Date (Tenure) | First Elected | Elected Shares Owned Current Shares Owned | | Shares Owned by Spouses and Minor Children | |
|---|--|---|---------------|--|------------------|--|--------|
| | | | | No. of Shares | % | No. of Shares | % |
| Chairman (R.O.C.) | Song-Yie Liao (Male) | 2018.01.12 (Director 2017.12.23) (3) | 2005.05.25 | 52,761,419 60,003,503 | 6.9191 7.1379 | 1,703,054 | 0.2026 |
| Managing Independent Director (R.O.C.) | Kun-Hsien Lin (Male) | 2018.01.12 (Director 2017.12.23) (3) | 2014.12.29 | 3,201,584 1,214,386 | 0.4199 0.1445 | | |
| Managing Director (R.O.C.) | Ying-Che Chang (Male) | 2018.01.12 (Director 2017.12.23) (3) | 2002.01.01 | 2,659,060 2,931,347 | 0.3487 0.3487 | 37,369 | 0.0044 |
| Managing Director (R.O.C.) | Xian-De Lai (Male) | 2018.01.12 (Director 2017.12.23) (3) | 2005.05.25 | 3,688,102 4,204,083 | 0.4837 0.5001 | 10,519 | 0.0013 |
| Managing Director (R.O.C.) | Chuan Cheng Hat Co., Ltd. | 2018.01.12 (Director 2017.12.23) (3) | 2014.12.29 | 13,377,618 15,371,486 | 1.7543 1.8286 | | |
| | Chuan Cheng Hat Co., Ltd. Assigned Representative: Min-Chang Lin (Male) | | | 182,607 243,124 | 0.0239 0.0289 | 438,170 | 0.0521 |
| Independent Director (R.O.C.) | Po-Yao Chi (Male) | 2017.12.23 (3) | 2008.06.20 | 2,719,908 2,832,026 | 0.3567 0.3369 | 544,947 | 0.0648 |
| Independent Director (R.O.C.) | Tsung-Ta Kuo (Male)) | 2017.12.23 (3) | 2017.12.23 | | | | |
| Director (R.O.C.) | Chun-Chieh Wang (Male) | 2017.12.23 (3) | 2014.12.29 | 10,741,068 11,840,953 | 1.4086 1.4086 | | |

As of Dec. 31, 2019 Shares Held (%)

| Education & Key Work Experience | Current Positions for the Bank or other companies |
|---|--|
| Department of Economics, Hosei University of Tokyo, Japan Chairman of Chuan Cheng Hat Co., Ltd. | Director of Chuan Cheng Hat Co., Ltd. Director of CCH Plus Inc. Independent Director of Formosan Union Chemical Corp. |
| Collage of Law, National Taiwan University Master's Program, Graduate Institute of Financial and Economic Law, Feng Chia University Director of Taichung Bar Association Member of Taiwan Bar Committee on the Discipline Chairman of Taichung NTU Alumni Association | Director of Kun Her Industrial Co., Ltd. Manager of Chan Hsin Law Firm Director of the 8 th Crime Victims Protection Association Independent Director of Yung Shin Global Holding Co. Ltd. Independent Director of Yung Shin Pharmacy Ind. Co., Ltd. (Representative of a legal entity) Director of Dexian Industrial Co., Ltd. Member of Taichung City Building Regulations Subcommittee |
| Department of International Business, Feng Chia University President of COTA Bank Chairman of COTA Bank Insurance Broker Co., Ltd. (Representative of a legal entity) | Director of COTA Culture and Education Foundation |
| Department of Public Finance and Taxation, National Chung Hsing University President of Tung Yang Business Co., LTD. | Chairman of Tung Yang Business Co., Ltd. Chairman of Tung Yang Investment Co., Ltd. Managing Director of Taiwan Flour Mills Associate Director of Hsiuping University of Science and Technology |
| | |
| Department of General Business, Shin Min Commercial & Industrial Vocational Senior High School Branch General Manager of COTA Bank | |
| Department of Accounting, Soochow University Miaoli Factory Director of Cheng Loong Corporation | Director of Ko Loong Industry Co., Ltd. |
| Graduate Institute of Accounting and Public Finance, Feng Chia University Tax auditor of the National Taxation Bureau of the Central District of the Ministry of Finance | Chief Accountant of Chien-Yao CPAs |
| Mingdao High School | Chairman of Mingdao Private High School Director of Hon Dao senior citizen welfare foundation |



Corporate Governance

| Title (Nationality) | Name (Gender) | Elected Date (Tenure) | First Elected | Elected Shares Owned Current Shares Owned | | Shares Owned by Spouses and Minor Children | |
|------------------------|---|--------------------------|---------------|--|------------------|--|--------|
| | | | | No. of Shares | % | No. of Shares | % |
| Director (R.O.C.) | Chien-Chung Lai (Male) | 2017.12.23 (3) | 2017.12.23 | 3,400,459 4,455,865 | 0.4459 0.5301 | 11,840,953 | 1.4086 |
| Director (R.O.C.) | Chi-Peng Yang Representative: Chia De Development and Investment Co., Ltd. (Male) | 2017.12.23 (3) | 2014.12.29 | 13,612,658 180,201 | 1.7851 0.0214 | | |
| | Chia De Development and Investment Co., Ltd. | | | 985,426 702,764 | 0.1292 0.0836 | | |
| Director (R.O.C.) | Kang-Wei Chang Representative: Jin Yu Hua Investment Co., Ltd (Male) | 2017.12.23 (3) | 2017.12.23 | 1,024,310 1,517,568 | 0.1343 0.1805 | | |

| Education & Key Work Experience | Current Positions for the Bank or other companies |
|---|---|
| <p>Department of French, Chinese Culture University Overseas Chinese Affairs Committee of Overseas Community Affairs Council, R.O.C. President of The Council of Taiwan Chambers of Commerce In Vietnam Vice President of The Council of Asia Taiwanese Chambers Of Commerce President of Chiao Sang Footwears Inc. Supervisors of Lu Yueh Enterprise Co., Ltd.</p> | <p>Advisory Committee of Overseas Community Affairs Council, R.O.C. Consultant of World Taiwanese Chambers of Commerce Advisory Committee of Asia Taiwanese Chambers Of Commerce Consultant of Taiwan Association of Machinery Industry –Machinery for Shoe Consultant of Overseas Chinese Culture and Education Foundation Director of Overseas Taiwan Commercial Travel Agency Ltd Co.</p> |
| <p>Associate's Degree Student of Tunghai University Executive Master of Business Administration Program</p> | <p>Branch General Manager of COTA Bank</p> |
| <p>Master of Science Degree National Tsing Hua University Department of Chemical Engineering</p> | <p>Chairman of Far Eastern Air Transport Corp. (Representative) Chairman of Celebrity Tours Co., Ltd. (Representative) Director of Huapeng Development Co., Ltd. (Representative) Chairman of Huaxi Co., Ltd. (Representative) Chairman of Huaer Investment Co., Ltd. Chairman of HuaYi Leasing & Finance Co., Ltd. Chairman of Huafu Construction & Development Co., Ltd. (Representative) Chairman of Huafu Entertainment Co., Ltd. (Representative) Chairman of Leqi Investment Co., Ltd. (Representative) Chairman of Yexiang Investment Co., Ltd. (Representative) Director of Bode Development Co., Ltd. (Representative) Chairman of Yuanxiang Construction Co., Ltd. Chairman of Huaba Investment Co., Ltd. Chairman of Huaqi Investment Co., Ltd. Chairman of Fuli Investment Co., Ltd. Chairman of Huajiu Investment Co., Ltd. Director of Hualiu Investment Co., Ltd. Chairman of Fusan Co., Ltd. Chairman of Huafu International Entertainment Co., Ltd. Chairman of Huafu Parking Co., Ltd. Chairman of Zhanheng Investment Co., Ltd. Chairman of Yuanxing Tours Co., Ltd. (Representative) Chairman of Huacheng Development Co., Ltd. (Representative) Chairman of Huafu Construction Co., Ltd. (Representative) Director of Hanyang Construction Co., Ltd. (Representative) Chairman of Far Eastern Air Transport Culture and Art Foundation</p> |



Corporate Governance

| Title (Nationality) | Name (Gender) | Elected Date (Tenure) | First Elected | Elected Shares Owned Current Shares Owned | | Shares Owned by Spouses and Minor Children | |
|------------------------|---|--------------------------|---------------|--|------------------|--|---|
| | | | | No. of Shares | % | No. of Shares | % |
| Director (R.O.C.) | Yu-Chi Huang (Note 1) Representative: Jin Yu Hua Investment Co., Ltd (Male) | 2017.12.23 (3) | 2017.12.23 | | | | |
| Director (R.O.C.) | Ching-Wen Cheng Representative: Jin Yu Hua Investment Co., Ltd. (Female) | 2017.12.23 (3) | 2017.12.23 | 1,297 0 | 0.0002 0 | | |
| Director (R.O.C.) | Ying-Ta Chi (Note 2) Representative: Jin Yu Hua Ltd. (Male) | 2017.12.23 (3) | 2017.12.23 | | | | |
| Director (R.O.C.) | Jin Yu Hua Investment Co., Ltd | 2017.12.23 (3) | 2017.12.23 | 919,421 947,586 | 0.1206 0.1159 | | |
| Director (R.O.C.) | Chin-Yun Lu Representative: Huasan Investment Co., Ltd. (Female) | 2017.12.23 (3) | 2017.12.23 | | | | |
| | Huasan Investment Co., Ltd. | | | 2,052,756 2,849,780 | 0.2692 0.3390 | | |

NOTE 1: Director Chin-Chih Tseng Representative of Jin Yu Hua Investment Co., Ltd. resigned on Apr. 9, 2019 and reassigned Yu-Chi Huang as a new Representative

NOTE 2: Director Hua-Chiang Chi Representative of Jin Yu Hua Investment Co., Ltd. resigned on Feb. 20, 2019 and reassigned Ying-Ta Chi as a new Representative

| Education & Key Work Experience | Current Positions for the Bank or other companies |
|---|---|
| Master of Science Degree, Kainan University School of Tourism and Transportation Assistant Vice President of Far Eastern Air Transport Corp. | Executive Assistant of Far Eastern Air Transport Corp. Executive Assistant of DBB International Co., Ltd. |
| Chinese Junior College of Industrial and Commercial Management Deputy Chairman of Far Eastern Air Transport Corp. | Director of Far Eastern Air Transport Corp. (Representative) Director of Celebrity Tours Co., Ltd. (Representative) Director of Huaxi Co., Ltd. (Representative) Director of Huayu Chuangxing International Entertainment Co., Ltd. (Representative) Director of HuaYi Leasing & Finance Co., Ltd. Chairman of Minghan Construction & Development Co., Ltd. Director of Huafu Entertainment Co., Ltd. (Representative) Chairman of Jin Yu Hua Investment Co., Ltd. Chairman of Gangjun Investment Co., Ltd. Director of Yexiang Investment Co., Ltd. (Representative) Director of Huaba Investment Co., Ltd. Director of Huaqi Investment Co., Ltd. Director of Huajiu Investment Co., Ltd. Chairman of Huasan Investment Co., Ltd. Chairman of Yaojie Investment Co., Ltd. Director of Yuanxing Tours Co., Ltd. (Representative) Chairman of Haojing Asset Management Co., Ltd. Chairman of Han Feng Asset Management Co., Ltd. (Representative) Director of Hanyang Construction Co., Ltd. (Representative) Director of Far Eastern Air Transport Culture and Art Foundation |
| De Montford University (MA) Vice President of Jiaxin Footwear Co. Ltd. President of Ding Tai Quan Trading Co. Ltd. President of Chuang Ding Trading Co. Ltd. | |
| | |
| Ming Chun Business College Deputy General Manager of Sunland Travel INC | |
| | |

3-2-1-2. Major Institutional Shareholder:

As of Dec. 31, 2019

| Institutional Shareholder | Major Shareholders of Institutional Shareholders |
|--|---|
| Chuan Cheng Hat Co., Ltd. | Song-Yie Liao (68.35%), Ching-Ling Liu (12.36%), Po-Chun Liao (9.46%) |
| Chia De Development and Investment Co., Ltd. | HOARDER RICH LIMITED (100%) |
| Jin Yu Hua Investment Co., Ltd. | Pi-Ju Fan (50%), Wei-Ju Shen (50%) |
| Huasan Investment Co., Ltd. | Pi-Ju Fan (35%), Wei-Ju Shen (35%), Kai-Jen Cheng (30%) |

3-2-1-3. Major Shareholders of Major Institutional Shareholders of the Bank :

As of Dec. 31, 2019

| Institutional Shareholder | Major Shareholders of Institutional Shareholders |
|---------------------------|--|
| HOARDER RICH LIMITED | Liu, Chen-Han(100%) |

3-2-1-4.

| Name | Qualifications | Directors or Supervisors shall meet one of the following professional requirements, together with at least five years work experience. | | | Independent status (Note2) | | | | | | | | | | | | Number of serve as an independent director of public companies. |
|--|----------------|---|--|--|----------------------------|---|---|---|---|---|---|---|---|----|----|----|---|
| | | An instructor or higher up in a department of commerce, law, finance, accounting, or other academic department related to company business in a public or private junior college, college, or university. | A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and has been awarded a certificate in a professional capacity that is necessary for company business. | Having work experience in the area of commerce, law, finance or accounting, or otherwise necessary for company business. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Song-Yie Liao | | - | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 |
| Kun-Hsien Lin | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 |
| Ying-Che Chang | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Xian-De Lai | | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Chuan Cheng Hat Co., Ltd. (Min-Chang Lin) | | | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| Po-Yao Chi | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Tsung-Ta Kuo | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Chien-Chung Lai | | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Chun-Chieh Wang | | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Chi-Peng Yang (Chia De Development and Investment Co., Ltd.) | | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| Kang-Wei Chang (Jin Yu Hua Investment Co., Ltd.) | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | |

| Name | Qualifications | Directors or Supervisors shall meet one of the following professional requirements, together with at least five years work experience. | | | Independent status (Note2) | | | | | | | | | | | | Number of serve as an independent director of public companies. |
|--|----------------|---|--|--|----------------------------|---|---|---|---|---|---|---|---|----|----|----|---|
| | | An instructor or higher up in a department of commerce, law, finance, accounting, or other academic department related to company business in a public or private junior college, college, or university. | A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and has been awarded a certificate in a professional capacity that is necessary for company business. | Having work experience in the area of commerce, law, finance or accounting, or otherwise necessary for company business. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Yu-Chi Huang (Jin Yu Hua Investment Co., Ltd.) | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Ching-Wen Cheng (Jin Yu Hua Investment Co., Ltd.) | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Ying-Ta Chi (Jin Yu Hua Investment Co., Ltd.) | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Chin-Yun Lu (Huasan Investment Co., Ltd.) | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |

Note 1: The number of the column will be adjusted by real numbers.

Note 2: During 2 years before being elected or the tenor, directors or supervisors who meet the following conditions shall mark with "V" in correspondent boxes.

- Neither employees of Bank nor its affiliates.
- Neither a director/supervisor of Bank nor its affiliates, unless the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares.
- Not an individual shareholder who holds shares, together with those held by the person spouse, minor children, or held under others' names, in an aggregate amount of 1% or more of the total outstanding shares of the company or ranks among the top ten shareholders who are natural persons in terms of the share volume held.
- Not a spouse or relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- Not directors, supervisors, or employees of a corporate shareholder that directly holds 5% or more of the total outstanding shares of the Bank or ranks among the top 5 corporate shareholders in the terms of share volume held.
- Not directors, supervisors, or executive officer, or shareholder holding 5% or more shares of a specific company or institution and who also has financial or business dealings with the company.
- Not a professional, or owner, partner, director, supervisor, or executive officer and the spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting or consulting services to the Bank or to any affiliates.
- Directors, supervisors, managers or shareholders holding more than 5% of specific companies or institutions that do not have financial or business dealings with banks.
- Non-banking or related corporations that provide audit or business owners, partners, directors, supervisors, managers and their spouses of the professionals (business, legal, financial, accounting), sole proprietorship, partnership, company or institution whose cumulative amount of remuneration in the past two years has not exceeded TWD 500,000.
- Not a spouse or relative within the second degree of kinship within directors.
- Not any of the circumstances in the subparagraphs of Article 30 of the Company Act.
- Not elected in the capacity of government agency, legal entity, or its representative thereof, as provided in the Article 27 of the Company Act.



3-2-2. List of Executives and Principal Officers

| Title (Nationality) | Name (Gender) | Date of Inauguration | Shares Owned | | Shares Owned by Spouses and Minors | | Shares Held under Surrogate A/C | |
|---|------------------------------|-------------------------|------------------|-------|--|-------|------------------------------------|---|
| | | | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| President (R.O.C.) | Jung-Hsien Chiu (Male) | May. 01, 2017 | 1,488,003 | 0.177 | - | - | - | - |
| Chief Auditor (R.O.C.) | Chih-Sheng Hsiao (Male) | Jan. 01, 2014 | 1,174,186 | 0.140 | 350,738 | 0.043 | - | - |
| Senior Executive Vice President (Department General Manager) (R.O.C.) | Yun-Ching Wang (Male) | Jul. 01, 2016 | 555,474 | 0.066 | 281,837 | 0.035 | - | - |
| Senior Executive Vice President (R.O.C.) | Huan-Mou Cheng (Male) | Jul. 01, 2016 | 304,362 | 0.036 | 153,580 | 0.019 | - | - |
| Senior Executive Vice President (R.O.C.) | Kuang-Hsiung Huang (Male) | Sep. 17, 2018 | 424,010 | 0.050 | 382,093 | 0.047 | - | - |
| Executive Vice President (Branch General Manager) (R.O.C.) | Shih-Chien Chin (Male) | Sep. 04, 2017 | 912,947 | 0.109 | 219,866 | 0.027 | - | - |
| Executive Vice President (R.O.C.) | Wei-Bin Lin (Male) | Jul. 01, 2016 | 256,894 | 0.031 | - | - | - | - |
| Executive Vice President (Branch General Manager) (R.O.C.) | Wen-Lung Chen (Male) | Sep. 04, 2017 | 582,197 | 0.069 | 104,632 | 0.013 | - | - |
| Executive Vice President (Branch General Manager) (R.O.C.) | His-Tung Chang (Male) | Jan. 09, 2016 | 865,680 | 0.103 | 4,356 | 0.001 | - | - |
| Executive Vice President (Branch General Manager) (R.O.C.) | Chien-Cheng Hsu (Male) | Apr. 08, 2015 | 819,317 | 0.097 | 133,349 | 0.016 | - | - |
| Department General Manager (R.O.C.) | Shi-Zhao Lee (Male) | Sep. 17, 2018 | 204,523 | 0.024 | 141,540 | 0.018 | - | - |
| Department General Manager (R.O.C.) | Chih-Peng Yang (Male) | Sep. 04, 2017 | 180,201 | 0.021 | - | - | - | - |
| Department General Manager (R.O.C.) | Ming-Heng Chan (Male) | Sep. 01, 2013 | 275,518 | 0.033 | 50,731 | 0.006 | - | - |
| Department General Manager | Chuan-Hung Yang (Male) | Feb. 07, 2015 | 183,772 | 0.022 | - | - | - | - |
| Department General Manager (R.O.C.) | Hung-Tsang Chiang (Male) | Oct. 15, 2013 | 316,216 | 0.038 | 167,242 | 0.021 | - | - |

As of Dec. 31, 2019, Shares Held (%)

| Education & Key Past Positions | Other Positions Held Current | Note (Note3) |
|--|------------------------------|--------------|
| Department of Industrial and Information Management, National Cheng Kung University, Master Senior Executive Vice President of COTA Bank | - | - |
| Department of Public Finance and Taxation, Feng Chia University Senior Executive Vice President of COTA Bank | - | - |
| Department of Finance, National Chung Hsing University, Master Executive Vice President of COTA Bank, General Manager of IT Management Office | - | - |
| Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Executive Vice President of COTA Bank, General Manager of Taichung Branch | - | - |
| Department of Economics, Feng Chia University Executive Vice President of COTA Bank, General Administration Department | | |
| Department of Applied Math., University of North Texas, USA, Master Executive Vice President of COTA Bank, General Manager of Credit Management Department | - | - |
| Graduate School of Management, University of California at Riverside, Master Department General Manager of COTA Bank, International Banking Department and Offshore Banking Branch | | |
| Department of Business Administration, Chaoyang University of Technology Branch General Manager of COTA Bank, Nanmen Branch | - | - |
| Department of Electronics Engineering, Kuang-Hwa Vocational High School of Technology Branch General Manager of COTA Bank, Zanghua Branch | - | - |
| Department of Business Administration, Tunghai University, Chief Secretary of COTA Bank, Secretariat of The Board of Directors | - | |
| Department of Business Administration, Chung Yuan University Branch General Manager of COTA Bank, Xinzhuang Branch | - | |
| Department of Business Administration, National Open College of Continuing Education Affiliated to National Taichung Institute of Technology Branch General Manager of COTA Bank, Taichung Branch | - | |
| Master Program in Senior Executive Master of Business Administration, Chaoyang University of Technology Deputy General Manager of COTA Bank, Business Department | | - |
| Department and Graduate Institute of Finance, Chaoyang University of Technology Deputy General Manager of COTA Bank, Risk Management Center | - | - |
| Department of Public and Management, Supplementary Junior College of the National Open University Department General Manager of COTA Bank, Consumer Banking Center | | - |



| Title (Nationality) | Name (Gender) | Date of Inauguration | Shares Owned | | Shares Owned by Spouses and Minors | | Shares Held under Surrogate A/C | |
|--|-----------------------------|-------------------------|------------------|--------|--|-------|------------------------------------|---|
| | | | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| Department General Manager (R.O.C.) | Chun-Sheng Lin (Male) | Apr. 01, 2010 | 196,900 | 0.023 | 44,208 | 0.005 | - | - |
| Department General Manager (R.O.C.) | Chang-Chieh Lin (Male) | Oct. 15, 2013 | 3092,744 | 0.037 | - | - | - | - |
| Department General Manager (R.O.C.) | Chi-Nan Huang (Female) | Jul. 01, 2016 | 86,086 | 0.010 | - | - | - | - |
| Department General Manager (R.O.C.) | Jun-Long Tsai (Male) | Jul. 01, 2016 | 196,950 | 0.023 | 260,254 | 0.032 | - | - |
| Department General Manager (R.O.C.) | Yung-Hsieh Chen (Male) | Dec. 01, 2015 | 21,094 | 0.003 | - | - | - | - |
| Department General Manager (R.O.C.) | Chen-Chuan Kuo | May. 01, 2017 | 1,512 | 0.000- | - | - | - | - |
| Branch General Manager (R.O.C.) | Jui-Sen Liao (Male) | Jan. 01, 2018 | 256,447 | 0.031 | 8,130 | 0.001 | - | - |
| Branch General Manager (R.O.C.) | Chih-Hung Huang (Male) | Jan. 01, 2018 | 443,651 | 0.053 | 151,946 | 0.019 | - | - |
| Branch General Manager (R.O.C.) | Cheng-Hsien Hsieh (Male) | Aug. 01, 2014 | 512,164 | 0.061 | 129,152 | 0.016 | - | - |
| Branch General Manager (R.O.C.) | Mei-Ling Shih (Female) | Jul. 01, 2016 | 339,265 | 0.040 | 29,125 | 0.004 | - | - |
| Branch General Manager (R.O.C.) | Ling-Chen Ting (Female) | Jan. 01, 2018 | 729,374 | 0.087 | - | 0.000 | - | - |
| Branch General Manager (R.O.C.) | Mao-Sheng Huang (Male) | Aug. 01, 2014 | 319,202 | 0.038 | 72,187 | 0.009 | - | - |
| Branch General Manager (R.O.C.) | Chi-Shen Huang (Male) | Jan. 08, 2014 | 665,509 | 0.079 | 74,414 | 0.009 | - | - |
| Branch General Manager (R.O.C.) | Hung-Chi Tung (Male) | Jan. 01, 2012 | 475,483 | 0.057 | 336,056 | 0.042 | - | - |
| Branch General Manager (R.O.C.) | Chang-Cheng Chen (Male) | Jan. 09, 2016 | 250,945 | 0.030 | 915 | 0.000 | - | - |
| Branch General Manager (R.O.C.) | Chia-Wen Ke (Male) | Dec. 08, 2014 | 311,572 | 0.037 | - | - | - | - |
| Branch General Manager (R.O.C.) | Tzu-Hsiu Liang (Male) | Apr. 01, 2016 | 200,605 | 0.024 | 69,618 | 0.009 | - | - |
| Branch General Manager (R.O.C.) | His-Hsien Wang (Male) | Jan. 09, 2016 | 252,058 | 0.030 | - | - | - | - |
| Branch General Manager (R.O.C.) | Cheng-Hao Wu (Male) | Jan. 08, 2014 | 145,949 | 0.017 | - | - | - | - |

| Education & Key Past Positions | Other Positions Held Current | Note (Note3) |
|---|------------------------------|--------------|
| Department of Chemical Engineering, Chung Yuan Christian University Deputy General Manager of COTA Bank, Risk Management Center | - | - |
| Department of Economics, Tunghai University Department General Manager of COTA Bank, Business Department | - | - |
| Department of Public Administration, National Chung Hsing University Deputy General Manager of COTA Bank, International Banking Department and Offshore Banking Branch | - | - |
| Department of Business Administration, National Chung Cheng University, Master Deputy General Manager of COTA Bank, Business Department | - | - |
| Department of Computer Science and Information Engineering (CSIE), National Taiwan University, Master Senior Engineer of ASUS | | |
| Department of Risk Management & Insurance, Feng Chia University, Master Deputy General Manager of COTA Bank, Business Department | - | - |
| Department of Public Finance and Taxation, Institute of Industrial & Business Administration, Tamsui Oxford College Branch General Manager of COTA Bank, Chengong Branch | - | - |
| Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Department General Manager of COTA Bank, Credit Card Center | - | - |
| Department of Business, The National Open University Branch General Manager of COTA Bank, Dazhi Branch | - | - |
| Department of International Business, National Open College of Continuing Education Department General Manager of COTA Bank, Trust Department | | |
| Department of Banking and Insurance, National Taichung Institute of Technology Department General Manager of COTA Bank, Business Department | - | - |
| Department of Finance, Chung Hua University Branch General Manager of COTA Bank, Xinzhu Branch | - | - |
| Department of Banking and Insurance, National Taichung Institute of Technology Branch General Manager of COTA Bank, Banciao Branch | - | - |
| Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Branch General Manager of COTA Bank, Fengxin Branch | - | - |
| Department of Extension Business Vocational School, National Taichung Institute of Technology Branch General Manager of COTA Bank, Fengxin Branch | - | - |
| Department of Technology Management, Chung Hua University, Master Commissioner of COTA Bank, Credit Management Department | - | - |
| Department of Business Administration, Feng Chia University, Master Project Manager of COTA Bank, Credit Management Department | - | - |
| Department of Law, Soochow University Branch General Manager of COTA Bank, Taipei Branch | - | - |
| Department of Business Administration, Fugen Catholic University Deputy General Manager of COTA Bank, Banciao Branch | - | - |



Corporate Governance

| Title (Nationality) | Name (Gender) | Date of Inauguration | Shares Owned | | Shares Owned by Spouses and Minors | | Shares Held under Surrogate A/C | |
|------------------------------------|-----------------------------|-------------------------|------------------|-------|--|-------|------------------------------------|---|
| | | | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| Branch General Manager (R.O.C.) | Shu-Chen Shih (Male) | Jan. 09, 2016 | 542,739 | 0.065 | - | - | - | - |
| Branch General Manager (R.O.C.) | Shih-Tsung Liu (Male) | Jun. 24, 2013 | 410,635 | 0.049 | 362,087 | 0.045 | - | - |
| Branch General Manager (R.O.C.) | Hong-Yi Chen (Male) | Jul. 01, 2016 | 272,693 | 0.032 | 372,235 | 0.046 | | |
| Branch General Manager (R.O.C.) | Kuo-Mao Wu (Male) | Jan. 01, 2017 | 20,479 | 0.002 | - | - | - | - |
| Branch General Manager (R.O.C.) | Pi-Lan Hsu (Male) | Sep. 17, 2018 | - | - | - | - | - | - |
| Branch General Manager (R.O.C.) | Ming-Yung Yu (Male) | Aug. 01, 2014 | 237,034 | 0.028 | 29,466 | 0.004 | - | - |
| Branch General Manager (R.O.C.) | Ping-Hung Chuang (Male) | Oct. 01, 2012 | 109,489 | 0.013 | - | - | - | - |
| Branch General Manager (R.O.C.) | Hsien-Hsun Chiang (Male) | Jun. 24, 2013 | 320,531 | 0.038 | 21,113 | 0.003 | | |
| Branch General Manager (R.O.C.) | Ming-Feng Wu (Male) | Oct. 01, 2014 | 45,926 | 0.005 | - | - | - | - |
| Branch General Manager (R.O.C.) | Tien-Long Yang (Male) | Jul. 01, 2014 | 226,224 | 0.027 | 49,562 | 0.006 | - | - |
| Branch General Manager (R.O.C.) | Po-Hsun Chang (Male) | Oct. 01, 2015 | 50,048 | 0.006 | - | - | - | - |
| Branch General Manager (R.O.C.) | Chung-Yi Hsu (Male) | Jan. 09, 2016 | 329,134 | 0.039 | 122,231 | 0.015 | - | - |
| Branch General Manager (R.O.C.) | Yung-Hung Tsao (Male) | Mar. 01, 2015 | 126,181 | 0.015 | - | - | - | - |

Note: 3. The general manager or equivalent (the top manager) and the chairman are the same person, or are relatives such as spouse or first-degree relatives, and should explain the reason, rationality, necessity and relevant information about the measures (For example, to increase the number of independent directors, more than half of the directors must not serve as employees or managers)

| Education & Key Past Positions | Other Positions Held Current | Note (Note3) |
|--|------------------------------|--------------|
| Department of Social Science, The National Open University Branch General Manager of COTA Bank, Fengdong Branch | - | - |
| Department of Business, The National Open University Branch General Manager of COTA Bank, Fengle Branch | - | - |
| Department of Applied Commerce, National Taichung Institute of Technology Deputy General Manager of COTA Bank, General Administration Department | - | - |
| Department of International Business, Tatung College of Business Project Manager of COTA Bank, Ciaotou Branch | - | - |
| EMBA in General Management, Chang Gung University, Master Deputy General Manager of COTA Bank, Xinzhuang Branch | - | - |
| Department of Business Administration, Taichung College of Business Project Manager of COTA Bank, Credit Management Department | - | - |
| The National Kaohsiung First University of Science and Technology, Graduate Institute of Business Management Senior Manager of Jih Sun International Bank | - | - |
| Department of Cooperative Economics, Tamkang University Branch General Manager of COTA Bank, Zhongshan Branch | - | - |
| Department of Business Administration, Soochow University Branch General Manager of Sunny Bank, Hsiaokang Branch | - | - |
| Department of Finance, Chaoyang University of Technology Deputy General Manager of COTA Bank, Taichung Branch | - | - |
| Department of Finance, Chaoyang University of Technology, Master Project Manager of COTA Bank, Zhongshan Branch | - | - |
| Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Branch General Manager of COTA Bank, Taoyuan Branch | - | - |
| Department of Business Administration, Feng Chia University, Master Project Manager of COTA Bank, Nantun Branch | - | - |



3-2-3. Directors (including, Supervisors, President and Executive Vice Presidents) Remuneration in Recent Year

(1) Directors' Remuneration

| Title | Name | Compensation | | | | | | | |
|---------------------------------|--|--------------|----------------|--------------------------------|----------------|--------------------------|----------------|---------------------------|----------------|
| | | Rewards (A) | | Pension and Superannuation (B) | | Earning Distribution (C) | | Professional Practice (D) | |
| | | Bank | Con-Solidation | Bank | Con-Solidation | Bank | Con-Solidation | Bank | Con-Solidation |
| Chairman | Song-Yie Liao | 11,760 | 11,760 | - | - | 15,461 | 15,461 | 972 | 972 |
| Managing Director | Ying-Che Chang | | | | | | | | |
| Managing Director | Xian-De Lai | | | | | | | | |
| Managing Director | Chuan Cheng Hat Co., Ltd. Assigned Representative: Min-Chang Lin | | | | | | | | |
| Director | Chien-Chung Lai | | | | | | | | |
| Director | Chun-Chieh Wang | | | | | | | | |
| Director | Chi-Peng Yang (Representing: Chia De Development and Investment Co., Ltd.) | | | | | | | | |
| Director | Kang-Wei Chang Representative: Jin Yu Hua Investment Co., Ltd. | | | | | | | | |
| Director | Chin-Chih Tseng Representative: Jin Yu Hua Investment Co., Ltd. (Apr. 9, 2019 dismissal) | | | | | | | | |
| Director | Yu-Chi Huang Representative: Jin Yu Hua Investment Co., Ltd. (Apr. 10, 2019 reassign) | | | | | | | | |
| Director | Ching-Wen Cheng Representative: Jin Yu Hua Investment Co., Ltd. | | | | | | | | |
| Director | Hua-Chiang Chi Representative: Jin Yu Hua Investment Co., Ltd. (Feb. 20, 2019 dismissal) | | | | | | | | |
| Director | Ying-Ta Chi Representative: Jin Yu Hua Investment Co., Ltd. (Feb 21, 2019 reassign) | | | | | | | | |
| Director | Chin-Yun Lu Representative: Huasan Investment Co., Ltd | | | | | | | | |
| Managing (Independent) Director | Kun-Hsien Lin | 2,640 | 2,640 | - | - | 3,865 | 3,865 | 294 | 294 |
| Independent Director | Po-Yao Chi | | | | | | | | |
| Independent Director | Tsung-Ta Kuo | | | | | | | | |

Note: 1. Please explain the policy, system, standards and structure of independent directors' remuneration payment, and explain the relevance to the amount of remuneration according to the responsibilities, risks, time invested and other factors: the remuneration of independent directors of the Bank is in accordance with the Bank's Articles of Association and "Directors and employees compensation policy" and other relevant regulations, according to their level of participation in the Bank's operations and with reference to industry standards, with the approval of the Salary and Remuneration Committee to the Board of Directors for discussion and approval.

2. In addition to the disclosures in the above table, the remuneration received by the company's directors for all services provided in the financial report (such as serving as a consultant for non-employees) in the most recent year: 0

Remarks: 1. Earnings after income tax amount to TWD748,626 thousand 2. Director of Chih-Peng Yang is also General Manager of Credit Management Department.

As of Dec. 31, 2019, Unit: TWD thousa

| Sum of A,B , C and D /after- tax profit (%) | | Compensations received by part-time employees | | | | | | | | Sum of A,B,C,D, E,F AND G / after-tax profit (%) | | Whether or not any compensation is received from other reinvested businesses than subsidiaries or parent company |
|---|----------------|---|----------------|--------------------------------|----------------|---------------------------------|-----------------|---------------|-----------------|--|----------------|--|
| | | Salary, Bonus and Special Disbursement (E) | | Pension and Superannuation (F) | | Employee Bonus Distribution (G) | | | | | | |
| Bank | Con-Solidation | Bank | Con-Solidation | Bank | Con-Solidation | COTA | | Consolidation | | COTA | Con-Solidation | |
| | | | | | | Cash Dividend | Stock Dividends | Cash Dividend | Stock Dividends | | | |
| 3.77% | 3.77% | 2,019 | 2,019 | - | - | 134 | - | 134 | - | 4.05% | 4.05% | NIL |
| 0.91% | 0.91% | - | - | - | - | - | - | - | - | 0.91%` | 0.91% | NIL |



Classification of Remuneration

Unit: TWD

| Classification of Remuneration for Directors | Name of Directors | | | |
|--|--|---|---|--|
| | Aggregate amount of A, B, C and D | | Aggregate amount of A, B, C, D, E, F and G | |
| | Bank | Consolidation | Bank | Consolidation |
| below 1,000,000 | Min-Chang Lin Chi-Peng Yang Kang-Wei Chang Chin-Chih Tseng Yu-Chi Huang Ching-Wen Cheng Hua-Chiang Chi Ying-Ta Chi Chin-Yun Lu | Min-Chang Lin Chi-Peng Yang Kang-Wei Chang Chin-Chih Tseng Yu-Chi Huang Ching-Wen Cheng Hua-Chiang Chi Ying-Ta Chi Chin-Yun Lu | Min-Chang Lin Kang-Wei Chang Chin-Chih Tseng Yu-Chi Huang Ching-Wen Cheng Hua-Chiang Chi Ying-Ta Chi Chin-Yun Lu | Min-Chang Lin Kang-Wei Chang Chin-Chih Tseng Yu-Chi Huang Ching-Wen Cheng Hua-Chiang Chi Ying-Ta Chi Chin-Yun Lu |
| 1,000,000 - 2,000,000 | - | - | - | - |
| 2,000,000 - 3,500,000 | Kun-Hsien Lin Ying-Che Chang Xian-De Lai Po-Yao Chi Tsung-Ta Kuo Chun-Chieh Wang Chien-Chung Lai Chuan Cheng Hat Co., Ltd. Chia De Development and Investment Co., Ltd. Huasan Investment Co., Ltd | Kun-Hsien Lin Ying-Che Chang Xian-De Lai Po-Yao Chi Tsung-Ta Kuo Chun-Chieh Wang Chien-Chung Lai Chuan Cheng Hat Co., Ltd. Chia De Development and Investment Co., Ltd. Huasan Investment Co., Ltd | Kun-Hsien Lin Ying-Che Chang Xian-De Lai Po-Yao Chi Tsung-Ta Kuo Chun-Chieh Wang Chien-Chung Lai Chuan Cheng Hat Co., Ltd. Chia De Development and Investment Co., Ltd. Huasan Investment Co., Ltd | Kun-Hsien Lin Ying-Che Chang Xian-De Lai Po-Yao Chi Tsung-Ta Kuo Chun-Chieh Wang Chien-Chung Lai Chuan Cheng Hat Co., Ltd. Chia De Development and Investment Co., Ltd. Huasan Investment Co., Ltd |
| 3,500,000 - 5,000,000 | Song-Yie Liao | Song-Yie Liao | Song-Yie Liao | Song-Yie Liao |
| 5,000,000 - 10,000,000 | Jin Yu Hua Investment Co., Ltd. | Jin Yu Hua Investment Co., Ltd. | Jin Yu Hua Investment Co., Ltd. | Jin Yu Hua Investment Co., Ltd. |
| 10,000,000 - 15,000,000 | - | - | - | - |
| 15,000,000 - 30,000,000 | - | - | - | - |
| 30,000,000 - 50,000,000 | - | - | - | - |
| 50,000,000 - 100,000,000 | - | - | - | - |
| Above 100,000,000 | - | - | - | - |
| TOTAL | 21 (Persons) | 21 (Persons) | 21(Persons) | 21(Persons) |

(2) President and Senior Executive Vice President Remuneration

As of Dec. 31, 2019, Unit: TWD thousand

| Title | Name | Supervisors' Remuneration | | | | | | | | Sum of A, B ,C and D /after-tax profit (%) (Note8) | | Whether or not any compensation is received from other reinvested businesses than subsidiaries or parent company (Note9) | | |
|---------------------------------|--------------------|---------------------------|-------------------------------|--------------------------------------|-------------------------------|--|-------------------------------|--------------------------------------|-------------------------------|--|-------------------------------|--|---------|-----|
| | | Rewards (A) (Note2) | | Pension and Superannuation (B) | | Earning Distribution (C) (Note3) | | Professional Practice (D) (Note4) | | | | | | |
| | | Bank | Con- solidation (Note5) | Bank | Con- solidation (Note5) | Bank | Con- solidation (Note5) | Bank | Con- solidation (Note5) | Bank | Con- solidation (Note5) | | | |
| President | Jung-Hsien Chiu | 7,647 | 7,647 | 0 | 0 | 7,338 | 7,338 | Cash | Stock | Cash | Stock | 2.1109% | 2.1109% | NIL |
| Chief Auditor | Chih-Sheng Hsiao | | | | | | | | | | | | | |
| Senior Executive Vice President | Yun-Ching Wang | | | | | | | | | | | | | |
| Senior Executive Vice President | Huan-Mou Cheng | | | | | | | 818 | 0 | 818 | 0 | | | |
| Senior Executive Vice President | Kuang-Hsiung Huang | | | | | | | | | | | | | |

Note: Not applied as the Bank is not a listed company.





Classification of Remuneration

Unit: TWD

| Classification of Remuneration for President and Senior Executive Vice President | Name of President and Senior Executive Vice President | |
|--|--|--|
| | Bank (Note 6) | Consolidation (Note7) |
| below 1,000,000 | - | - |
| 1,000,000 - 2,000,000 | - | - |
| 2,000,000 - 3,500,000 | Chih-Sheng Hsiao, Yun-Ching Wang, Huan-Mou Cheng, Kuang-Hsiung Huang | Chih-Sheng Hsiao, Yun-Ching Wang, Huan-Mou Cheng, Kuang-Hsiung Huang |
| 3,500,000 - 5,000,000 | Jung-Hsien Chiu, | Jung-Hsien Chiu, |
| 5,000,000 - 10,000,000 | - | - |
| 10,000,000 - 15,000,000 | - | - |
| 15,000,000 - 30,000,000 | - | - |
| 30,000,000 - 50,000,000 | - | - |
| 50,000,000 - 100,000,000 | - | - |
| Above 100,000,000 | - | - |
| TOTAL | 5 (Persons) | 5 (Persons) |

Note 1: Remuneration paid to presidents and vice presidents should be disclosed aggregately with the names indicated for each remuneration range. Director should be listed in this table and table 1-1 table 1-2-1 and table 1-2-2 if he/she currently holds the position of presidents and vice presidents.

Note 2: Severance pay, additional pay and salary paid to presidents and vice presidents for the most recent fiscal year.

Note 3: Bonus, cash rewards, travel expenses, special disbursement, miscellaneous subsidies, house, vehicle and other pay and goods paid or provided to presidents and vice presidents. When house, vehicle is provided or exclusive pay is paid to presidents and vice presidents, the nature of the assets and the cost or market value of rent of houses and fuel expenses and miscellaneous should be disclosed. Salary of drivers, not to be included in remuneration, should be disclosed. According to "Share-based payment" in IFRS2, obtaining employee shares option certificate, new restricted employee shares, participating in cash injection for shares are to be included in remuneration.

Note 4: The proposed amount of employee dividends, including stock dividends and cash dividends, paid to presidents and vice presidents approved by the board before shareholder's meeting. It should also fill in appendix table 1-3.

Note 5: Total remuneration paid by the all companies (including our company) in the consolidated report to presidents and vice presidents should be disclosed.

Note 6: Names of president and vice presidents must be disclosed in the suitable range based on the remuneration they received.

Note 7: Total remuneration paid by the all companies (including our company) in the consolidated report to presidents and vice presidents should be disclosed. And names of president and vice presidents must be disclosed in the suitable range based on the remuneration they received.

Note 8: Net income disclosed from latest financial statement of each company or parent company.

Note 9: a. Remuneration amount received by presidents and vice presidents from non-group affiliates.

b. For remuneration received by presidents and vice presidents from non-group affiliates or parent company, the amount must be shown in the Column E under the Remuneration Range Table. The Column must be renamed to -Parent company and All Investment Businesses.

c. Remuneration refers to compensation, remuneration, employee dividends (including dividends to employee, board member and supervisor), and payments related to business execution expenses received by presidents and vice presidents of COTA serving as directors, supervisors or managers of non-group affiliates or parent company.

* Remuneration shown under the chart is for disclosure purpose. It is not subject to "income" under the Income Tax Act, and thereby is not taxable.

(3) List of Compensation Paid to President, Executive Vice Presidents and General Managers

As of Dec. 31, 2019; Unit: TWD thousand

| | Title | Name | Stock dividends | Cash Dividends | Total Amount | Total Amount/ Net Income (%) |
|---------|--|--------------------|-----------------|----------------|--------------|------------------------------|
| Manager | President | Jung-Hsien Chiu | - | 5,891 | 5,891 | 0.79% |
| | Chief Auditor | Chih-Sheng Hsiao | | | | |
| | Senior Executive Vice President (Department General Manager) | Yun-Ching Wang | | | | |
| | Senior Executive Vice President | Huan-Mou Cheng | | | | |
| | Senior Executive Vice President | Kuang-Hsiung Huang | | | | |
| | Executive Vice President (Branch General Manager) | Shih-Chien Chin | | | | |
| | Executive Vice President | Wei-Bin Lin | | | | |
| | Executive Vice President (Branch General Manager) | Wen-Lung Chen | | | | |
| | Executive Vice President (Branch General Manager) | His-Tung Chang | | | | |
| | Executive Vice President (Branch General Manager) | Chien-Cheng Hsu | | | | |
| | Department General Manager | Shi-Zhao Lee | | | | |
| | Department General Manager | Chih-Peng Yang | | | | |
| | Department General Manager | Ming-Heng Chan | | | | |
| | Department General Manager | Chuan-Hung Yang | | | | |
| | Department General Manager | Hung-Tsang Chiang | | | | |
| | Department General Manager | Chun-Sheng Lin | | | | |
| | Department General Manager | Chang-Chieh Lin | | | | |
| | Department General Manager | Chi-Nan Huang | | | | |
| | Department General Manager | Jun-Long Tsai | | | | |
| | Department General Manager | Yung-Hsieh Chen | | | | |
| | Department General Manager | Chen-Chuan Kuo | | | | |
| | Branch General Manager | Jui-Sen Liao | | | | |
| | Branch General Manager | Chih-Hung Huang | | | | |
| | Branch General Manager | Cheng-Hsien Hsieh | | | | |
| | Branch General Manager | Mei-Ling Shih | | | | |
| | Branch General Manager | Ling-Chen Ting | | | | |
| | Branch General Manager | Mao-Sheng Huang | | | | |
| | Branch General Manager | Chi-Shen Huang | | | | |
| | Branch General Manager | Hung-Chi Tung | | | | |
| | Branch General Manager | Chang-Cheng Chen | | | | |
| | Branch General Manager | Chia-Wen Ke | | | | |
| | Branch General Manager | Tzu-Hsiu Liang | | | | |
| | Branch General Manager | His-Hsien Wang | | | | |
| | Branch General Manager | Cheng-Hao Wu | | | | |
| | Branch General Manager | Shu-Chen Shih | | | | |
| | Branch General Manager | Shih-Tsung Liu | | | | |
| | Branch General Manager | Hong-Yi Chen | | | | |
| | Branch General Manager | Kuo-Mao Wu | | | | |
| | Branch General Manager | Pi-Lan Hsu | | | | |
| | Branch General Manager | Ming-Yung Yu | | | | |
| | Branch General Manager | Ping-Hung Chuang | | | | |
| | Branch General Manager | Hsien-Hsun Chiang | | | | |
| | Branch General Manager | Ming-Feng Wu | | | | |
| | Branch General Manager | Tien-Long Yang | | | | |
| | Branch General Manager | Po-Hsun Chang | | | | |
| | Branch General Manager | Chung-Yi Hsu | | | | |
| | Branch General Manager | Yung-Hung Tsao | | | | |

Note: Not applied as the Bank is not a listed company.

3-2-4. The consultant information of chairman and general manager of the retirement of a bank or its affiliates

| Title (Nationality) | Name (Gender) | Pre-retirement position | | Date of Consultant | Employment purpose | Segregation of Duties | Remuneration | After-tax profit |
|------------------------|------------------|--------------------------|-----------------------|-----------------------|-----------------------|--------------------------|--------------|---------------------|
| | | Institution and Title | Date of Retirement | | | | | |
| NIL | | | | | | | | |

3-2-5. Analysis of Remuneration Paid to Directors, Supervisors, and Executive Officers of the Bank and All Companies in the Consolidated Financial Statements as a Percentage of Net Profit after Tax during the Past Two Years

| Item | Total Amount / Net Income After Tax | | |
|---|-------------------------------------|-----------|--------|
| | Year 2019 | Year 2018 | % |
| Director (Including independent director) | 4.96% | 5.02% | -0.06% |

Remarks:

Remuneration of director is calculated based on bank's performance and regular gross profit and is paid in accordance with guidelines of the Bank's articles of incorporate and the resolution of shareholders' general meeting.

| Item | Total Amount / Net Income After Tax | | |
|---|-------------------------------------|-----------|----------|
| | Year 2019 | Year 2018 | % |
| President and Senior Executive Vice President | 2.1109% | 3.0497% | -0.9388% |

Remarks:

1. Remuneration for president and vice-president is paid in accordance with rules approved by the board of directors.
2. Payment of employee salary is calculated by related by-laws.
3. Annual profit should be paid 6% to employees and paid in stock or cash, it shall be decided by a resolution to be adopted by a majority vote of the directors at a meeting of the board of directors attended by at least a two-thirds of the entire directors of the company, and report to shareholder meeting.
4. Performance bonus is paid according to year earning status and rules of performance evaluation.



3-3. Operation of Corporate Governance

3-3-1. Operation of board of directors: 4 meetings were convened last year; and the records of attendance of directors and supervisors at the meetings are as below:

| Title | Name | Attendance in Person(B) | Attendance by Proxy | Actual Attendance Rate (%) | Annotations |
|---------------------------------|---|-------------------------|---------------------|----------------------------|-------------|
| Chairman | Song-Yie Liao | 4 | 0 | 100 | |
| Managing Director | Xian-De Lai | 4 | 0 | 100 | |
| Managing (Independent) Director | Kun-Hsien Lin | 4 | 0 | 100 | |
| Managing Director | Ying-Che Chang | 4 | 0 | 100 | |
| Managing Director | Chuan Cheng Hat Co., Ltd. Representative: Min-Chang Lin | 4 | 0 | 100 | |
| Independent Director | Po-Yao Chi | 4 | 0 | 100 | |
| Independent Director | Tsung-Ta Kuo | 4 | 0 | 100 | |
| Director | Chun-Chieh Wang | 4 | 0 | 100 | |
| Director | ChiaDe Development and Investment Co., Ltd. Representative: Chi-Peng Yang | 4 | 0 | 100 | |
| Director | Chien-Chung Lai | 4 | 0 | 100 | |
| Director | Kang-Wei Chang Representing: Jin Yu Hua Investment Co., Ltd. | 3 | 1 | 75 | |
| Director | Chin-Chih Tseng (Retired on Apr 09 2019) Yu Chi Huang (Succeed on Apr 10 2019) Representing: Jin Yu Hua Investment Co., Ltd. | 4 | 0 | 100 | |
| Director | Ching-Wen Cheng Representing: Jin Yu Hua Investment Co., Ltd. | 3 | 1 | 75 | |
| Director | Hua Chiang Ji (Retired on Feb 20 2019) Yin Da Ji (Succeed on Feb 21 2019) Representing: Jin Yu Hua Investment Co., Ltd. | 4 | 0 | 100 | |
| Director | Chi-Chang Liu (Retired on Sep.30 2018) Chin-Yun Lu (Succeed on Oct 1 2018) Representing: Huasan Investment Co., Ltd. | 3 | 1 | 75 | |

Other matters to be noted:

1. In the event of any following circumstances occurring while the board meeting is convened, please state the date, session, motion, the opinion of independent directors and how the opinions are handled by the bank:

a. Matters specified in Article 14-3 of the Securities Exchange Act:



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| Date and Order of Board Meeting | Motion | Opinion from Independent Directors and how it was handled |
|--|--|---|
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 7 th meeting of the 8 th Board of Directors on 2019 Aug.28 | Annual and Semi-annual financial report. | None |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | Capital increase from retained earnings of 2018. | None |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | Appointment and Remuneration of CPA | None |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 8 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Amendments to the "Procedures for the Acquisition or Disposal of Assets" | None |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | The Bank's Annual Report on the Overall Implementation of Information Security. Issuing a statement of overall information security implementation. | None |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | The Bank's Annual Statement of Internal Control System. | None |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | Audit report from accountancy firm. The Bank reports on the issues raised in the audit report. | None |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | COTA Commercial Bank (including concurrent Insurance Agent business) Annual Statement on Internal AML/CFT Control. | None |
| 7 th meeting of the 8 th Board of Directors on 2019 Aug.28 | Credit extended to Su, Chi-Hsiang, the actual operator of Corporate Director: ChiaDe Development and Investment Co., Ltd. | None |
| 8 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Donation to COTA Culture and Education Foundation. | None |
| 8 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Audit plan declaration form of 2020 | None |
| 8 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Credit extended to Min-Chang Lin, the designated representative executive of Chuan Cheng Hat Co., Ltd. | None |
| 8 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Amendments to the "Internal Control System". | None |

b. Other than matters hereinabove, resolutions which were objected or kept qualified opinion by independent board directors: None.

2. Recusal of directors based upon conflicts of interest:

◆ 7th meeting of the 8th Board of Directors on August 28, 2019:

- Motion: Credit extended to Su, Chi-Hsiang, the actual operator of Corporate Director: ChiaDe Development and Investment Co., Ltd.

Name of director: Chi-Peng Yang

Reason for recusal: A matter bearing on the personal interest of Director.

Voting participation situation: Interested person Director Chi-Peng Yang left the meeting to rescue himself and did not participate in the discussion and resolution of this case.

◆ The 8th Meeting of the 8th Board of Directors on December.25, 2019:

- Motion: 2020 Internal audit plan declaration.

Name of director: Chi-Peng Yang

Reason for recusal: Chi-Peng Yang is the manager of Credit Management Department.

Voting participation situation: Interested person Director Chi-Peng Yang left the meeting to rescue himself and did not participate in the discussion and resolution of this case.

- Motion: Annual donation to COTA Cultural and Education Foundation

Name of director: Ying-Che Chang

Reason for recusal: Ying-Che Chang is a director of COTA Cultural and Education Foundation.

Voting participation situation: Interested person Director Ying-Che Chang left the meeting to rescue himself and did not participate in the discussion and resolution of this case.

- Motion: Credit extended to Min-Chang Lin, the designated representative executive of Chuan Cheng Hat Co., Ltd.

Name of director: Min-Chang Lin

Reason for recusal: A matter bearing on the personal interest of Director.

Voting participation situation: Interested person Director Min-Chang Lin left the meeting to rescue himself and did not participate in the discussion and resolution of this case.

- Motion: Laying down the "Corporate Governance Best Practice Principles" which stipulates directors are not suitable to be managers.

Name of director: Chi-Peng Yang

Reason for recusal: Chi-Peng Yang is the manager of Credit Management Department.

Voting participation situation: Interested person Director Chi-Peng Yang left the meeting to rescue himself and did not participate in the discussion and resolution of this case.

3. Listed banks should disclose information on the evaluation cycle and period, the scope, method and content of the self(or peer) evaluation of the Board of Directors, and complete Table 2(2) in Schedule 2, which shows the implementation of the evaluation by the Board of directors. (Not applicable)

4. The objective of strengthening the functions of the Board of Directors and the execution status in the current and most recent year: Cooperate with the competent authority's laws and regulations to hold various new types of business and legal training courses (such as: Board of Supervisors' Operational Practices and Corporate Governance - Sound Corporate Governance and Succession Planning, Challenges to the Banking Industry and its Management in the New International Trend of Money Laundering Prevention and Control, Corporate Malpractice Prevention - Financial Security Protection (including money laundering cases), invite directors to participate actively to enhance professional knowledge and legal literacy.

3-3-2. Implementation of the evaluation of the Board of directors

| Evaluation Cycle | Evaluation Period | Evaluation Scope | Evaluation Method | Evaluation Content |
|------------------|-------------------|------------------|-------------------|--------------------|
| N/A | N/A | N/A | N/A | N/A |

3-3-3. Operation of the auditing committee:

5 Meetings were convened last year; and the records of attendance of independent directors at the meetings are as below:

| Title | Name | Attendance in Person (B) | Attendance by Proxy | Actual Attendance Rate (%) | Annotations |
|----------------------|---------------|--------------------------|---------------------|----------------------------|-------------|
| Independent Director | Po-Yao Chi | 5 | - | 100 | |
| Independent Director | Kun-Hsien Lin | 5 | - | 100 | |
| Independent Director | Tsung-Ta Kuo | 5 | - | 100 | |

Other matters to be noted:

- In the event of any following circumstances occurring while the audit committee is convened, please state the date, session, motion, the resolution of the audit committee and how the resolutions are handled by the bank:
 - Matters specified in Article 14-5 of the Securities Exchange Act:

| Date and Order of Board Meeting | Proposal | Resolution | Opinion from bank to the resolution |
|--|--|-------------------|--|
| 5 th meeting of the 8 th Board of Directors on Mar.27, 2019 7 th meeting of the 8 th Board of Directors on Aug.28, 2019 | Annual and Semi-annual financial report | Unanimous consent | Resolution discussed and approved by board meeting |
| 5 th meeting of the 8 th Board of Directors on Mar.27, 2019 | Capital increase from retained earnings of 2018. | Unanimous consent | Resolution discussed and approved by board meeting |
| 5 th meeting of the 8 th Board of Directors on Mar.27, 2019 | Appointment and Remuneration of CPA | Unanimous consent | Resolution discussed and approved by board meeting |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 7 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Amendments to the "Procedures for the Acquisition or Disposal of Assets" | Unanimous consent | Resolution discussed and approved by board meeting |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | The Bank's Annual Report on the Overall Implementation of Information Security. Issuing a statement of overall information security implementation. | Unanimous consent | Resolution discussed and approved by board meeting |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | The Bank's Annual Statement of Internal Control System. | Unanimous consent | Resolution discussed and approved by board meeting |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | Audit report from accountancy firm. The Bank reports on the issues raised in the audit report. | Unanimous consent | Resolution discussed and approved by board meeting |
| 5 th meeting of the 8 th Board of Directors on 2019 Mar.27 | COTA Commercial Bank (including concurrent Insurance Agent business) Annual Statement on Internal AML/CFT Control. | Unanimous consent | Resolution discussed and passed by board meeting |
| 7 th meeting of the 8 th Board of Directors on 2019 Aug.28 | Credit extended to Su, Chi-Hsiang, the actual operator of Corporate Director: ChiaDe Development and Investment Co., Ltd. | Unanimous consent | Resolution discussed and passed by board meeting |
| 8 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Donation to COTA Culture and Education Foundation. | Unanimous consent | Resolution discussed and passed by board meeting |
| 8 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Audit plan declaration form of 2020 | Unanimous consent | Resolution discussed and passed by board meeting |
| 8 th meeting of the 8 th Board of Directors on 2019 Dec.25 | Credit extended to Min-Chang Lin, the designated representative executive of Chuan Cheng Hat Co., Ltd. | Unanimous consent | Resolution discussed and approved by board meeting |

- Except for proposals hereinabove, any matter that has not been passed by the audit committee, but has been adopted with the approval of two-thirds or more of all board directors.: None
- Recusals of independent directors based upon conflict of interest: None
 - Communication among independent directors, the Chief Auditor and CPAs:
 - Communication between CPAs and independent directors:
 - Accountants and independent directors are very well communicated when producing annual and semi-annual financial reports. Financial reports are provided to independent directors before meetings of audit committee. Chief accounting officer is invited to meetings of audit committee to report the certification of financial report and to ensure integrity of the certification, which is then audited by audit committee after approved by board resolution.



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2. A note from the accountant describing the auditor's responsibility for auditing the financial statements, the scope of the audit, key audit issues, independence, IFRS16 disclosures (applicable from FY108), significant accounting standards or explanatory letters, regulatory and tax law updates. And will continue to communicate with the accountant at least annually in the future, incorporating that channel or mechanism into the Bank's internal operating procedures.
- (2) Communication between the chief auditor and independent directors:
Director and independent directors are invited to semi-annual meetings discussing faults and issues listed in the report on internal audit and internal control. Other significant matters are also presented to the audit committee and the board of directors.

3-3-4. Items of Compulsory Disclosure in Accordance with Corporate Governance Best-Practice Principles for Banks: Please refer to 3-3-5.

3-3-5. Current Status of the Bank's Corporate Governance Practices and Its Comparison against the Corporate Governance Best-Practice Principles for Banks

| Item | Status of Operation | | | Differences from "The Corporate Governance guidelines for banking industry" and Reasons |
|---|---------------------|---|---|---|
| | Y | N | Summary | |
| I. Ownership structure and Shareholders' equity of the Bank (1) Has the bank established procedures handling shareholders' suggestions, queries, disputes and litigations, as well as act in accordance with said procedures? (2) Is the bank able to identify its major shareholders and the ultimate person or persons behind such shareholders? (3) Has the Bank established and implemented firewalls and risk management mechanisms between its affiliates. | ✓ | | (1) Shareholder's suggestions and litigations are handled immediately by appropriate department. (2) The bank has appropriate department compiling list of major shareholders monthly. (3) The Bank established the Insurance Agents Department at May 1st 2017 and merged the COTA Insurance Brokers (Shares) Company. | No difference |
| II. Duties of Board of Directors (1) Besides setting up the Compensation Committee and Audit Committee according to law, does the Bank voluntarily set up other functional committees? (2) Do the listed or OTC banks set up performance evaluation methods for their boards of directors and their evaluation methods, and conduct performance evaluations annually and regularly, and report the results of the performance evaluations to the board of directors, and use them as reference for individual directors' remuneration and nomination for reappointment? (Note 2) (3) Does the Bank evaluate the independence of its CPAs on a regular basis? | ✓ | | (1) The Bank also established Nomination Committee. (2) Not a listed or OTC bank. (3) Assessment of the independency of appointed CPAs is conducted regularly. | No difference. |

| Item | Status of Operation | | | Differences from “The Corporate Governance guidelines for banking industry” and Reasons |
|--|---------------------|---|--|--|
| | Y | N | Summary | |
| III. Does the bank allocate appropriate and appropriate number of corporate governance staff and designate a head of corporate governance to be responsible for corporate governance related matters (including but not limited to providing directors and supervisors with information necessary for the execution of business, assisting directors and supervisors to comply with laws and regulations, handling matters related to board of directors and shareholders meetings in accordance with the law, and preparing minutes of board of directors and shareholders meetings)? | ✓ | | The Bank has a designated head of corporate governance; the responsible unit is responsible for corporate governance-related matters. | No difference. |
| VI. Has the bank established communication channels with its stakeholders (including but not limited to shareholders, employees, customers and suppliers, etc.) and set up a stakeholder section on the company's website, and appropriately responded to stakeholders' concerns on important CSR issues? | ✓ | | The Company communicates face-to-face, by telephone, in writing or via the Internet; and periodically requests the directors to confirm the filing and updating of related party information by means of a written letter. Information of managers is updated every February and August. Operated according to San-Xin-Yin-Sheng-Zi-Di No.10403619(Oct. 15 2015) | No difference. |
| V. Disclosure of information (1) Has the Bank set up website for the disclosure of financial information and its corporate governance practices? (2) Any other methods adopted by the Bank for the disclosure of information (e.g., establishing English version website, appointing persons responsible for gathering and disclosing Bank information, implementing a spokesperson system, and placing the record of analyst meeting on its website)? (3) Does the bank announce and report its annual financial report within the time period after the end of the fiscal year in accordance with the relevant provisions of the Banking Act and the Securities and Exchange Act, and announce and report its first, second and third quarterly financial report and operations for each month well in advance of the required time period? | ✓ | | (1) Disclose status of Financial information, Business operation and Corporate governance on the website (http://www.cotabank.com.tw) (2) Status of Financial information and business operation are disclosed on our website. President of the Bank is the spokesperson of the Bank. (3) As a public company, the Bank announces and reports its second quarter, annual financial report and operations for each month on the Public Information Observatory within the required time frame. | No difference. |



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| Item | Status of Operation | | | Differences from “The Corporate Governance guidelines for banking industry” and Reasons |
|--|---------------------|---|--|--|
| | Y | N | Summary | |
| IV. Has the Bank provided other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, purchasing insurance for directors and supervisors, political donation and donation to stakeholders and public interested group)? | ✓ | | <ol style="list-style-type: none"> 1. Employee rights: the Bank advocates the spirits of humanity. Ensure employee rights by complying with the labor standard law and establishing the Employees' Welfare Committee. Labor-Management conference is convened regularly. 2. Employee wellness: Organize staff trips to ease the tension of life. Home visiting every year to understand the living condition of staff. 3. Investors relations: Establish designated web-pages for shareholders providing relevant information of stock matters. The Bank formulated the code of practice and voting policy for legal person shareholders with higher privileges to ensure shareholders' equity. 4. Rights of stakeholders and consumer's protection and the policy of corporate governance: the Bank has always emphasized customer service quality. It provides customer complain channel and has implemented a number of customer protection policies. 5. Training and advanced studies of board members and supervisors: Taiwan Securities and Futures Institute and Taiwan Academy of Banking and Finance have arranged corporate governance courses for directors and supervisors. The 8th board directors have taken 6~12 hours courses since they took office. Conducting on-the-job training in accordance with the Regulations Governing Required Qualifications for Responsible Persons and Required Trust Expertise or Experience for Operations and Managerial Personnel of Trust Enterprises . 6. Implementation of risk management policies and risk evaluation measures: Establish Risk Management Center, “Assets, Liabilities and Risk Management Committee” evaluate regularly operating risk and report to the board of directors. We obey rules of government and BIS to make policies of risk management to ensure our safety of banking operations and performances. 7. Purchasing insurance for directors and supervisors: In order to round out the company's corporate governance mechanism and reduce risk exposed to directors and key staff members of the company, the Bank has taken out liability insurance for directors, supervisors and managers. 8. Political donation and donation to stakeholders and public interested group in 2018 are stated below: <ol style="list-style-type: none"> a. COTA Culture and Education Foundation: 900 thousand dollars. b. Eden Social Welfare Foundation: 50 thousand dollars. c. CULROC: 100 thousand dollars d. Ganlin Social Welfare Foundation: 50 thousand dollars e. Political Donation: None. | No difference |

| Item | Status of Operation | | | Differences from “The Corporate Governance guidelines for banking industry” and Reasons |
|--|---------------------|---|---------|--|
| | Y | N | Summary | |
| IIV. Does the bank have a corporate governance self-assessment report or a corporate governance assessment report commissioned by another professional body? (If so, please state the opinion of its Board of Directors, the results of its self-assessment or external assessment, the major deficiencies or recommendations and how the improvement was. | | ✓ | None. | No difference |

3-3-5. Composition, Duties, and Operation of the Remuneration Committee

3-3-5-1. Professional Qualifications and Independence Analysis of Member of Remuneration Committee

| Position (Note 1) | Qualifications Name | Directors or Supervisors shall meet one of the following professional requirements, together with at least five years work experience. | | | Independent status (Note 2) | | | | | | | | Number of compensation committees at other companies of which the individual is a member on a concurrent basis | Annotations (Note 3) |
|----------------------|---|--|--|---|--------------------------------|---|---|---|---|---|---|---|--|-------------------------|
| | | At least a lecturer of business, law, finance or accounting departments or other departments that can be connected to bank needs of public or private colleges/universities. | A judge, prosecutor, attorney, CPA, or other professional or technical personnel who possesses national certification in an area needed by the bank. | Experience in business, law, finance, accounting or other work as needed by the bank. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Convener | Tsung-Ta Kuo | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | N | See remarks |
| Member | Ying-Che Chang | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | N | |
| Member | Chien-Chung Lai | - | - | ✓ | ✓ | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | N | |
| Member | Xian-De Lai | - | - | ✓ | ✓ | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | N | |
| Member | Chuan Cheng Hat Co., Ltd. Representative: Min-Chang Lin | - | - | ✓ | - | ✓ | ✓ | ✓ | - | ✓ | ✓ | ✓ | N | |

Remarks:

COTA Bank is a public company, and is not subject to “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter ” and Article 14-6 of Securities and Exchange Act.

Note:

1. Position: Please fill in Director, Independent Director or Others

2. Please mark “✓” in the space below relevant criteria met by members during the two years prior to appointment and during their period of appointment.

(1) Neither employees of Bank nor its affiliates.

(2) Not directors or supervisors of the bank or its affiliates (unless the bank and its parent, subsidiary or subsidiary of the same parent serve as independent directors of each other under the Securities and Exchange Act or local laws).

(3) Not a shareholder who holds shares, together with those held by the person spouse, minor children, or held under others' names, in an aggregate amount of 1% or more of the total outstanding shares of the company or ranks among the top 10 shareholders who are natural persons in terms of the share volume held.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.



Corporate Governance

- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act.
- (6) Not if a majority of the bank's director seats or voting shares and those of any other company are controlled by the same person: a director, supervisor, or employee of that other company. (However, this is not the case if the bank and its parent company, subsidiaries or subsidiaries of the same parent company serve as independent directors of each other under the Securities and Exchange Act or local laws.)
- (7) Not if the chairperson, general manager, or person holding an equivalent position of the bank and a person in any of those positions at another company or institution are the same person or are spouses: a director (or governor), supervisor, or employee of that other company or institution. (However, this is not the case if the bank and its parent company, subsidiaries or subsidiaries of the same parent company serve as independent directors of each other under the Securities and Exchange Act or local laws.)
- (8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. (However, this does not apply to companies or institutions that hold more than 20 percent or less than 50 percent of the bank's total issued shares, and where the bank and its parent company, subsidiaries or subsidiaries of the same parent company serve as independent directors of each other under the Securities and Exchange Act or local laws.)
- (9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not contain one of the requirements listed in the various subparagraphs of Article 30 of the Company Act.

3-3-5-2. Operation of Remuneration Committee:

- (1) The Bank's Remuneration Committee has 5 members.
- (2) Period of appointment of 8th committee members is from January 12, 2018 to December 22, 2020. 4 meetings were convened in the most recent year, and the records of attendance at the meetings are as below:

| Title | Name | Attendance in Person (B) | Attendance By Proxy | Actual Attendance Rate (%) (B/A) | Annotation |
|----------|--|--------------------------|---------------------|----------------------------------|------------|
| Chairman | Tsung-Ta Kuo | 4 | - | 100 | |
| Member | Ying-Che Chang | 4 | - | 100 | |
| Member | Chien-Chung Lai | 2 | 2 | 50 | |
| Member | Xian-De Lai | 4 | - | 100 | |
| Member | Chuan Cheng Hat Co., Ltd. Representative: Min-Chang Lin | 4 | - | 100 | |

Remarks:

1. Please state the board meeting's date, session, motion, resolution and result of execution if the advice of the remuneration committee was declined, revised or suggested to be amended by the board (please clearly state the discrepancy and its reason of the salary compensation approved by the board was better than that recommended by the remuneration Committee): None.
2. Please state the meeting's date, session, motion, resolution and result of execution if there was any committee member holds opposition or different opinions to the resolution made by the remuneration committee: None.

3-3-6. Status for fulfillment of social responsibility:

| Item | Operating conditions | | | Deviation from the guidelines for the social responsibilities for TWSE/ GTSM Listed Companies" and reasons |
|--|----------------------|---|---|--|
| | Y | N | Summary | |
| 1. Does the bank conduct risk assessments of environmental, social and corporate governance issues related to the company's operations, and formulate relevant risk management policies or strategies based on materiality principles? (Note 4) | ✓ | | To establish a good corporate governance system and promote the sound development of the Company's business, a "Code of Corporate Governance Practices" has been established to establish an effective corporate governance structure; senior management is guided and supervised by the Board of Directors to establish procedures to identify, measure, monitor and control the Company's risks. | The Bank is not a listed company in TWSE or OTC |
| 2. Whether the bank has a dedicated (or part-time) CSR promotion unit, which is delegated to senior management by the Board of Directors and reported to the Board of Directors. | | ✓ | No | The Bank is not a listed company in TWSE or OTC |
| 3. Environmental Issues (1) Has the bank developed an appropriate environmental management system, given its industry characteristics? (2) Is the bank committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment? (3) Does the bank assess the potential risks and opportunities of climate change for businesses now and in the future, and take measures to address climate related issues? (4) Has the bank compiled statistics on greenhouse gas emissions, water consumption, and total weight of waste over the past two years, and formulated policies on energy conservation, carbon reduction, greenhouse gas reduction, water use reduction, or other waste management? | ✓ ✓ ✓ ✓ | | (1) Encourage employees to use double-side printing and recycle and reuse used printing papers. Encourage employees to use their own cups in meetings to reduce the use of paper cup. (2) Turn off the power when leaving the offices, set the air-conditioner temperature at 27 degree, and do recycle. (3) The Bank replaces high energy consumption lights with T5 or LED lights. (4) Each unit is responsible for compiling various data and developing management policies. | The Bank is not a listed company in TWSE or OTC |
| 4. Social Issues (1) Has the Bank stipulated policies and procedures in accordance with laws and the International Bill of Human Rights? (2) Does the bank establish and implement reasonable employee benefit measures (including compensation, leave and other benefits, etc.) and appropriately reflect operating performance or results in employee compensation? (3) Does the bank provide employees with a safe and healthy work environment? Are | ✓ ✓ | ✓ | (1) The Bank's management policies and procedures are formulated in accordance with relevant laws and regulations. (2) The Bank has a remuneration policy and reflects operating performance or results appropriately in the remuneration and benefits of its employees. (3) The Bank provides a safe and healthy working environment for its employees and conducts regular safety and health education for its employees. | |

| Item | Operating conditions | | | Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies” and reasons |
|---|----------------------|---|---|---|
| | Y | N | Summary | |
| <p>employees trained regularly on safety and health issues?</p> <p>(4) Does the bank have an effective career competency development training program for its employees?</p> <p>(5) Does the bank comply with relevant regulations and international standards on customer health and safety, customer privacy, marketing and labeling of products and services, and has it formulated relevant policies and complaint procedures to protect consumer rights and interests?</p> <p>(6) Does the bank have a supplier management policy that requires suppliers to comply with relevant regulations on environmental protection, occupational safety and health, or human rights at work, and how is it implemented?</p> | ✓ | | (4) The bank carries out employee education and training every year to enhance the professional competence of its staff. | |
| 5. Does the bank make reference to international standards or guidelines for the preparation of corporate social responsibility reports and other reports that disclose non-financial information about the bank? Did you obtain a third-party verification unit's confirmation or assurance opinion on the previous report? | | ✓ | There are no internationally accepted standards or guidelines for the preparation of corporate social responsibility reports. | |
| 6. If the Company has stipulated its own corporate social responsibility rules on the basis of the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies,” please state any discrepancy between implementation and the stipulated rules”: None (The Bank is not a listed company in TWSE or OTC) | | | | |
| 7. Other important information that helps to understand the implementation of best practices of corporate social responsibility: COTA Bank upholds a philosophy of “Take from society Give back to society” so that we think it’s our obligation to fulfill social responsibility. COTA bank cares about and contributes to the society thru various ways such as donation and holding activities among communities. The bank set up COTA Culture and Education Foundation to advocate lifelong learning. COTA bank will adhere to the principle of giving back to society by providing better community financial service and sponsoring and promoting community welfare. | | | | |

3-3-7. Fulfillment of Operations of Ethical Corporate Management and Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and Reasons

| Item | Operating conditions | | | Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies" and reasons |
|--|----------------------|----------------------------|--|---|
| | Y | N | Summary | |
| <p>1. Establishing Ethical Corporate Management Policies and Programs.</p> <p>(1) Has the Bank established the ethical corporate management policies approved by the Board of Directors and specified in its rules and external documents the ethical corporate management policies and practices and the commitment of the board of directors and senior management to rigorous and through implementation of such policies?</p> <p>(2) Has the Bank established a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities within its business scope which are at a higher risk of being involved in unethical conduct, and establish prevention programs accordingly, which shall at least include the preventive measures specified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"?</p> <p>(3) Has the Bank specified in its prevention programs the operating procedures, guidelines, punishments for violations, and a grievance system and implemented them and review the prevention programs on a regular basis?</p> | | <p>✓</p> <p>✓</p> <p>✓</p> | <p>(1) Instead, the Bank established honesty and integrity rules in "Procedure for Board of Directors Meetings", "Regulation on Donation" and "Employee Code of Conduct".</p> <p>(2) The Bank established honesty and integrity rules in "Procedure for Board of Directors Meetings", "Regulation on Donation", "Employee Code of Conduct", "Directions on Internal Control and Risk Management in Wealth Management Business" and "Regulations on Soliciting of Business thru Advertisements and Business Promotion Activities".</p> <p>(3) For prevention of unethical behavior, the bank has established "Regulations on Personnel Management", "Employee Code of Conduct", "Regulation on Donation" and "Directions on credit extension and other transactions with interested parties".</p> | The Bank is not a listed company in TWSE or GTSM. |
| <p>2. Implementing Ethical Corporate</p> <p>(1) Has the Bank evaluated the records of unethical conduct of counterparties and specified the terms of ethical conduct in the agreement signed with the counterparties?</p> <p>(2) Has the Bank set up a dedicated unit under the Board of Directors to promote ethical corporate management and regularly (at least once every year) report to the Board of Directors the implementation of the ethical corporate management policies and prevention programs against unethical conduct?</p> | <p>✓</p> <p>✓</p> | | <p>(1) The Bank avoids dealing with parties that have records of unethical conducts. When entering into contracts with other parties, the Bank shall include in such contract provision demanding ethical corporate management policy compliance. The Bank immediately stops business relation while acknowledging of unethical conducts of its counterparties.</p> <p>(2) The Bank established the compliance system, internal control systems, internal audit, risk management, and set functional committee</p> | The Bank is not a listed company in TWSE or GTSM. |

| Item | Operating conditions | | | Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies" and reasons |
|---|----------------------|---|--|---|
| | Y | N | Summary | |
| <p>(3) Has the Bank established the policies to prevent conflicts of interest, provided proper channels of explanation, and implemented them?</p> <p>(4) Has the Bank established effective accounting systems and internal control systems to implement ethical corporate management and had its internal audit unit, based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans and audit the compliance with the prevention programs accordingly or entrusted a CPA to conduct the audit??</p> <p>(5) Has the Bank regularly held internal / external training on ethical corporate management?</p> | ✓ | | <p>by regulation to strengthen the function of decision-making and management of board of directors.</p> <p>(3) 1. The Bank established policies preventing conflict of interest:</p> <p>a. Clause of avoidance of conflict of interest is explicitly indicated in "Procedure for Board of Directors Meetings".</p> <p>b. Build a database of information of interested parties. The term of secured credit extensions to interested parties shall not be more favorable than those terms offered to other same category customers</p> <p>c. Establishing "Employee Code of Conduct" for prevention of unethical behavior of employee.</p> <p>d. Establishing "Directions on Internal Control and Risk Management in Wealth Management Business" regulating work ethics and disciplines of financial advisors.</p> <p>2. All relevant rules and procedures are on the website www.cotabank.com.tw.</p> <p>(4) The Bank has established accounting system and accounting department. To ensure impartiality of financial statements, Bank's financial statements has audited by CPAs. The Bank established internal audit control system which is subjected to reexamination and readjustment and an auditing division under the board of directors. Internal audit control system is implementing by regular and random internal auditing and by external auditing by CPAs.</p> <p>(5) The Bank undertakes training with regard to ethical management and behavioral guidelines on a regular basis. All employees are required to attend. Employees are acknowledged of amendments of relevant regulations.</p> | |
| <p>3. Implementing the Whistle-blowing System</p> <p>(1) Has the Bank established a concrete whistle-blowing and incentive system, established convenient whistle-blowing channels, and appointed dedicated personnel to deal with the reported personnel?</p> <p>(2) Has the Bank established the standard operating procedures for investigating reported misconduct, follow-up measures to be adopted after the investigation, and related confidentiality mechanisms?</p> <p>(3) Has the Bank taken measures to protect the whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing?</p> | ✓ | ✓ | <p>(1) The Bank has established the "Internal Regulations Governing the Handling of Reporting Cases" which are handled by a dedicated unit, and has also established Personnel Evaluation committee governing rewards and penalties system for employee.</p> <p>(2) The Audit Division is responsible to submit the reported case, and the identity of the informer and the contents of the report will be kept in confidence.</p> | The Bank is not a listed company in TWSE or GTSM. |

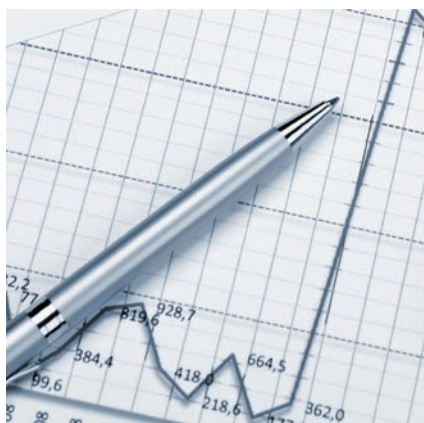
| Item | Operating conditions | | | Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies” and reasons |
|--|----------------------|---|---|---|
| | Y | N | Summary | |
| 4. Enhancing Disclosure of Information Has the Bank dis-closed the “Guidelines for Ethical Corporate Management” and its status of operations on the official website and Market Observation Post System? | ✓ | | (1) Information of financial, operating and corporate governance of the bank are accessible through website www.cotabank.com.tw (also available in English) (2) The Bank has designated persons to update and disclose company information. | The Bank is not a listed company in TWSE or GTSM |
| 5. Difference between the “Guidelines for Ethical Corporate Management” and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”: None | | | | |
| 6. Other important information to facilitate better understanding of the Bank’s implementation of ethical corporate management (e.g. Amendment to the “Guidelines for Ethical Corporate Management”): In building an ethical management corporate culture, the Bank has set honesty and integrity rules in “Procedure for Board of Directors Meetings”, “Regulation on Donation” and “Employee Code of Conduct”. All directors and employees promote business with integrity and strong work ethic and to furthermore fulfill social responsibility. The Bank set the compliance system, internal control systems, internal audit, risk management, strengthening competency of the board and supervisors, functioning audit committee, respecting the right of interested parties, improving information transparency, continuing implementing policies that deepens the culture of ethical management in order to achieve sustainable development. | | | | |

3-3-8. Corporate Governance Guidelines and Regulations

Please refer to the Bank’s website on <http://www.cotabank.com.tw>.

3-3-9. Other Important Information Enhancing Understanding of the State of the Company’s

Corporate Governance: None.





3-3-10. Execution of Internal Control System

(1) Statement of Internal Control

COTA Commercial Bank Statement of Internal Control

Date: Jan.31 2020

To Financial Supervisory Commission

On behalf of COTA Commercial Bank, we hereby undertake that from Jan.01 2019 to Dec.31 2019 the Bank has duly complied with "Guidelines for the establishment of internal control and internal audit systems" by establishing an internal control system, implementing risk management, designating an independent and objective internal department to conduct audit, and submitting the audit report periodically to the Board of Directors and Supervisors (Audit Committee). Following prudent evaluation, it is found that except for items listed in the attached chart, the internal control systems of and compliance with laws and regulations by the different department were all implemented effectively.

Insurance agent business

1. The Company determines the effectiveness of the design and implementation of internal control system in accordance with "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies"(the Regulations). The criteria for an effectiveness of internal control system, according to the Regulations, shall contain at least the following components: (1) Control environment; (2) Risk assessment; (3) Control activities; (4) Information and communication; and (5) Monitoring activities.
2. The Company has adopted aforesaid criteria to examine the effectiveness of the design and implementation of internal control system.
3. Based on the results of the examination above, the Company deems the design and implementation of the internal control system (including the awareness of soundness of business operations, reliability of reporting, and compliance with all related laws and regulations), within the aforesaid period, were effective and able to reasonably ensure accomplishment of the goals above.
4. This declaration will be the main content of the Company's annual report and public prospectuses, and shall be disclosed to the public. Any illegal misrepresentation or omission relating to the public statement above is subject to the legal consequences under Articles 20, 32, 171, and 174 of the "Securities and Exchange Act" or other regulations related to the act.
5. This statement has been passed by the board of directors of the Company on Mar.25 2020.

Attested by

| | |
|--------------------------|----------------------|
| Chairman | : Song-Yie Liao |
| President | : Jung-Hsien Chiu |
| Chief Auditor | : Chih-Sheng Hsiao |
| Chief Compliance Officer | : Kuang-Hsiung Huang |

Items for Improvement and Plan Table of Internal control

As of Dec. 31, 2019

| Items for Improvement | Improvement Measure | Target Date |
|---|--|---|
| <p>1. Anti-money laundering operations</p> <p>(1) A certain amount of currency transactions, not reported to the Investigation Department of the Ministry of Justice, violation of Article 7(1) of the Money Laundering Prevention Act and Article 4 of the FSC's "Regulations Governing Cash Transaction Reports (CTR) and Suspicious Transaction Reports (STR)" in accordance with Article 7(3) of the Act.</p> <p>(2) The judgment procedure for the confirmation of suspicious transactions has not been regulated for investigation items such as internal and external information.</p> <p>(3) Suspicious transactions screened by the business unit against the information system without verifying the source and use of customer funds and their reasonableness.</p> | <p>1.</p> <p>(1)</p> <p>i. A new "Cash Transactions and Large Reporting Comparison Form" checklist has been added.</p> <p>ii. The program has been modified.</p> <p>(2) Article 5, Section 4 of the "Policies and Procedures for the Continuous Monitoring of Accounts and Transactions" has been amended to specify the items to be examined in determining suspicious transaction.</p> <p>(2) The "Policy and Procedures for Continuous Monitoring of Accounts and Transactions" has been revised to regulate the steps and methods of suspicious transaction determination and notes, and to provide reference examples for each unit to write. (No. 10804663 dated Oct.29 2019 COTA Law Compliance)</p> | <p>(1) Listed in main auditing items in 2019.</p> <p>(2) Listed in main auditing items in 2020.</p> <p>(3) Listed in main auditing items in 2020.</p> |
| <p>2. The following should be strengthened in the handling of investments and financial products:</p> <p>(1) Outsourcing of customer investment risk attribute assessment, the results of the assessment are not confirmed by the customer, directly accepting the order to purchase financial products, in violation of Article 9 of the Financial Consumer Protection Act, paragraph 2 authorized and adopted the "financial services industry to ensure that financial products or services for financial consumers approach" under Article 4 and article 22(1)(2) of the "Regulations Governing the Scope of Business, Restrictions on Transfer of Beneficiary Rights, Risk Disclosure, Marketing, and Conclusion of Contract" as stipulated in Article 18(1) of the Trust Enterprise Act.</p> <p>(2) Failure to establish a control mechanism for improperly inducing customers to borrow money to purchase financial products is not conducive to consumer rights protection.</p> | <p>2.</p> <p>(1)</p> <p>i. Outsourcing of customer investment risk attribute assessment, the random sampling method is revised to require confirmation every time, and the telephone recording content must include the customer's investment risk attribute before the transaction can be conducted.</p> <p>ii. Listed as a self-inspection work project.</p> <p>(2)</p> <p>i. In accordance with FCS Banking Letter No. 10802731011 of Oct.5 2019.</p> <p>ii. Amend the "Confirmation of Material Content and Risk Disclosure" to add a new mechanism for confirming whether there is any improper inducement to purchase life insurance products beforehand and the customer should sign to confirm.</p> <p>iii. Customers are required to complete a "Declaration For Non Solicited Investment " before making an application.</p> <p>iv. A pop-up window is displayed when apply for Online Banking Fund, check the box that fully understood and agreed to it before making the application.</p> | <p>(1) Listed in main auditing items in 2019.</p> <p>(2) Listed in main auditing items in 2020.</p> |
| <p>3. The business department has on behalf of the customer to take care of the blank seals of the certified seals. Ministry of Finance 85.12.4 Taiwan Finance No. 85354873 letter, violation of the "Forbidden Financial Institutional Staff to Handle Cash Deposits or Deposit Certificates".</p> | <p>3. The Business Department and the Compliance and Legal Affairs Department have separately strengthened employee education and training. It is forbidden for staff to handle deposits or to keep seals. The auditing department also made a speech in the management meeting for the heads of all units and the relevant personnel of the head office.</p> | <p>Listed in main auditing items from 2018.</p> |



Corporate Governance

| Items for Improvement | Improvement Measure | Target Date |
|--|---|---|
| <p>4. Continuously monitor the Non-Performing Loans Ratio (NPL) and improve the quality of assets and financial structure.</p> <p>(1) At the end of November 2019, the NPL of 0.46 was above the average of 0.23 and the coverage ratio was below the average.</p> <p>(2) The ratio of construction loans to net worth continued to increase to 212.9%, and only May.7 2019 letters to the business units should be repaid with an equivalent amount of construction loans before new cases can be accepted. No specific improvement measures have been proposed.</p> | <p>4.</p> <p>(1) Strengthen management review of large and unsecured loans. The audit process should advise the unit to secure the debt if it finds any adverse signs.</p> <p>(2)</p> <p>i. In order to improve the rate of compliance as soon as possible, applications for new collateral construction loans have been suspended since August 9, 2019.</p> <p>ii. It has continued to improve to 209.11% by the end of 2019 and continues to improve with a view to reducing it by more than 2% per quarter and as quickly as possible to below 200%.</p> | Listed in main auditing items in 2020. |
| <p>5. Information security and risk should be reinforced:</p> <p>(1) Information risk events, the risk of failure to notify material contingencies in accordance with the regulations, which may affect operations, should be corrected in accordance with Article 61-1 of the Banking Act.</p> <p>(2) The Information Security Management Procedure does not have a clearly defined cycle, resulting in incomplete vulnerability scanners, which is not conducive to information security.</p> | <p>5.</p> <p>(1) Oct.8 2019 Amend the "Operating Guidelines for Handling Significant Incidental Events" and add a "Suspected Report Form", if the event cannot be identified, the report form should be completed and sent to the responsible unit, the Legal & Compliance Department and the Audit Office for approval by the General Manager.</p> <p>(2) The scope of the inventory scan will be revisited and the processing cycle will be set. Expected to be completed by Mar.31 2020.</p> | <p>(1) Listed in main auditing items from 2019.</p> <p>(2) Listed in main auditing items from 2020.</p> |
| <p>6. Insurance agency business should strengthen:</p> <p>(1) The audit of the sources of premium funding as stated in the report of the sales did not establish a control mechanism to confirm in advance whether it is a credit account or not.</p> <p>(2) In addition, for some insurance customers who purchased insurance products by borrowing money and did not fill in the correct source of funds in the salesman's report, it is not conducive to understanding whether the salesman has persuaded customers, and it is not conducive to the insurance company's assessment of underwriting risks.</p> | <p>6.</p> <p>(1) The Department of Insurance Agents has been conducting the loan customer system check and match starting from Nov.26 2019.</p> <p>(2) For the system verification of suspected loan insured customers, premium funding sources should be checked by staffs and supervisors, and the insurance agent department should check and control the correctness of filling in the funding sources.</p> | Listed in main auditing items from 2020. |

(2) CPA Audit Report

Pursuant to ordinance article 28 of the "Guidelines for the Establishment of Internal Control and Internal Audit Systems", the Bank arranged KPMG certified public accountants to audit performance of internal control during the period of Jan. 01 2019 through Dec. 31 2019.

The audit report of the Certified Public Accountant concluded as follows:

With the exception of suggested items to improve, no major deficit is found (attaching homepage of auditor's report and suggestion statement).

Auditing report of certified public accountant

March 25, 2020

To COTA Commercial Bank

According to Article 28 of the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” announced by the FSC: If the annual financial report of a banking business is audited and certified by CPA the business should also delegate the CPA to conduct an audit on its internal control system. The CPA should also comment on the correctness of the report submitted to the competent authority for the banking business, the execution status of internal control system and regulatory compliance system, and the appropriateness of policies for loan loss reserves.

The Company has been entrusted with the above matters for the period from Jan.1 2019 to Dec.31, 2019, and has reviewed the scope, procedures and results of the audit.

This report is intended solely for filing to Financial Supervisory Commission for supervisory purpose, the Bank’s reference only and should not be used for any other purpose.

Notice to



Accountant

Chun-Yuan, Wu

Notice to Readers

If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the original Chinese version shall prevail.



Suggestion Statement

Year 2019

| No. | Matter of disclose | Suggestion | Opinion of Administration |
|-----|--|---|---|
| 1 | Deposit operation of Zhongshan Branch The Company's "Agreement" has not been approved by a supervisor for use of the Online Banking PIN. | It is suggested that the Bank when applying for Online Banking PIN application, it should be verified by the supervisor. | Person in charge: Shi-Hui Chiu Estimated complete date: Sep.12 2019 Execution method: The Audit Office conducted a site review on February 27, 2020, confirming improvements. |
| 2 | Deposit operation of Zhongshan Branch The basic information field of the company's "Seal Card" is not approved by the supervisor and the seal system is not approved by the supervisor. | It is suggested that the Bank when opening an account, the seal card should be verified by the supervisor after completing the basic information and logging into the system. | Person in charge: Yong-Zhi Wang Estimated complete date: Sep.12 2019 Execution method: The Audit Office conducted a site review on February 27, 2020, confirming improvements. |
| 3 | Deposit operation of Zhongshan Branch The client has not created an account opening image file. | It is suggested that the Bank when creating an account opening image file and keep it independently for at least six months. | Person in charge: Ming-Jung Hung Estimated complete date: Sep.16 2019 Execution method: The Audit Office conducted a site review on February 27, 2020, confirming improvements. |
| 4 | Program revision and online process After consulting the ITO vice Manager Yang checking the "Program Transaction", most of the current program changes were tested and accepted by it. In the second half of the year, a testing group was set up and its members were transferred from the management unit to the ITO, only for system development or major program changes will users be asked to test and accept, and some program changes occur due to insufficient testing, resulting in repeated changes and uploading. | It is suggested that the application documents for the revision of the system program should be designed to be tested and accepted by the user to confirm that the changes meet the needs of the user and retain the audit tracker. | Person in charge: Wei-Sheng Yang Estimated complete date: Completed Execution method: 1. Since our business applications are developed by ourselves, our programmers have a certain degree of understanding of the business and maintain close contact with our business requirements during program development. Therefore, on Dec.25 2019, the second level document "Information Security Management Procedures" (Annex 4) was amended to remove the requirement of acceptance by the requirement unit and to follow the third level document "Application System Development and Maintenance Management Procedures" 5.3.10.2. 2. At present, new business systems and major functional changes are accepted by the demand unit, while the rest of the general program maintenance changes are tested and accepted by the information room test team and developers or designated personnel. |
| 5 | Control of access to machine room After checking the "Fire Inspection Record" and comparing it to the "Machine Room Access Control Register", it was found that the former was dated Jun.12 2019 and the latter was dated Jun.13 2019, and there was a discrepancy between the date of execution of the inspection record and the date of access to the machine room. | It is suggested that the Bank non-machine room authorized personnel should complete the relevant vouchers and review them when entering and exiting. | Person in charge: Wei-Sheng Yang Estimated complete date: Completed Execution method: Factory inspector's "Fire Inspection Record" date was incorrectly planted and corrected on Jan.22 2020 |

| No. | Matter of disclose | Suggestion | Opinion of Administration |
|-----|--|--|--|
| 6 | File removal control issues After verifying the "Online Operation Host Application Form" of Sep.24 2019, and asking the system team, it was found that the execution process was repeated due to an error in authority, resulting in inconsistency between the contents filled out and the execution record, and the details of the file to be processed were not listed in detail. For example, the account number of the operation group does not match with the registrant who entered it. | It is suggested that the Bank should follow the file / data change operation, implement the review mechanism and keep the execution record. | Person in charge: Wei-Sheng Yang Estimated complete date: Completed Execution method: 1. The original execution record has been modified to keep the execution record for at least 2 years because the folder in which it was placed was only kept for 7 days. 2. Produce instructional materials, strengthen advocacy and implement the review mechanism. |
| 7 | Batch control operations control issues Upon review of the Feb.3 2019 duty log batch operation (Cota Term), it was found that the results of the execution were not exactly recorded and although the execution was confirmed, it was not signed in the duty log. | It is suggested that the Bank complete the duty log in accordance with the form validation process, implement the review mechanism and keep a record of its implementation. | Person in charge: Wei-Sheng Yang Estimated complete date: Completed Execution method: 1. The omission of the undersigned has been completed (Annex II). 2. It has been advocated for firm implementation and endorsement, and increased inspection. |
| 8 | Software Inventory or Inventory Issues After consulting with Vice Manager Yang of the ITO Management Team and verifying the software inventory or inventory records during the audit period, it was found that the software installed in each unit's personal computers had not been executed during the audit period, and the software packages were regularly inventoried. | It is suggested that the Bank implement regular software inventory and keep relevant records in accordance with the information asset management and maintenance operating procedures. | Person in charge: Jia-Yeh Hsieh Estimated complete date: Completed Execution method: The software inventory was completed on Jan.10 2020 in conjunction with the full line equipment inventory. |
| 9 | Information Security Management System Issues Setting As a result of the revision of the "Information Security Management System" starting from fiscal 2018, the description of the "Information Operations Management Manual" referred to in the "Rules for Security Control of Garbled Operations" does not correspond to the current situation. | It is advisable to review and adjust the "Information Security Management System" four-tier document and other related regulations with reference. | Person in charge: Jia-Yeh Hsieh Estimated complete date: Completed Execution method: 1. Amendments to the "Safety Control Rules for Garbled Operations" are being submitted for approval. 2. Review other documents (e.g. self-check manuscript) and no further omissions or changes are found. |
| 10 | Mainframe conversion issues Upon enquiry, the system team was informed that there was an expected replacement of the online host during the check, and only a host replacement schedule was drawn up, but not a complete conversion plan. | It is advisable to draw up a comprehensive conversion plan. The conversion of the mainframe of its online system should be considered for cost-benefit analysis, risk assessment, design planning, functional test verification (including completeness, accuracy and stability), conversion decision evaluation and parallel testing. The impact on the information environment is also assessed. (e.g. system redundancy and disaster response drills) | Person in charge: Wen-Qin ji Estimated complete date: Apr.30 2020 Expected execution method: It is proposed to ask each project leader at the operating system and application system level to make a detailed conversion plan according to the schedule. |
| 11 | Insurance Agency Department Conservation Ref no. A108070314, the policyholder information has changed and the system is not updated. | Upon receipt of the monthly "Security Change Summary" from your insurance company, it advisable to log in to the system and check the information against the security documents. | Person in charge: Yong-Cheng Liao Estimated complete date: Nov.29 2019 Execution method: The Audit Office conducted a site review on February 27, 2020, confirming improvements. |

3-3-11. Cases or Penalties due to Infliction of Laws and Regulations over the Past 2 Years and up to Feb.29:

1. Any indictment of a responsible person or employee by a prosecutor for an offense related to the occupation: None.
2. Any fine imposed by the FSC for violation of a law or regulation: None.
3. Any matters in which sanctions were imposed by the FSC pursuant to Article 61-1 of the Banking Act:
 The Bank's handling of Anti-money laundering due to partial misinterpretation of the regulation's definition on the cash transaction exceeding certain amount, on Nov.15, 2018, the FSC approved a fine of one million NTD and corrected the case.
 Improvement Measures:
 To review the operation process and propose improvement measures, strengthen the supervision of the implementation of branch operations, and improve the reporting of transactions above a certain amount.

 The relevant FSC's general business inspection report lacks "excerpts": for those who cannot recover the creditor's rights, according to Article 11 of the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", according to the bank Article 61, paragraph 1 of the Act, paragraph 1, letter dated Nov.15 2018 from (FCS Banking No. 10702746320), should be corrected. Missing improvement situation:
 - i. The borrowers who have inspected the opinions have been resold to bad debts in the future. If there are credit assets that have been assessed as uncollectible, they will immediately apply for resale into bad debts.
 - ii. Monthly print "Overdue (interest) more than one month of credit assets and other assets assessment schedule" (excluding consumer finance and credit cards), classified assets listed in the interview review list should be transferred immediately Sell bad debts to meet the requirements.
4. Any security incident arising from employee infidelity or material contingencies (e.g. fraudulent acquisition, theft, misappropriation, or robbery of assets; forgery of documents or securities; acceptance of a bribe; losses from natural disaster; losses from external causes; hacker attack, data theft, or leak of trade secrets or customer data; or other such material incidents) or failure to faithfully abide by the Directions for Maintenance of Security at Financial Institutions. If actual losses, whether singly or in aggregate, exceed TWD50 million in any given year, disclose the nature and amount of the loss: None.
5. Other matters that must be disclosed pursuant to FSC designation: None.

3-3-12. Major Resolutions of Shareholders Meeting or Board of Directors Meeting in Recent Year

3-3-12-1. Shareholders Meeting

| Year | Nature of Shareholders Meeting | Convoking Date | Major Resolutions |
|------|--------------------------------|----------------|---|
| 2019 | Regular Shareholders' Meeting | June 14, 2019 | The earnings distribution of year 2018 and capital increase by earnings and issuance of new shares. |

3-3-12-2. Board of Directors Meeting

3-3-12-2-1. Major Resolutions

- ◆ Held the Eighth 5th Board of directors on Mar.27 2019.
 - (1) Approval of the 2018 Individual Financial Report and Consolidated Financial Report.
 - (2) Approval of the 2018 Directors' Compensation and Employee Compensation Distribution.
 - (3) Approval of the 2018 Annual Surplus Appropriation.

(4) Approval of the 2018 Capital Increase by Retained Earning for New Shares.

(5) Approval of the 2018 Business Report.

(6) Amendments to the "Annual Meeting of Shareholders" were passed.

(7) Amendments to the "Procedures for the Acquisition or Disposition of Assets".

◆ Held the Eighth 7th Board of directors on Aug.28 2019.

(1) Approval of the Individual Financial Report and Accountant's Audit Report for the period Jan.1 to Jun.30, 2019.

(2) Approved the case of the Bank's Substantial Interested Party, Ji-Xiang Su.

(3) Approved the corporate governance head case.

◆ Held the Eighth 8th Board of directors on Dec.25 2019.

(1) Approval the donations to the Third Credit Cooperative Educational Foundation for its 2020 activities.

(2) Approved the case of the Bank's Interested Party, Min-Chang Lin.

(3) Amendments to the "Procedures for the Acquisition or Disposition of Assets".

3-3-12-2.2. The Directors or Supervisors have different opinions to the board of directors meeting through the major resolution, and has the record or announce by statement: None.

3-3-12-2-3. Corporate Governance Guidelines and Regulations

Please refer to the Bank's website on

<http://www.cotabank.com.tw/cotabank/announce/expose/expose.htm>

3-3-13. Disclosures of the Resignation or Dismissal of Managerial Officers in Charge of Financial or Accounting Reports: None.

3-4. Information on the Certified Public Accountant

3-4-1. Information on the Professional Fees of the Certified Public Accountant

3-4-1-1. Disclosure of the Accountant's Fee

| Accountant Firm | Name of Accountant | | Period of Audit | Remarks |
|-----------------|--------------------|----------------|-----------------|---------|
| KPMG | Wu, Chun-Yuan | Mei, Yuan-Chen | Year 2019 | |

Unit: TWD thousand

| Tier \ Item | | Auditing Fee | Non-Auditing Fee | Total |
|-------------|----------------------------------|--------------|------------------|-------|
| 1 | Below 2,000 thousand | ✓ | ✓ | |
| 2 | 2,000 thousand ~ 4,000 thousand | | | ✓ |
| 3 | 4,000 thousand ~ 6,000 thousand | | | |
| 4 | 6,000 thousand ~ 8,000 thousand | | | |
| 5 | 8,000 thousand ~ 10,000 thousand | | | |
| 6 | 10,000 thousand and above | | | |

3-4-1-2. Fees paid for non-auditing services account for a proportion equal to one-quarter or above of auditing:

Unit: TWD thousand

| Accountant Firm | Name of Accountant | | Auditing Fee | Non-Auditing Fee | | | | | Period of Audit by Accountant | Remarks |
|-----------------|--------------------|----------------|--------------|------------------|---------------------|-----------------|---------------|-----------|-------------------------------|---------|
| | | | | System Design | Corporate Registers | Human Resources | Others (note) | Sub-Total | | |
| KPMG | Wu, Chun-Yuan | Mei, Yuan-Chen | 1,870 | | 20 | | 1,430 | 1,450 | 2019 | |

Note: non-auditing fee "others" including in personal data protection and anti-money laundering and combatting the financing of terrorism controlling project, review of capital increased by surplus turned capital, CRS compliance service

3-4-1-3. Whether the Bank changes its accounting firm and the amount of fees paid for auditing services during the year in which the change is made are lower than for the previous year: None

3-4-1-4. Whether the amount of fees paid for auditing services is lower than for the previous year by 10% or above: None.

3-4-2. Information of Accountants change: None

3-4-3. Whether the Bank's chairman, president, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: None



3-5. Change in Shareholdings and Pledged

3-5-1. Changes in Shareholdings of Directors, Supervisors, Executive Officers, and Shareholders conform to the Regulations Governing a Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights over a Particular Ratio of a Bank, Article 11

| Title | Name | 2019 | | Up To February 29, 2020 | | Remark |
|---|--|----------------------------|------------------------------|----------------------------|------------------------------|-----------------------------|
| | | Net Change in Shareholding | Net Change in Shares Pledged | Net Change in Shareholding | Net Change in Shares Pledged | |
| Chairman | Song-Yie Liao | 4,076,399 | 0 | 0 | 0 | Major Shareholder |
| Managing Director | Ying-Che Chang | 112,744 | 0 | 0 | 0 | |
| Managing Director | Xien-De Lai | 294,695 | 0 | 0 | 0 | |
| Managing Director | Chuan Cheng Hat Co., Ltd. Representative: Min-Chang Lin | 1,191,211 9,350 | 0 0 | 0 0 | 0 0 | Major Shareholder Note 3 |
| Managing Director | Chuan Cheng Hat Co., Ltd. Representative: Chin-Yuan Lai | 1,191,211 11 | 0 0 | 0 0 | 0 0 | Major Shareholder Note 3 |
| Managing Independent Director | Kun-Hsien Lin | 46,707 | 0 | 0 | 0 | |
| Director | Chun-Chieh Wang | 455,421 | 0 | 0 | 0 | Major Shareholder |
| Director | Chien-Chung Lai | 1,011,379 | 0 | 0 | 0 | |
| Director | Chia De Development and Investment Co., Ltd. Representative: Chih-Peng Yang | (341,787) (10,874,830) | 0 0 | (202,764) (180,000) | 0 0 | |
| Director | Jin Yu Hua Investment Co., Ltd. Representative: Kang-Wei Chang | 0 1,508,116 | 0 0 | 0 0 | 0 0 | |
| Director | Jin Yu Hua Investment Co., Ltd. Representative: Yu-Chi Huang | 0 0 | | 0 0 | 0 0 | |
| Director | Jin Yu Hua Investment Co., Ltd. Representative: Ying-Ta Chi | 0 0 | | 0 0 | 0 0 | |
| Director | Jin Yu Hua Investment Co., Ltd. Representative: Ching-Wen Cheng | 0 (1,374) | 0 0 | 0 0 | 0 0 | |
| Director | Huasan Investment Co., Ltd. Representative: Chin-Yun Lu | 673,859 0 | 1,014,858 0 | 0 0 | 0 0 | |
| Independent Director | Po-Yao Chi | (51,076) | 0 | 0 | 0 | |
| Independent Director | Tsung-Ta Kuo | 0 | 0 | 0 | 0 | |
| President | Jung-Hsien Chiu | 57,230 | 0 | 0 | 0 | |
| Chief Auditor | Chih-Sheng Hsiao | 45,161 | 0 | 0 | 0 | |
| Senior Executive Vice President Department General Manager | Yun-Ching Wang | 21,364 | 0 | 0 | 0 | |



Corporate Governance

| Title | Name | 2019 | | Up To February 29, 2020 | | Remark |
|--|--------------------|----------------------------|------------------------------|----------------------------|------------------------------|--------|
| | | Net Change in Shareholding | Net Change in Shares Pledged | Net Change in Shareholding | Net Change in Shares Pledged | |
| Senior Executive Vice President | Huan-Mou Cheng | 11,706 | 0 | 0 | 0 | |
| Senior Executive Vice President | Kuang-Hsiung Huang | 16,308 | 0 | 0 | 0 | |
| Executive Vice President Department General Manager | Shi-Jian Zhang | 35,113 | 0 | 0 | 0 | |
| Executive Vice President | Wei-Bin Lin | 9,880 | 0 | 0 | 0 | |
| Executive Vice President Department General Manager | Wen-Jung Chen | (342,983) | 0 | 3,474 | 0 | |
| Executive Vice President Department General Manager | Shi-Tung Chang | 33,295 | 0 | 0 | 0 | |
| Executive Vice President Department General Manager | Jian-Chen Xu | 31,512 | 0 | 0 | 0 | |
| Department General Manager | Shih-Chao Li | 7,866 | 0 | 0 | 0 | |
| Department General Manager | Chih-Peng Yang | (10,874,830) | 0 | (180,000) | 0 | |
| Department General Manager | Ming-Heng Zhan | 10,596 | 0 | 0 | 0 | |
| Department General Manager | Quan-Hong Yang | 7,068 | 0 | 0 | 0 | |
| Department General Manager | Hung-Tsang Chiang | 12,162 | 0 | 0 | 0 | |
| Department General Manager | Jun-Sheng Lin | 7,573 | 0 | 0 | 0 | |
| Department General Manager | Chang-Chieh Lin | 13,727 | 0 | 0 | 0 | |
| Department General Manager | Chi-Nan Huang | 3,311 | 0 | 0 | 0 | |
| Department General Manager | Jun-Long Tsai | 7,575 | 0 | 0 | 0 | |
| Department General Manager | Yun-Xie Chen | 811 | 0 | 0 | 0 | |
| Department General Manager | Chen-Chuan Kuo | 1,512 | 0 | 6,000 | 0 | |
| Branch General Manager | Jui-Sen Liao | 9,863 | 0 | 0 | 0 | |
| Branch General Manager | Chih-Huang Huang | 17,063 | 0 | 0 | 0 | |
| Branch General Manager | Zheng -Xian Xie | 19,698 | 0 | 0 | 0 | |
| Branch General Manager | Mei-Ling Shih | 13,048 | 0 | 0 | 0 | |
| Branch General Manager | Ling-Chen Ting | 28,052 | 0 | 0 | 0 | |
| Branch General Manager | Mao-Sheng Huang | 12,277 | 0 | 0 | 0 | |
| Branch General Manager | Chi-Shen Huang | 25,596 | 0 | 0 | 0 | |
| Branch General Manager | Hung-Chi Tung | 21,889 | 0 | 0 | 0 | |
| Branch General Manager | Chang-Cheng Chen | 9,651 | 0 | 0 | 0 | |
| Branch General Manager | Chia-Wen Ke | 12,705 | 0 | 0 | 0 | |
| Branch General Manager | Tzu-Hsiu Liang | 7,715 | 0 | 0 | 0 | |
| Branch General Manager | Hsi-Hsien Wang | 9,694 | 0 | 0 | 0 | |
| Branch General Manager | Cheng-Hao Wu | 5,613 | 0 | 0 | 0 | |
| Branch General Manager | Shu-Chen Shih | 20,874 | 0 | 0 | 0 | |

| Title | Name | 2019 | | Up To February 29, 2020 | | Remark |
|------------------------|-------------------|----------------------------|------------------------------|----------------------------|------------------------------|--------|
| | | Net Change in Shareholding | Net Change in Shares Pledged | Net Change in Shareholding | Net Change in Shares Pledged | |
| Branch General Manager | Shih-Tsung Liu | 15,793 | 0 | 0 | 0 | |
| Branch General Manager | Hong-Yi Chen | 10,488 | 0 | 0 | 0 | |
| Branch General Manager | Kuo-Mao Wu | 787 | 0 | 0 | 0 | |
| Branch General Manager | Pi-Lan Hsu | 0 | 0 | 5,379 | 0 | |
| Branch General Manager | Ming-Yung Yu | 9,116 | 0 | 0 | 0 | |
| Branch General Manager | Ping-Hung Chuang | 4,211 | 0 | 0 | 0 | |
| Branch General Manager | Hsien-Hsun Chiang | 12,328 | 0 | 0 | 0 | |
| Branch General Manager | Ming-Feng Wu | 1,766 | 0 | (45,926) | 0 | Note 4 |
| Branch General Manager | Jeremy Huang | 2,738 | | | | Note 4 |
| Branch General Manager | Tien-Long Yang | 8,700 | 0 | 0 | 0 | |
| Branch General Manager | Po-Hsun Chang | 1,924 | 0 | 0 | 0 | |
| Branch General Manager | Yung-Hung Tsao | 4,853 | 0 | 0 | 0 | |
| Branch General Manager | Chung-Yi Hsu | 12,659 | 0 | 0 | 0 | |

Note 1: Holding over 10% of the total shares of the corporation shall be remarked as major shareholder and shall respectively enumerate such fact.

Note 2: In the event that the opposite party of share transfer or share pledge is a related party, please additionally fill up the following table.

Note 3: Change in representative of a juristic-person managing director on FEB.12, 2020: Chin-Yuan Lai

Note 4: Personal adjustment on Jan. 06, 2020

Information of Shareholding Transfer: None

Shares Pledged Information

As of Dec. 31, 2019

| Name (Note 1) | Reason for change of pledge (Note2) | Date of change | Counterparty | Counterparty's relationship with the financial holding company, the directors, supervisors, and shareholders with more than 10% ownership interest. | Number of shares | Amount of pledge/ redemption |
|---------------------------------|-------------------------------------|----------------|--|---|------------------|------------------------------|
| Kang-Wei Chang | Pledge | 2019/02/21 | The Second Credit Cooperative of Keelung | None | 1,517,568 | |
| Jin Yu Hua Investment Co., Ltd. | Redemption | 2019/01/24 | Guangsheng International Asset Management Consulting Co., Ltd. | None | 974,586 | |
| Jin Yu Hua Investment Co., Ltd. | Redemption | 2019/04/25 | Bank of Panhsin | None | 974,586 | |
| Jin Yu Hua Investment Co., Ltd. | Pledge | 2019/06/13 | Bank of Panhsin | None | 974,586 | |
| Huasan Investment Co., Ltd. | Pledge | 2019/02/21 | The Second Credit Cooperative of Keelung | None | 1,014,858 | |

Note 1: Fill in the Directors, Supervisors, General Manager and the names of shareholders holding more than 10 percent.

Note 2: Fill in the Pledge or Redemption

3-5-2. Related Party Transaction of First Ten Largest Shareholders

As of Dec. 31, 2019

| Name | Shares Owned | | Shares Owned by Spouses and Minors | | Shares Held under Surrogate A/C | | Top ten shareholders who meet the related party disclosures term of FASC NO.6 shall disclose name and relationship | | Remark |
|--|---------------|---------------|------------------------------------|---------------|---------------------------------|---------------|--|---|--------|
| | No. of Shares | Shares Held % | No. of Shares | Shares Held % | No. of Shares | Shares Held % | Name | Relationship | |
| Ho Chu Investment Co., Ltd. Representative: Chia-Hung Lin | 81,307,757 | 9.67% | | | | | | | |
| Song-Yie Liao | 60,003,503 | 7.14% | 1,703,054 | 0.20% | | | Chuan Cheng Hat Co., Ltd Chuan Chi Co., Ltd. (Ching-Ling Liu) | Director Major shareholder Spouse | |
| Chuan Chi Co., Ltd. Representative: Ching-Ling Liu | 29,377,704 | 3.49% | | | | | Song-Yie Liao | Major shareholder Spouse | |
| Kuo-Chao Hsiao | 20,001,559 | 2.38% | | | | | Jun Heng Investment Co., Ltd. (Shih-Ying Hsiao) | Major shareholder Relatives within two degrees | |
| Yuhui Co., Ltd Representative: Gui-Xian Wang | 17,623,032 | 2.1% | | | | | | | |
| Chuan Cheng Hat Co., Ltd. Representative: Ching-Ling Liu | 15,371,486 | 1.83% | | | | | Song-Yie Liao | Director Spouse | |
| Hooann Co., Ltd. Representative: Jen-Chieh Yang | 15,218,798 | 1.81% | | | | | | | |
| Chun-Chieh Wang | 11,840,953 | 1.41% | | | | | | | |
| Yuan Ta Chung Machinery Co., Ltd. Representative: Chi-Jung Huang | 11,281,742 | 1.34% | | | | | | | |
| Jun Heng Investment Co., Ltd. Representative: Shih-Ying Hsiao | 11,063,183 | 1.32% | | | | | Kuo-Chao Hsiao | Major shareholder Relatives within two degrees | |

3-5-3. Consolidated Shareholdings:

Unit: share; %

| Investees (Note) | Direct Investment | | Indirect Investment | | Total | |
|--------------------------------------|-------------------|-------------|---------------------|-------------|---------------|-------------|
| | No. of Shares | Shares Held | No. of Shares | Shares Held | No. of Shares | Shares Held |
| Taiwan Financial Asset Service Corp. | 5,000,000 | 2.94% | 0 | 0 | 5,000,000 | 2.94% |
| Taiwan Asset Management Corp. | 6,000,000 | 0.57% | 0 | 0 | 6,000,000 | 0.57% |
| Sunny Asset Management Corp. | 25,302 | 0.42% | 0 | 0 | 25,302 | 0.42% |
| Taiwan Depository & Clearing Corp. | 307,306 | 0.08% | 0 | 0 | 307,306 | 0.08% |

Note: The Bank's investment pursuant to article 74 of the Banking Act.



4

Capital Arrangement

Capital Arrangement

4-1. Capital Shares and Dividends

4-1-1. Source of Capital

As of Feb. 29, 2020; Shares Held (%)

| Month/Year | Issuing price (TWD) | Registered Capital | | Paid-in Capital | | Remark | |
|------------|---------------------|--------------------|----------------|-----------------|---------------|---|-------|
| | | Shares | Amount | Shares | Amount | Source | Other |
| July 2019 | 10 | 1,000,000,000 | 10,000,000,000 | 840,637,659 | 8,406,376,590 | Capital increase from retained earnings of TWD323,322,170 | |

As of Dec. 31, 2019

| Type of share | Registered capital | | | Remark |
|---------------|--------------------|-----------------|---------------|------------------------------|
| | Outstanding shares | Unissued shares | Total | |
| Common shares | 840,637,659 | 159,362,341 | 1,000,000,000 | Bank is not a listed company |

Information for comprehensive reporting: None

4-1-2. Shareholder Structure

As of Dec. 31, 2019

| Category | Government Agency | Financial Institution | Other Institution | Individual | Foreign Institution and Foreigner | Total |
|------------------------|-------------------|-----------------------|-------------------|-------------|-----------------------------------|-------------|
| Number of Shareholders | 1 | 1 | 414 | 64,048 | 51 | 64,515 |
| Number of Shares | 1,514 | 15,187 | 236,775,112 | 602,176,068 | 1,669,778 | 840,637,659 |
| Percentage | - | - | 28.16% | 71.64% | 0.20% | 100% |

4-1-3. Distribution of Shareholders' Equity

4-1-3-1. Common Stock: par value of TWD10

As of Dec. 31, 2019

| Tier | Number of Shareholders | Number of Shares | Percentage (%) |
|-------------------|------------------------|------------------|----------------|
| 1 – 999 | 45,742 | 11,779,270 | 1.40% |
| 1,000 - 5,000 | 10,629 | 21,227,299 | 2.53% |
| 5,001 - 10,000 | 1,785 | 12,927,078 | 1.54% |
| 10,001 - 15,000 | 531 | 6,513,990 | 0.77% |
| 15,001 - 20,000 | 2,440 | 40,545,124 | 4.82% |
| 20,001 - 30,000 | 1,051 | 24,730,666 | 2.94% |
| 30,001 - 40,000 | 478 | 16,115,323 | 1.92% |
| 40,001 - 50,000 | 238 | 10,810,314 | 1.29% |
| 50,001 - 100,000 | 712 | 52,455,008 | 6.24% |
| 100,001 - 200,000 | 473 | 65,211,719 | 7.76% |
| 200,001 - 400,000 | 243 | 66,599,670 | 7.92% |
| 400,001 - 600,000 | 70 | 34,041,399 | 4.05% |

| Tier | Number of Shareholders | Number of Shares | Percentage (%) |
|---------------------|------------------------|------------------|----------------|
| 600,001 - 800,000 | 29 | 19,828,852 | 2.36% |
| 800,001 – 1,000,000 | 18 | 16,054,058 | 1.91% |
| 1,000,001 and above | 76 | 441,797,889 | 52.55% |
| Total | 64,515 | 840,637,659 | 100.00% |

4-1-3-2. Preferred Stock: None

4-1-4. List of Major Shareholders

As of Dec. 31, 2019

| Name | Number of Shares | Percentage (%) |
|-----------------------------------|------------------|----------------|
| Ho Chu Investment Co., Ltd. | 81,307,757 | 9.67% |
| Song-Yie Liao | 60,003,503 | 7.14% |
| Chuan Chi Co., Ltd. | 29,377,704 | 3.49% |
| Kuo-Chao Hsiao | 20,001,559 | 2.38% |
| Yuhui Co., Ltd | 17,623,032 | 2.10% |
| Chuan Cheng Hat Co., Ltd. | 15,371,486 | 1.83% |
| Hooann Co., Ltd. | 15,218,798 | 1.81% |
| Chun-Chieh Wang | 11,840,953 | 1.41% |
| Yuan Ta Chung Machinery Co., Ltd. | 11,281,742 | 1.34% |
| Jun Heng Investment Co., Ltd. | 11,063,183 | 1.32% |

Note: Disclose the ratio of holding shares above 1%.



4 Capital Arrangement

4-1-5. Market Value, Net Worth, Earnings, and Dividend per Share in Recent 2 Years

Unit: TWD

| Item | | Year | 2018 | 2019 | Up To Feb. 29, 2020 |
|-----------------------|-------------------------|------------------|-------------|-------------|---------------------|
| Market Value | Highest | | N/A | N/A | N/A |
| | Lowest | | N/A | N/A | N/A |
| | Average | | N/A | N/A | N/A |
| Net Worth | Before Distribution | | 13.41 | 13.63 | 13.83 |
| | After Distribution | | 12.66 | (Note 4) | (Note 2) |
| Earnings | Weighted Average Shares | | 840,637,659 | 840,637,659 | 840,637,659 |
| | Earnings per Share | Before Adjust | 0.93 | 0.89 | 0.14 |
| | | After Adjust | 0.90 | (Note 4) | (Note 2) |
| Dividend (Note 1) | Cash Dividends | | 0.25 | 0.25 | N/A |
| | Stock Dividends | Retained Earning | 0.60 | 0.40 | N/A |
| | | Capital Reverse | 0 | 0 | N/A |
| | Dividends in Arrear | | 0 | 0 | N/A |
| ROI Analysis (Note 3) | P/E Ratio | | N/A | N/A | N/A |
| | P/D Ratio | | N/A | N/A | N/A |
| | Cash Dividend Yield | | N/A | N/A | N/A |

Note 1: Dividends of serial year present earnings assignment of previous year.

Note 2: Year 2020 hasn't ended.

Note 3: Not applied as the Bank is not a listed company.

Note 4: Year 2019 distribution is to be determined in accordance with the resolutions of shareholder meeting.



4-1-6. Dividend Policy and Executive Status

In accordance with guidelines of the Bank's articles of incorporate, our dividend policy is carried out by the access of "assignable earning distribution. After appropriate legal reserves and provide a special earnings reserve, we distribute the full earnings to the shareholders.

According to article 34 of the Bank's articles of incorporate, earnings of fiscal year should pay taxes and offset prior year's losses and appropriate 30% as legal reverse in turns. but the accumulated legal reserve equals or exceeds a Bank's paid-in capital or the Bank is sound in both its finance and business operations and have set aside legal reserve in compliance with the Company Law, the restrictions stipulated in the preceding paragraph shall not apply.; If there is still surplus, the company shall either provide a legal reserve and a special earnings reserve from the surplus, or reverse existing special earnings reserves into the opening balance of undistributed earnings, and the distribution of profits was proposed by Board of Directors and decided to distribute dividends to shareholders in the shareholders' meeting.

Before the legal reserve is accumulated up to the total capital, the highest cash dividends are limited to not over 15%.

Dividend distributions include cash dividends but not less than 10%, and the rest of dividends are stock dividends. If cash dividends less than TWD0.1, they will not be distributed, except approval by the shareholder's meeting.

Resolution: Our bank has adopted a Proposal for Distribution of 2019: cash dividends TWD219,159,410 stock dividends TWD344,661,440. The distribution has not been approved by the Shareholders' Meeting.

4-1-7. The Effects of Stock Dividends Proposed by Shareholders' Meeting on the Operating Performance and Earnings Per Share

UNIT: Thousands of TWD

| Year/Item | | 2019 (Estimate) |
|---|---|------------------------------------|
| Beginning Paid-in capital (TWD) | | 8,406,376 |
| Stock and Cash Dividends for Current | Cash dividends per share | 0.25 (Note 2) |
| | Stock dividends per share for capital increment from retained earnings (Shares) | 0.41 (Note 2) |
| | Stock dividends per share for capital increment from capital surplus (Shares) | - |
| Changes in Performance | Operating profit | N/A (Note 1) |
| | Change in operating profit compared with previous year | |
| | After-tax profit | |
| | Change in after-tax profit compared with previous year | |
| | Earnings per share (TWD) | |
| | Change in earnings per share compared with previous year | |
| | Average return on investment (Average annual EP ratio) | |
| Conjectural Earnings per Share and Price/Earnings Ratio | If retained earnings for capital increment all converted to cash dividends | Earnings per share (TWD) |
| | | Average annual return on increment |
| | If no increment using capital surplus | Earnings per share (TWD) |
| | | Average annual return on increment |
| | If no increment using capital surplus but switch to cash dividends | Earnings per share (TWD) |
| | | Average annual return on increment |

Note 1: According to the amendment by the Securities and futures commission, Ministry of Finance on Feb. 1, 2000 under Doc. No.00371, a public company that publishes a financial forecast in accordance with these Regulations may publicly disclose it on the company website.

Note 2: The earning distribution for year 2019 has not been approved by the Shareholders' Meeting.



4-1-8. Employees' Bonus and Directors' Remuneration:

4-1-8-1. Information Relating to Employees' Bonus and Directors' Remuneration in the Articles of Incorporation

According to the amendment of article 34 of the Bank's Articles of Incorporation:

An amount of 6% of the profit shall be distributed as compensation to the employees and an amount not more than 2% (Maximum 2%) of the profit shall be distributed as compensation to the directors.

4-1-8-2. The difference, if any, between the amount estimated in the current-year and the amount approved by stockholders in the subsequent year shall be accounted for as a change in accounting estimate, and charged to profit or loss in the current year.

4-1-8-3. Status of compensation distribution as approved by the Board of Directors

- The Bank has proposed a total of TWD57,980 thousand of employees' remuneration and TWD19,327 thousand of directors' remuneration to be distributed for 2019.
- The amount of any employee compensation distributed in stocks as a percentage of the sum of the current after-tax net income and total employee compensation: The Bank has not distributed any employee compensation in stocks.

4-1-8-4. Earnings Distribution to Employees' Bonus and Directors' Remuneration for 2019

- Employees' Bonus: TWD58,665 thousand
- Directors' Remuneration: TWD19,555 thousand
- The above-mentioned actual distribution of employees' bonus and directors' remuneration was in line with the recommended resolution of the Board of Directors.

4-1-9. Repurchase of Treasury Stock

There was no repurchase of treasury stock.

4-2. Issuance of Bank Debentures

| Type of Bank Debt | 1st subordinate financial debts in 2016 | 1st non-cumulative perpetual subordinated financial debts in 2018 | 2nd subordinate financial debts in 2018 |
|--|--|--|--|
| Date Approved by Central Competent Authority, Document No. | Financial Supervisory Commission Executive Yuan, R.O.C. September 5, 2016 Document No.10500214440 | Financial Supervisory Commission Executive Yuan, R.O.C. March 5, 2018 Document No.10702043550 | Financial Supervisory Commission Executive Yuan, R.O.C. August 31, 2018 Document No.10702165540 |
| Date of Issue | November 16, 2016 | Jun 21, 2018 | December 12, 2018 |
| Denomination | 500 thousand | 10 million | 10 million |
| Issue and transaction Place | Taiwan, R.O.C. | Taiwan, R.O.C. | Taiwan, R.O.C. |
| Currency | New Taiwan Dollar | New Taiwan Dollar | New Taiwan Dollar |
| Issue Price | Face value | Face value | Face value |
| Total Amount | 1.8 billion | 0.6 billion | 0.6 billion |
| Interest Rate | Fixed rate 2.1% | Floating rate: Adjustable rate for consumer loans by season +3.06% | Fixed rate 1.95% |
| Term | 7 years, matured on November 16, 2023 | Perpetual | 7 years, matured on December 12, 2025 |
| Priority of Payment | Takes precedence over bank shareholders for distribution of surplus assets and is subordinate to the deposit client and all other creditors of the Bank. | Takes precedence over bank shareholders for distribution of surplus assets and is subordinate to tier 2 Capital holders, the deposit client and all other creditors of the Bank. | Takes precedence over bank shareholders for distribution of surplus assets and is subordinate to the deposit client and all other creditors of the Bank. |
| Guaranteeing Institution | None | None | None |
| Trustee | None | None | None |
| Underwriter | None | None | None |
| Certifying Lawyers | Wen-Cheng Chiang | Wen-Cheng Chiang | Wen-Cheng Chiang |
| Certifying CPA | Shi-Hua Guo | Shi-Hua Guo | Shi-Hua Guo |
| Certifying Financial Institution | None | None | None |
| Method of Redemption | Principal paid upon maturity | perpetual | Principal paid upon maturity |
| Unredeemed Balance | 1.8 billion | 0.6 billion | 0.6 billion |
| Preceding Year's Paid-in capital | 5,998,771,420 (2015) | 7,625,523,040 (2017) | 7,625,523,040 (2017) |
| Preceding Year's Post-Audit Net Value | 7,916,736,553 (2015) | 9,337,842,218 (2017) | 9,337,842,218 (2017) |
| Performance Status | Normal | Normal | Normal |
| Sellback or Early Redemption conditions | None | 30 days before announcement to comply with rules of competent authority it can be redeemed (including interest payable) after 5 years of the issuance | None |

Capital Arrangement

| Type of Bank Debt | 1st subordinate financial debts in 2016 | 1st non-cumulative perpetual subordinated financial debts in 2018 | 2nd subordinate financial debts in 2018 |
|--|--|---|---|
| Rollover and Exchange Conditions | None | None | None |
| Restrictive Conditions | Subordinated | Subordinated | Subordinated |
| Capital Utilization plan | Raise the Bank's owner's capital and BIS ratio | Raise the Bank's owner's capital and BIS ratio | Raise the Bank's owner's capital and BIS ratio |
| Amount of Registered Issuance Plus Outstanding Balance Already Issued as Ratio of Net Final Value of Issuance in Preceding Year. | 22.74% | 25.70% | 32.13% |
| Whether or not recorded as qualified capital and type | Yes, Tier 2 Capital | Yes, Tier 1 Capital | Yes, Tier 2 Capital |
| Name of Rating Institution, Date of Rating, and Rating Given | Sales targets exclude non-professional investors. According to Regulations Governing Issuance of Bank Debentures by Banks Article 6 Item 2, Debt Rating is not required. At that time, COTA Bank Rating Data: Long-term : twBBB+, Short-term :twA-2, Outlook: Stable (Taiwan Ratings Corp. January 15, 2016) | Sales targets exclude non-professional investors. According to Regulations Governing Issuance of Bank Debentures by Banks Article 6 Item 2, Debt Rating is not required. At that time, COTA Bank Rating Data: Long-term : twBBB+, Short-term :twA-2, Outlook: Stable (Taiwan Ratings Corp. December 26, 2017) | Sales targets exclude non-professional investors. According to Regulations Governing Issuance of Bank Debentures by Banks Article 6 Item 2, Debt Rating is not required. At that time, COTA Bank Rating Data: Long-term : twBBB+, Short-term :twA-2, Outlook: Stable (Taiwan Ratings Corp. December 26, 2017) |

4-3. Preferred Stock: None

4-4. Issuance of Depositary Receipt: None

4-5. Employee Stock Option Plan: None

4-6. Status of Employee Restricted Stock: None

4-7. Merging or Acquisition of Other Financial Institutions: As of press time, none.

4-8. Utilization of Capital Plan: None

5

Business Operation



5-1. Business Report

5-1-1. Business Results

5-1-1-1. Deposits

Unit: TWD thousand

| Items | Year | 31 Dec 2019 | | 31 Dec 2018 | | Increase (Decrease) Amount | Increase (Decrease) % |
|------------------------------------|------|-------------|---------|-------------|---------|----------------------------------|-----------------------------|
| | | Amount | % | Amount | % | | |
| Checking Deposits | | 2,268,189 | 1.48% | 2,327,600 | 1.56% | (59,411) | (2.55) |
| Demand Deposits | | 20,618,892 | 13.41% | 19,823,809 | 13.25% | 795,083 | 4.01 |
| Foreign currency Demand Deposits | | 1,493,517 | 0.97% | 1,522,120 | 1.02% | (28,603) | (1.88) |
| Demand Savings Deposits | | 39,490,927 | 25.69% | 38,231,938 | 25.56% | 1,258,989 | 3.29 |
| Employees Demand Savings Deposits | | 835,828 | 0.54% | 845,854 | 0.57% | (10,026) | (1.19) |
| Time Deposits | | 25,589,475 | 16.64% | 22,054,145 | 14.74% | 3,535,330 | 16.03 |
| Foreign currency Time Deposits | | 1,116,350 | 0.73% | 1,097,266 | 0.73% | 19,084 | 1.74 |
| Negotiable Certificates of Deposit | | 6,253,000 | 4.07% | 8,794,500 | 5.88% | (2,541,500) | (28.90) |
| Time Savings Deposits | | 56,080,486 | 36.47% | 54,905,862 | 36.70% | 1,174,624 | 2.14 |
| Remittances | | 3,919 | 0.00% | 9 | 0.00% | 3,910 | 43,444.44 |
| Total | | 153,750,583 | 100.00% | 149,603,103 | 100.00% | 4,147,481 | 2.77 |

5-1-1-2 Loans

Unit: TWD thousand

| Items | Year | 31 Dec 2019 | | 31 Dec 2018 | | Increase (Decrease) Amount | Increase (Decrease) % |
|-----------------------------|------|-------------|---------|-------------|---------|----------------------------------|-----------------------------|
| | | Amount | % | Amount | % | | |
| Export Bills | | 0 | 0.00% | 0 | 0.00% | 0 | 0.00 |
| Overdraft | | 89 | 0.00% | 3,985 | 0.00% | (3,896) | (97.77) |
| Short-term Loan | | 2,212,980 | 1.96% | 2,806,466 | 2.40% | (593,486) | (21.15) |
| Guarantee Overdraft | | 31,428 | 0.03% | 35,014 | 0.03% | (3,586) | (10.24) |
| Short-term Secured Lending | | 8,522,554 | 7.54% | 10,057,033 | 8.62% | (1,534,479) | (15.26) |
| Medium-term Loan | | 12,650,791 | 11.19% | 13,452,660 | 11.53% | (801,869) | (5.96) |
| Medium-term Secured Lending | | 61,572,797 | 54.47% | 59,351,474 | 50.86% | 2,221,323 | 3.74 |
| Long-term Loan | | 692,806 | 0.61% | 684,898 | 0.59% | 7,908 | 1.15 |
| Long-term Secured Lending | | 26,904,942 | 23.80% | 29,905,056 | 25.63% | (3,000,114) | (10.03) |
| Collection | | 456,257 | 0.40% | 401,757 | 0.34% | 54,500 | 13.57 |
| Total | | 113,044,644 | 100.00% | 116,698,343 | 100.00% | (3,653,699) | (3.13) |

5-1-1-3 Foreign Exchange Business (OBU included)

Unit: USD thousand

| Items | Year | 2019 Amount | 2018 Amount | Increase (Decrease) Amount | Increase (Decrease) % |
|----------------------------|------|----------------|----------------|----------------------------------|-----------------------------|
| | | | | | |
| Foreign Currency Deposit | | 86,689 | 85,231 | 1,458 | 1.71 |
| Foreign Currency Loan | | 25,790 | 29,838 | (4,048) | (13.57) |
| Import and Export Business | | 9,572 | 17,061 | (7,489) | (43.90) |
| Exchange Business | | 226,853 | 252,231 | (25,378) | (10.06) |

Note: Foreign exchange deposits and loans are the year-end balances; Import, export and remittance business are annual commitments

5-1-1-4 Trust Business

Unit: TWD thousand

| Items \ Year | 31 Dec 2019 Amount | 31 Dec 2018 Amount | Increase (Decrease) Amount | Increase (Decrease) % |
|---|-----------------------|-----------------------|----------------------------------|-----------------------------|
| Non-Discretionary Money Trust Investment in Domestic and Foreign Securities | 4,233,723 | 4,540,292 | (306,569) | (6.75) |
| Other Trust of Money | 566,272 | 262,773 | 303,499 | 115.50 |
| Trust of Money (Total) | 4,799,995 | 4,803,065 | (3,070) | (0.06) |
| Trust of Real Estate | 693,726 | 378,374 | 315,352 | 83.34 |
| Trust Property under Trustees (Total) | 5,493,721 | 5,181,439 | 312,282 | 6.03 |
| Other Affiliated Business | 0 | 0 | 0 | 0 |
| Certified Business | 0 | 0 | 0 | 0 |

5-1-1-5 Wealth Management Business

Unit: TWD thousand

| Items \ Year | 2019 Amount | 2018 Amount | Increase (Decrease) Amount | Increase (Decrease) % |
|----------------------|----------------|----------------|----------------------------------|-----------------------------|
| Fund Fee Income | 11,661 | 15,777 | (4,116) | (26.09) |
| Insurance Fee Income | 172,802 | 149,806 | 22,996 | 15.35 |
| Total | 184,463 | 165,583 | 18,880 | 11.40 |

5-1-1-6 Credit Card Business

Unit: TWD thousand/ number of cards

| Items \ Year | 2019 Amount | 2018 Amount | Increase (Decrease) Amount | Increase (Decrease) % |
|---|----------------|----------------|----------------------------------|-----------------------------|
| Cumulative Total Number of Cards Issued | 99,209 | 97,115 | 2,094 | 2.16 |
| Credit Card Circulation | 15,149 | 15,000 | 149 | 0.99 |
| Amount of Consumption | 1,539,944 | 1,419,821 | 120,123 | 8.46 |
| Revolving Credit Balance | 24,580 | 26,568 | (1,988) | (7.48) |

5-1-1-7 Investment Bond and Bills Business

Unit: TWD thousand

| Items \ Year | 31 Dec 2019 Amount | 31 Dec 2018 Amount | Increase (Decrease) Amount | Increase (Decrease) % |
|--|-----------------------|-----------------------|----------------------------------|-----------------------------|
| Government Bond | 1,001,569 | 1,008,793 | (7,224) | (0.72) |
| Financial Bonds and Corporate Bonds | 10,979,135 | 9,184,993 | 1,794,142 | 19.53 |
| Convertible Bond | 699,100 | 608,800 | 90,300 | 14.83 |
| Reverse Repurchase Agreement | 10,317,589 | 9,681,841 | 635,748 | 6.57 |
| CBC Certificates of Deposits (include NCD) | 16,380,000 | 15,000,000 | 1,380,000 | 9.20 |
| Short-term Transactions Instruments | 4,019,115 | 766,895 | 3,252,220 | 424.08 |

5-1-1-8 The Proportion and Change of Net Income of Operating Business

Unit: TWD thousand

| Items | 2019 | | 2018 | |
|---|-----------|-------------------------|-----------|-------------------------|
| | Amount | Ratio of Net Income (%) | Amount | Ratio of Net Income (%) |
| INTN (Interest Income (Net)) | 2,538,696 | 85.49 | 2,574,935 | 89.00 |
| FEE (Service Fee Revenue & Commission (Net)) | 273,584 | 9.21 | 248,819 | 8.60 |
| FIAL (Gains or Losses on Financial Assets (Liabilities) at Fair Value through Profit or Loss) | 48,314 | 1.63 | (3,225) | (0.11) |
| REFI (Realized Gain or Loss on Available-for-Sale Financial Assets) | - | - | - | - |
| FVTOCI (Realized Gains or Loss from Sale of Fair Value through Other Comprehensive Income Financial Assets) | 5,358 | 0.18 | 6,212 | 0.21 |
| Gains (losses) from Sale of Amortized Cost Financial Assets | - | - | (1) | 0.00 |
| ILL (Investment Income or Loss from Investment Accounted for Using Equity Method) | - | - | - | - |
| Net Gain on Reversal of Impairment Assets Loss | 127,092 | 4.28 | (880) | (0.03) |
| XGL (Foreign Exchange Gain) | (8,007) | (0.27) | 45,412 | 1.57 |
| OREV (Other Revenue Except for Interest Income) | (15,417) | (0.52) | 21,917 | 0.76 |
| NREV (Net Revenue) | 2,969,620 | 100.00 | 2,893,189 | 100.00 |

5-1-2. Business Plans for year 2020

5-1-2-1. Operation Plans

- To provide customers with a more convenient service by enhancing mobile internet banking function continuously and find customer's financial needs for the purpose of improving customer use and penetration rate.
- To carry out legal compliance positively in the business management and plant deeply in the enterprise culture to be the important cornerstone for continuous operation.
- In order to fulfill the development of digital banks, we use the electronic processes to develop potential online-banking customers, select excellent target customer, and provide exclusive offers and services to expand business.
- In response to the implementation of Basel III , we strengthen the capital structure, the equity basis of common stock and the risk-taking ability.
- Full investment in better profitability and safety financial commodities and strengthen management of margin funds with interest income and capital gains to improve financial operation performance.
- To cooperate with the competent authority to promote the development of financial technology and regulatory amendment, keep develop and improve the electronic access service to expand the digitalization of various business and provide convenient and diversified financial services.
- Continuously simplifies accounting operations and streamlining manpower and time.
- Keeping expand saving deposits, consumer banking, corporate loans, wealth management, trusts, foreign exchange, international banking, and e-banking. To adjust structure, enlarging economy of scale and enhancing operating efficiency to reduce costs and increase profits.
- Cooperate with Anti-Money Laundering and Countering the Financing of Terrorism precautions, continuous development of relevant operating systems.

- Strengthening capital structure and operation ability, improving asset quality, implementing risk management and corporate governance, enhancing the ability to undertake long-term risks.
- Enhance staff training and education to promote professional functions for the development of financial technology.
- To develop and build related software and hardware system with the implementation of Computer - Processed Personal Data Protection Law.
- Strengthening risk management to implementation reasonable pricing and uphold the principles of credit 5P in order to maintain high quality of the loan assets and increase capital efficiency.
- Concerning to simplify the operation procedure and internal control, review and improve business regulations any time to optimizing adjustment, promote service quality and work efficiency.
- Implementation of paperless and save on photocopying to get costs down.
- We implement budget enforcement to make resources more efficient.
- Adjust internal transfer pricing mechanism to improve the efficiency and effectiveness of business and management units.
- Consolidate tax reporting information by electronic way to improve performance and correctness.
- Concerning regional development prospects, the bank considers relocate branches and broadening channel efficiency.

5-1-2-2. Consumer Banking

- Continuously promote mobile payment services, such as cooperation with Financial Information Service Co., Ltd. to promote Taiwan Pay scan and pay function and participate in marketing application platform, through the Bank's mobile banking binding account can be used to transfer, shopping and payment transactions by mobile phone, improve the use of online banking.
- To update interface for improving the effectiveness of network banking services, replaced with responsive web design and expand applicable browser types and operating systems to provide customers with the most appropriate financial services and enhance the quality of our network services as the goal.
- As customer demand-oriented to optimize the system operating process, expand internet service functions, facilitate customers to complete various business applications online to improve service quality and operational efficiency.
- To facilitate payment of living bills and meet the needs of different customers, will expand multi-online payment methods for fee and tax in order to eliminate the inconvenience of customer and deepen relationship between customers and the Bank.
- In line with digital development and customer financial needs, we will continue to expand our network business and service scope to enhance our competitiveness.
- With development of Open API (Application Programming Interface), we follow up the opportunity for research and development of opening API gradually, work with other companies via Financial Information Service Co., Ltd. open API common technology standards so that the advantages of products can be exposed in order to extend the existing products and services and seek more diversified financial value-added services to enhance competitiveness.
- Strictly carry out SOP of credit and loan business, strengthen detailed evaluation of credit facility, review and follow-up outstanding cases after credit release and keep track of the performance of customer management and financial control to avoid or reduce losses and maintain credit assets.
- Making good use of internal credit rating system to adjust factors and weights moderately after collecting sufficient quantitative data and summarize reasons for timing and overdue of default by using credit default database.
- By electronic processes we will accelerate the credit-management process and develop personal financial services with the principle of equal quality and enhanced risk control to ensure the Bank's revenue.
- Continuously enhance staff education and training, cultivate major personnel in electronic financial business and strengthen ability of branches in marketing of digital financial service.
- We continue to promote and optimize online banking services to improve online banking usage and satisfaction.
- To plan various mobile payment services, such as credit card QR Code sweep and other payment application services, and participate actively in the development of domestic mobile payment.



Business Operation

- We continue to pay attention to the development of Innovative financial technology applications, discuss the feasibility of introducing the resources of financial technology into the business, and improve service efficiency
- To create optimized business model to upgrade Bank's competition so as to cope with external changes on competition and regulations to make maximum profits
- Enhance the pre-existing risk control capabilities of the entire product to improve asset quality and implement post-event management. Regularly review the operating conditions and asset quality of the consumer finance credit business, and adjust the pricing and credit policies of the products at any time, and strengthen the management structure of the product line to respond product performance.
- Continuous planning business operations, electronic and paperless, introducing the virtual and integrated service model to improve service efficiency.
- Making the back office standardized, automatic and digitalized to save operational cost and shorten operating time so that making the lending procedure more competitive and efficient to achieve the goal of economies of scale.
- Strengthen the understanding and recognition of the bank's consumer financial products for the wealth management investment group at the top of the pyramid.
- As widespread use of internet and mobile devices, revise the version to close customer needs to reach customer satisfaction and use willingness.
- Planning to provide interactive mobile bill in addition to reconciliation information, as well as business advice and real-time contributions and other functions to facilitate customers to use and enhance relationship.
- Continuously strengthen the on-the-job training courses for business personnel, aiming at compliance, product positioning, marketing direction, development skills, service etiquette, and supplemented by the four purposes of integrity, innovation, cordiality, and service to improve the overall business team's production capacity.
- To create new consumer financial products based on market dynamics, and develop diversified and customized projects with low risk and competitive advantages as the mainstay in order to increase the added value of various products, expand product services and increase the scale of personal financial loans.
- Selecting target customers to provide specific benefits and services to expand consumer banking business.

5-1-2-3. Corporate Banking

- Following the policies of the government, continuously promoting SME loans to satisfy customers' needs, enlarging customers' base and economic scale, and enhancing market share of the corporate financing.
- To strengthen risk management mechanism based on Basel III principal so as to control debt ratio and upgrade credit quality.
- Ensuring claims, increasing secure percentage and reducing percentage of credit loans. If the loan met the requirement of the "Small and Medium Enterprise Credit Guarantee Fund", it should apply the Fund as a guarantor for reducing capital charge.
- Cooperating with the government's policies on economy growth and industries upgrading, providing the whole programs on corporate loans and satisfying the customers funding needs in each level.
- Building up a 24-hour corporate network banking platform to provide funds transfer, investment and other financial services to meet customer capital demand in order to expand more SME.
- Wholly-owned and partnership of SME are as the target to expand business portfolio according to their lending purpose, credit quality, business status and repayment plan, and also to enhance debt strengthens through SMEG and government-related policies.
- Credit officer overview the industry and report to related person in order to grasp market trends.
- Implementing account personnel system, actively searching new customers and maintaining old customers at the same time. The headquarter holds the account personnel meeting on a regular time schedule that discuss the business performance and educate the personnel to enhance ability that determines the risk of the business operation to increase competitiveness and profitability.
- To set a control ratio of credit limit in various industries and strengthen corporate credit issues beforehand to prevent excessive concentration risk and pay attention to overall economy and market fluctuation.

5-1-2-4. International Banking & Foreign Exchange Business

- To follow with the things to be aware of Anti-Money Laundering and countering terrorist finance, the Bank Integrates the identification and evaluation of national risk, and controls process over the real-time system and strengthen blacklist control and inspection.
- We plan the new foreign exchange system with IT member, which includes the data construction of deposit, import, export, bond and foreign exchange trading.
- Assisting branch to develop potential customers promoting trading finance to create more profits from foreign exchange.
- For anti-money laundering, we strengthen and implement the cash transaction, banknote identification and flow control of the branches.
- Let IT member add the fund tracking function, UETR settings and message format updates within the SWIFT system.
- Increasing RP/RS investment allocation, seeking high-rating overseas securities and creating revenues from financial operation on foreign currency funds.
- Customer can apply the reserved online banking transfer transactions without over-the-counter service to enhance foreign exchange automation services.
- In line with Central Bank's foreign exchange business management, cooperate with IT to amend foreign exchange data processing and uploading system to submit foreign exchange payment or transaction data.
- Continuing to enforce the professional knowledge and training for personnel in order to enhance ability to expand foreign exchange business.
- Let IT member develop the direct connection of the Central Bank Foreign Exchange Information Reporting system for branches, thus we don't need to report the foreign exchange settlement amount again.
- Increasing fixed income investment allocation, seeking high-rating overseas securities and creating revenues from financial operation on foreign currency funds.

5-1-2-5. Wealth Management

- We continue to pay attention to the fluctuation of global market and the changes in laws and regulations, manage market risks effectively and dynamically, and place emphasis on the suitability of commodity KYP and customer KYC. Regularly provide professional market reports according to the general economic indicators, policy, macro and chip analysis, while taking into account opportunities and risk control, interpreting market fluctuations and customers' investment and financial management needs, providing customers with financial management advice, constructing a stable and growing asset allocation plan, and meeting customers' financial management needs at different stages.
- We collect market information, introduce diversified and competitive investment commodities, and enrich the selection of listed commodities through the Bank's commodity listed review system to meet the different needs of various customers.
- In order to develop family wealth management business and extend personal wealth management business to family members, we proactively customize asset planning for customers and family members according to different financial goals in each stage of life, and then grasp customer needs, and effectively link to our financial products and services to grasp business opportunities in advance.
- With high age society and following the policy of government, we are actively in promoting trust care for the elderly and the physically and mentally handicapped people to enhance business social responsibility and customer experience value.
- To promote diversified trust goods and provide customized services according to the different needs of customers, in order to realize the purpose of trust.
- To meet the needs of investors and maintain customer relationship, the Bank provides all-round financial professional services to deal with clients by VIP financial management seminar and invite professional lecturers for customers with the latest market information in real time and create strong relationship with clients.

- The Bank is constantly maintaining local and customer base in line with the situation and market trend on Line and Facebook to let customers and the potential in the audience to understand to cement customers and cultivation their loyalty. To take professional activity of the advantages to actively develop the potential customer and stable customer grow have a wide range option, and help the Wealth Management Department to promote products of fund and trust in business.
- Looking for more excellent domestic and offshore mutual funds for different risk appetite customers to have a wide range option, and help the Wealth Management Department to promote products of fund and trust in business.
- Through the external teachers not only to shape the professional image and the realization of multi-life knowledge but also to enhance legal common sense and professional knowledge of tax introduction.
- To strengthen staff follow rules and business ethics, legal compliance and risk management in order to realize internal control and audit system, and actual practice in internal control of Three Lines of Defense to prevent possible drawbacks.
- In order to take the marketing of all employees as a sales strategy, we strengthen the professional knowledge of the wealth management business of the employees, improve the professional knowledge and marketing skills through comprehensive financial management training, and tailor the financial planning for the customer, which can achieve the goal of the customer's financial management more effectively and quickly, thus improve and enhance the core value of the "service" of wealth management.
- In response to the global digital era, the APP business model is becoming popular. The Bank is trying to develop the device by using mobile network banking APP to combine with financial business, fund and market investment information so that customers are not limited by time and space to get the investment affairs to grasp the market situation.
- To make financial plans for customer, understand all use of assets continuously to provide diversified financial products in addition to meet demand for customer funds parking as well as to improve the depth and quality of banking services.
- To strengthen education and training cooperation with Fund and Insurance companies, invite external lecturer to hold regular and irregular finance courses, thus push and train staff to participate in the series of courses with financial expertise and marketing skills to achieve policy object of full business marketing.
- Regular review of annual objectives to achieve the situation in line with the market investment environment and carry out competition activities to strengthen staff will and improve performance.
- Strengthen professional education and training to staff about financial consumer protection, personal data protection and fair hospitality to maintain customer rights.
- Strengthening development of financial management business, conducting financial trends sharing and financial commodity training in branch morning meeting or after working hours. To integrate the latest trends of global market to promote the professional ability of staff.

5-1-2-6. Asset & Liability Management, Risk Management and Funding

- Under the rise and fall of interest rates in the United States, the US-China trade war, and the fluctuations in the stock and foreign exchange markets, the profits and losses from financial market business have been affected, and investment operations have also been turned to be conservative and stable to mitigate the impact of market factors, while continuously strengthening risk control and limit management, reducing financial Asset exposure and adjustment of hedging strategies in order to seek stable returns for asset allocation.
- We strengthen the management of capital structure, and maintain a proper BIS ratio. The operation strategy is mainly to stabilize interest spreads, and carefully adjust the proportion of liquidity and stability to facilitate the funds.
- We increase long-term investment positions to enhance the operating performance of investment businesses, improve profitability, inject investment income, and increase bond investment to improve capital utilization and interest income.
- The wealth investment strategy focuses on strengthening financial operation and stable liquidity, dispersion of investment targets to ensure contributions of assets and abundant profits.
- In response to changes in regulations or operating environment, we immediately formulated corresponding measures and revised internal regulations or operating procedures, implemented the principles of consumer protection and fair hospitality, and further strengthened

internal audit, internal control, risk management and compliance, and continued to optimize the Bank Systems and mechanisms for anti-money laundering and combating the financing of terrorism to ensure the effectiveness of compliance and internal controls.

- To establish risk oriented management policy gradually of the Bank and continue to improve long and sustainable growth of long-term goal.
- Tightly controlling source of funds and the usage of tenors and interest rates so as to reduce re-pricing risks and maximize net interest income to raise the Bank's profitability, corporate value and competitiveness.
- The Bank continued to maintain the smoothness and stability of the bank's cash flow management. While maintaining its existing peer relationships, keep continued to increase its counterparties to various financial commodities, expanded the sources of funding and reduced the cost of funds.
- To strengthen interest rate sensitive assets (IRSA) and debt gap management to reduce basis risk, so that pricing can be consistent and reach goal of surplus.
- Actively cooperate with financial policies and regulations, strengthen management physique, capital structure and improve overall business performance to be high-quality financial institutions.
- Under the principle of the stability, safety and liquidity, the Bank actively searches available investment on excess funds and creates profitability on assets allocation.
- The Bank will effectively use the fixed assets and disposal the idle assets to improve efficiency on assets.
- In response to changes in the financial environment, handling all kinds of the operational testing to make improvement and immediately drawing up corresponding measures and revise internal regulations or operating procedures due to changes in various regulations or operating environment. At the same time, we adjust our business strategies according to market and economic conditions to strengthen the competitiveness.
- Actively cultivating the core deposit client base, obtaining stable low funding cost, optimizing the liability structure, facilitating and increasing the quantity of deposits for both sides effectiveness.
- Strictly monitoring the limits of the market risk in order to balancing returns against risks, optimizing asset allocation, and maintaining the safety and profitability of the capital.
- The Bank promotes the loan and investment business not only follows the Bank Act, related regulations, and the Bank's internal rules to diversify the risks and to obtain effective usage on funds but also comply the highest limit provisions by industry, corporate groups, and country categories to avoid risk losses.
- Considering the profitability, liquidity, and safety of the fund operation and stability of the source of funds, constructing integrated ALM system to get the risk under control.
- The Bank reviews the sources of the funds and optimizes asset allocation in order to achieve the target on the best earnings.

5-1-2-7. Administration and Human Resource Management

- Place appropriate staff at the right time in the appropriate position, so that it can be efficient and effective to assist the Bank to achieve the overall goal.
- Through the financial incentives to encourage employees to increase staff's centripetal force and morale, reduce the dissatisfaction with the work and give employees a safe working environment.
- Implementing the counseling operation on staff with poor performance to adjust their attitude on job. If the Bank makes sure they are not suitable, they will be eliminated that will fully effective usage on human resources and to improve the bank's performance.
- Controlling the manpower demand and condition, establishing the processes of the employee recruitment, deployment, layoff, and dismissal to ensure the Bank has talent and appropriate staff within a specified period.

5-1-2-8. Credit Card Business

- Launched VISA international organization EMV 3DS security mechanism service, and scored various risk parameters for online transactions, and then used the total score as the basis for whether to approve the transaction. At the same time, it gradually

accumulated based on experience, and the risk score can be adjusted flexibly. When we effectively control the occurrence of piracy, take account of the normal transaction approval rate, will play a role in reducing the occurrence of online piracy and loss rates.

- The credit card operations are outsourced in a one-stop manner, including making, sealing and sending. The professional credit card manufacturer is responsible for the card making and sealing. After the card manufacturing operation is completed, the local post office will make a coordinator to send them out every afternoon, and then the card factory and post office provide monthly report and requests for payment, which can speed up to receive cards for customers, and reduce the manual labor of the center to seal the card and send cards to the post office, and the risk of personal data exposed.
- Add QR Code service items to the credit card insertion list, such as providing online card opening service, mobile banking app and electronic version of the agreed terms of credit card, to provide cardholders with more complete mobile service functions.
- For legal collection and renewal of maturity credit certificates, we gradually optimize the operation procedures and system aspects with the increase of practical operation experience, such as the credit certificate with barcodes or RFID tags to optimize the entry and exit and regular inventory operations to increase operational and management efficiency.
- We promote the “mobile billing” service which customers who apply for mobile billing or electronic billing and stop sending paper bills will receive the cash-back or coffee voucher, providing customers to change the habit of receiving paper bills and further develop the habit of paying card fees online to reduces mailing fees and collect fees of convenience stores.
- The operation of the “Card Issuance Authorization Host Connection” system has been optimized to continuously collect risk information from international organizations and joint card centers, adjust risk control parameters and add risk control programs.
- Plan to launch more feedbacks to holders for those using credit card overseas, attract holders to use the bank’s credit card when going abroad, increase using our cards and fee income.
- “High cash rewards” is still the main stream of marketing. With the free three-phase payment service, it is conducive to bank credit cards marketing.
- Continuously streamline credit card operating procedures and modify execution procedures to improve customer satisfaction and employee efficiency.

5-1-2-9. Insurance Agency Business

- Facing the coming of an aging society, the bank mainly promotes life insurance products with variable interest rates and guaranteed life insurance products, together with annuity insurance, health insurance, injury insurance, investment insurance and other property insurance products to provide customers with more diversification choice.
- Continue to pay attention to the supervision policies of the authorities, abide by laws and regulations and strengthen training, systematic management and regular review of internal operating procedures, strengthen internal control and audit, improve the accuracy and efficiency of administrative operations, so as to reduce the risk of sanctions by competent authorities.
- In line with customer needs, we offer different type of commodities such as interest- sensitive insurance, endowment insurance and investment-linked insurance to satisfy diversified wealth management needs of customers.
- Strengthen unit training to enhance business staff possess insurance expertise, increase operation efficiency and business promotion, thereby rising customer satisfaction.
- Occasional insurance seminars and training sessions are held to enhance insurance-related professional knowledge and to enable customers’ insurance plans to take into consideration multiple functions such as protection, savings, investment, retirement, and tax savings.
- Irregular hold incentive activities to encourage the promotion of various business units and maintain a stable growth.
- Cooperate with the introduction of competitive insurance products and fill gaps in the existing product lines to facilitate business promotion and create insurance fee income.
- Through internal self-checking, systematic management and regular inspection of internal operations processes to improve the accuracy and efficiency of administrative operations.
- To promote interest sensitive life insurance and guaranteed life insurance products, go with annuity insurance, health insurance, accident insurance, investment insurance and other property insurance products to provide customers with more diversified choices.

5-1-3. Market Analysis

5-1-3-1 Business Operation Area of the Bank

The Bank primarily focuses on domestic market. Up to Dec. 31, 2018, the Bank owns 30 branches and 1 Offshore Banking Unit which spread over Taipei, New Taipei City, Taoyuan City, Hsinchu City, Taichung City, Changhua County, Changhua City, Tainan City and Kaohsiung City. The Bank will continue to expand the business location in order to establish the full financial service network.

5-1-3-2 The Condition of Market Supply and Demand and Growth Potential in the Future

The competent authorities have been actively engaged in promotion of financial technology development in recent years, including promoting financial industry to actively cultivate FinTech personnel, expanding use and innovation of mobile payment, encouraging banks to cooperate with P2P online lending platforms, promoting sound development of crowd funding platforms, and encouraging insurers to develop FinTech's innovative products for big data applications, construct fund online sales platform and smart financial services, create digital account transfer operation environment, research on Distributed Ledger Technology (DLT), establish a financial information sharing and analysis center, and build identity reliability information center. React the rapid changes in financial environment, the Bank will continue to promote mobile and digital financial services, cooperate with different regulations, information development and opening of financial policies to develop diversified financial products and innovative services, build a more complete financial service network, in order to grasp the opportunity of development, effectively enhance the bank's profit and expand the scale of operations.

5-1-3-3 Advantages in Competition and Prospects of Advantages, Disadvantages and Countermeasures

5-1-3-3-1 Advantages

- A. Steady operation for a century, the Bank has stable financial condition and goodwill.
- B. The Bank size small and with good elasticity can make decisions closer to the market and with high degree of resilience.
- C. The future operating development of the Bank will be more stable after the continuous improvement on the structure of deposits and loans and asset quality.
- D. The Bank will continuously develop Wealth Management and Trust business to increase fee income and diversify profit resources.

5-1-3-3-2 Disadvantages

- A. Financial globalization and domestic banks face in highly "large-scale" competition that compress small and medium banks financial services.
- B. The Bank runs smaller scale of deposit and loan business, branches distributed mostly in central region of Taiwan is not conducive to business development.
- C. With fewer resources to invest in IT equipment for small and medium sized banks to keep up with "Bank 3.0"—a digital environment policy.
- D. Financial institution products are homogeneous and high competitive in the short term does not eliminate and difficult to improve banking profits.

5-1-3-3-3 Countermeasures

- A. Increasing fee income on Wealth Management and actively expanding SME lending.
- B. To optimize bank digital financial services environment and choose suitable digital development strategies to enhance customer convenience and break through the limits of entities branch distribution.
- C. Keep adjusting for branch positions in order to establish a more complete financial services business.
- D. With "strengthening capital and stabilizing profits" as a perpetual business strategy, reduce the cost of capital, improve asset quality and financial management to keep profitable growth.

5-1-4. Financial Products Research and Development Overview

5-1-4-1. The Situation of Major Financial Products and New-established Units in Recent 2 Years

- Scale of Major Financial Product: Major Financial Product include TWD and G7 currency deposit, consumer loan, corporate lending, import and export of foreign currency remittance, exchange, finances advisor, trust product and credit card services, please refer to this annual report part 5: Business Operation
- New-established Units:
None

5-1-4-2. Expenditure and result of Financial Products Research and Development in Recent 2 years

5-1-4-2-1. Expenditure of Financial Products Research and Development in Recent 2 years:

- Expenditure of Financial Products Research and Development in recent 2 years.
Year 2018: TWD3,490 thousand; Year 2019: TWD2,783 thousand

5-1-4-2-2. The Result of Major Financial Products Research and Development in Recent 2 years as the follow:

- Established the “EasyCard” business.
- Establishment of a control system of “Internal Control Practices for the Prevention of Misappropriation of Customer Funds by the Bank’s Financial Controller”.
- Mobile Banking “Taiwan Pay Scanned Mode” is online.
- The business of “Foreign Currency Specific Sole Management of Utilized Money Trusts” was opened.
- Opened a national payment business, “Internet Banking Online Appointment Service”.
- Passed ISO 27001 Information Security Management System, ISMS) International Standard Certification.
- Added “ATM cardless withdrawal service”.
- FOREX “ Enterprise Internet Banking” is online
- To upgrade prevention and control of anti-money laundering , counter terrorist financing related and blacklist check database systems
- Mobile Internet Banking adds “Fingerprint Identification and Face recognition Login” service
- Taiwan pay scans QR Code transfer, payment and consumption deduction service online.
- Launched the “electronic Payment Tax Processing Platform” medical referee app payment platform service and financial institution collection mode.
- Building big data analysis system
- To build up online education and training system for employee
- Revision of official website to support pages adaptation function
- Development of interbank FXML trading system
- To add ID text automatic identification of seal identification system to improve open bank accounts efficiency
- Development of mobile push notification system
- To develop pad system for internal meeting
- Development of lottery system for business unit activities
- Cooperate with authorities to complete the evaluation of information security and ATM offensive and defensive drills
- Complete various types of passbook management and the inventory details
- Increase “Firewall Hardware”, “Source Code Analysis”, Financial information service remittance and ATM host business system encipher
- Replacement partial of ATM to build a good space for disabled persons
- Credit card certificate management with computers and make e-book of bad debt
- Use Microsoft’s AD system to control computer permissions to observe to Personal Information Protection Law

5-1-4-2-3. Research and Development Project in the Future:

- To strengthen working capitals and enhance sound financial structure in order to develop business
- To start internet online business successively in response to Bank 3.0
- Aggressive to create new trust products to enhance bank's competitive about the trust business
- Aggressive to develop digital financial services and streamline operational procedures to reduce costs and improve the Bank's client base to attract younger clientele.
- In accordance with the timing of process by authorities, the Bank develops plans of money laundry 、 information risk assessment and risk control
- Establish standard and simplify operating processes and enhance of IT system integrator in order to improve operational efficiency and customer satisfaction
- Studying to establish a database to analyze customer contacts in order to provide new financial products that better meet customer needs based on customer trading habits
- To construct sound risk management organizations and mechanisms to assess and monitor the efficiency of credit risk, market risk, operational risk and liquidity risk enhancing performance and asset quality
- To reinforce electronic financial services by keeping R&D on website and internet banking business in order to provide better internet transaction platform to match varied demands
- To keep develop cross-board of cash flow service platform in order to get the latest financial market context and trends all the time

5-1-5. Long/Short Term Business Development Plan

5-1-5-1. For our Short Term Business Development Plan, details please refer to our profile of Business Plans for Year 2020

5-1-5-2. Long Term Business Development Plan

- Continue to promote the IC ATM card cross-border withdrawal and consumer deduction business.
- Continually focus on development of new financial products and track the following conditions in inter-banks and customers maintenance. According to customer needs to consider the feasibility and the risk of new financial products to increase business profit.
- To set up customer database and analysis on customer transactions behavior to provide more in line with customer demand of new financial products.
- Create an innovative financial environment and strengthen the use of LINE@ and FB messaging from Wealth Management and identify customer preferences to reach more users, and use behavior analysis to narrow the distance with customers.
- Aggressive to develop digital financial services and streamline operational procedures to reduce costs and improve the Bank's client base to attract younger clientele.
- Continued on the official website, E-banking and mobile banking APP for innovation and research and develop on network payment platform to match customer needs.
- Strengthen cooperation with excellent fund companies to provide customers with the target of asset selection and configuration to enhance customer trust in the Bank.
- Continuing promotion of the gold passbook business and researching the benefits of setting up foreign currency gold passbook business and the more diversified way ex. regular fixed amount deductions in order to Increase revenue and provide options that better meet customer needs.

5-2. Human Capital

Information of Educational Background for Employees in Recent 2 Years

| Item \ Year | | 2018 | 2019 | Up to Feb. 29, 2020 |
|---|--------------------|-------|-----------------------------|---------------------|
| Number of Employee | | 1,110 | 1,106 | 1,119 |
| Average Age | | 41.51 | 42.11 | 41.89 |
| Average Seniority | | 14.94 | 15.61 | 15.51 |
| Structure of Education | Doctor | 2 | 2 | 2 |
| | Master | 79 | 79 | 78 |
| | University/College | 842 | 847 | 839 |
| | Senior High School | 185 | 175 | 197 |
| | Below | 2 | 3 | 3 |
| Certificated Proficiency Tests of Employees | | | Total (Up to Feb. 29, 2020) | |
| Basic Proficiency Test for Bank Lending Personnel | | | 563 | |
| Advanced Proficiency Test for Bank Lending Personnel | | | 40 | |
| Proficiency Test for Bank Collateral Appraisal Personnel | | | 49 | |
| Basic Proficiency Test for International Banking Personnel | | | 388 | |
| Proficiency Test for Foreign Exchange Trading Personnel | | | 46 | |
| Proficiency Test for Financial Planning Personnel | | | 338 | |
| Test for Small-Medium Business Financial Staff | | | 178 | |
| Proficiency Test for Trust Operations Personnel | | | 721 | |
| Proficiency Test for Obligation & Debt Collection Personnel | | | 189 | |
| Proficiency Test for Bank Internal Control and Audit Personnel | | | 742 | |
| Proficiency Test for Financial Risk Management Personnel | | | 3 | |
| Securities Investment Analysts | | | 6 | |
| Senior Securities Specialist | | | 206 | |
| Securities Specialist | | | 146 | |
| Future Specialist | | | 176 | |
| Securities Investment Trust & Consulting Professionals | | | 196 | |
| Qualified Test for Bill Finance Specialist | | | 97 | |
| Proficiency Test for Bond Specialist | | | 20 | |
| Proficiency Test for Stock Affair Specialist | | | 15 | |
| Basic Ability Test for Asset Securitization | | | 5 | |
| Personal Insurance Representative | | | 755 | |
| Test for Life Insurance Representative (Foreign Currency Base) – Non Investing Insurance Products | | | 502 | |
| Investment-Orientated Insurance Representative | | | 444 | |
| Property Insurance Representative | | | 663 | |
| Financial Risk Management (FRM) | | | 1 | |
| Land Registry Agent | | | 2 | |

| Item | Year | 2018 | 2019 | Up to Feb. 29, 2020 |
|---|------|------|------|---------------------|
| Property Insurance Agent | | | | 8 |
| Personal Insurance Agent | | | | 7 |
| Personal Insurance Broker | | | | 3 |
| Property Insurance Broker | | | | 3 |
| General English Placement Test – Intermediate | | | | 2 |
| General English Placement Test – Elementary | | | | 23 |
| TOEIC score above 880 | | | | 2 |
| TOEIC score 750-880 | | | | 6 |
| TOEIC score 550-750 | | | | 18 |
| TOEIC score 350-550 | | | | 13 |

5-3. Responsibility and Ethical Code

The Bank all along been upholding “what is taken from society, used for the community” to fulfill social responsibility. For many years the Bank also sponsored charity activities of Eden Social Welfare Foundation, Ganlin Social Welfare Charity Foundation, CULROC - 3 on 3 Basketball Community Tournament, Taichung Food Bank. The Bank set up “COTA Culture and Education Foundation” in Aug. 1999 to develop the public welfare like as lifelong learning lectures, arranging book club for elder persons, with other public interest groups held health talks and friendship activities for retirees. Held activity of voluntary blood donation with Taichung Blood Center for 5 years that raised 1,200 donated blood bags of total in 300,000 c.c. In addition, in 108, the Bank sponsored the 20th Anniversary of Association for Victims Support (AVS) –Thanksgiving Concert, to support public welfare organizations and implement the concept of corporate care.

5-4. Number of non-supervisory positions employees, average annual welfare expenses and the difference between two years

Unit: TWD

| Item | 2018 | 2019 |
|--|---------------|---------------|
| Number of Non-supervisory Employees | 1,063 | 1,058 |
| Average salary of Non-supervisory Employees | 964,112 | 971,299 |
| Median salary of Non-supervisory Employees | 979,183 | 976,347 |
| Non-supervisory Employee Welfare Expenses | 1,178,918,932 | 1,184,733,266 |
| Average Welfare Expense for each Non- supervisory Employee | 1,109,049 | 1,119,786 |

Note:

1. Definition of “Employee” is that individual provides service for the Bank and under the supervision (irrespective of the nationality and foreigners) which does not contain only contacts with the Bank (ex. Insurance agents earn commission, after completion of agreed work to earn remuneration and without the act of employee rights), outsourcing or the temp as well as directors and supervisors.
2. “Non-Supervisory Position” is not responsible for the management of staff or with administrative responsibility of unit
3. “Employee Welfare Expense” is all forms of consideration of the Bank can offer in exchange for the staff to provide services according to IAS19. And follow the rule of Regulations Governing the Preparation of Financial Reports by Public Banks, “Employee Welfare Expense” includes employee salaries, Labor Insurance, Health Insurance, retirement pensions and other employee benefits (including commission and net income of fees etc.)



Business Operation

5-5. IT Equipment

The Bank uses IBM UNIX server for Business System, Testing System, Inter-bank Business and Utility System separately. Furthermore, we also uses Windows server and Linux server depend on network and different business lines, and operated by virtualized integration and deployment in multiple HP entities. Up to date, our working software includes Demand Deposits, Time Deposit, Comprehensive Deposit, collection of bills, collection and payment, ATM and financial cards, correspondent banking, credit, safe deposit box, insurance, trusts, gold passbooks, credit card, Foreign Exchange (including DBU and OBU), Personal Internet Banking, Corporate Internet Banking, Mobile Banking, phone Voice, etc., as well as Staff Field System (including E-Document, Staff Management, Personnel & Wages, Operation Analysis, Credit Review, consumer finance, business finance, financial commissioner, wealth management, messaging transmission, document image transmission, joint inquiry, teaching film platform, employee's job content platform, ...) accounting, seal management, etc.

In respond to the implementation Personal Information Protection Act, prevent data leakage, enhance with query, restriction on use data and record. Build up environment of AD (Active Directory), strengthen the management of Terminal computer equipment using and we built up DLP (Data Loss Prevention/Protection) system to intercept the possible leaking of personal information through email, internet or USB device. On the safety of web page, we have used web page safety testing system to prevent from the leaking of program.

To follow the act of Anti-Money Laundering and Counter Terrorist Financing, the Bank sets up related computer systems of customer risk revaluation, high risk list detection, filters of suspicious transaction data, cash transaction report, Import/ Export and cross-border remittance transactions monitoring etc.

The Bank uses Mirror Disks to protect all transactions data completely and keeps duplicates of disc and magnetic film every working day. Use two telecommunication circuits of lines and build 4G wireless backup. Main communication equipment applied HA framework so that on-line automatic replacement is available when it failed. There is a hard copy for surrounded equipments and with a system safety controlling mechanism so as to guarantee safety of transactions. We also install backup systems at different locations in order to continue to deal with the whole business when accidents occur.

In terms of information security, according to the regulations of the competent authority, the bank contacts the qualified professional organizations for information security assessment every year. They investigate and evaluate the security of information systems and equipment in the bank. If any risk is found, it must first be improved to improve information security and reliability. Set up the contingency procedures for the security incidents and conduct regular drills; the SWIFT system has been enhanced to meet the CSP specifications set by the SWIFT organization; introduced the ISO 27001 information security management system and passed the international certification to strengthen the internal security control mechanism; and the network application firewall has been established (WAF), enhance the defense capabilities of the Bank's website.

5-6. Labor-Management Relationship

5-6-1. Current important employer-employee agreement and its implementation:

In order to stabilize the quality of staff life and improve the working efficiency, the Bank takes care of the welfare for staff with regard to give birth, marriage and funeral events, medical treatment and accidents.

5-6-1-1. Group Insurance

In accordance with laws and regulations, the Bank applies Labor Insurance and National Health Insurance for all staff. We will give cash through Bureau of Labor Insurance if any accident caused. Moreover, we cover accident insurance with the Shin Kong Life for all staff.

5-6-1-2. Bonus

Based on revenue performance, the Bank provides extra bonus at Lunar New Year, Dragon Boat Festival and Mid-Autumn Festival each year. The net earnings by fix ratio are assigned to be bonus for staff with good performance after covering prior years' deficits, income tax, and legal reserves and distribute bonus.

5-6-1-3. Incentive Interest Rate

The Bank provides favorable interest rate of deposits or loans for all staff.

5-6-1-4. Security and Hygiene

To prevent occupational disaster and ensure staff health, the Bank takes care of security and hygiene in accordance with related laws of worker safety sanitation.

5-6-1-5. Staff Proficiency Training

To enhance the level of our employee of profession, In addition to select appropriate personnel to participate in various seminars organized by professional training institutions, the bank depends on the business need to implement new staff pre-service training, in-service training and professional technical training. The bank can also select meritorious personnel to go to domestic and foreign universities to study, or to participate in related financial business study tours.

The Bank's pension fund is pursuant to old-version and updated version which based on Labor Law for "Staff Retirement Plan". The benefit payments and credits suit separately by the above-mentioned plans and based on the years of service and final salary. In accordance with Labor Law, we will calculate 15% of total salaried employees by month (exclude appointed managerial employee) to be retirement payment that was deposited in the pension account in the Bank of Taiwan. We have another account for appointed management that calculated 8% of their salary each month. The Bank has no significant argument between employee and employer at present.

5-6-2. Damage from Argument between Labor and Capital in Recent 2 Years

All personnel management and staff welfares of the Bank are conformed to Labor Law. We retain agreeable labor-capital relationship and never suffered damage from arguments.

5-6-3. Labor Inspection

In accordance with the ruling No. 1080186291 issued by the Taichung City Government on August 8, 2008, the Bureau has ruled that the Bank's work rules have not been amended in a timely manner in accordance with laws and regulations or changes in labor agreements, and the report was not submitted for approval within 30 days, which violates Article 70 of the Labor Standards Law and Article 37 of the Regulations and Article 79, Item 3, fined NT 20,000 , and the case has been improved and the Taichung City Government 's approval letter has been obtained .

5-7. Major Contracts

| Nature of Contract | Concern Party | Contractual Period | Major Content | Restrictive Covenants |
|----------------------------|---------------------------------|--------------------------|--|---|
| Deposit Insurance Contract | Central Deposit Insurance Corp. | Engaged on Aug. 15, 1995 | To enhance protection of customer deposits | The same depositor maximum amount of compensation is up to TWD3 million |

Business Operation

| Nature of Contract | Concern Party | Contractual Period | Major Content | Restrictive Covenants |
|------------------------------|---|---|---|-----------------------|
| Bank Comprehensive Insurance | Chung Kuo Insurance Co., Ltd. | From Apr. 1, 2019 to Apr. 1, 2020 | 1. Staff unfaithful behavior 2. Asset of branches 3. Asset in transit 4. Forged drafts and securities 5. Forged cash 6. Damage of equipment 7. Fault of securities or contracts 8. Inadvertency of short banknotes | None |
| Outsourcing Contract | Yuen Foong Paper Co., Ltd. | From May 3, 2019 to May 2, 2020 | Transaction statements | None |
| Outsourcing Contract | Han Yeh Office Supplies Company | From May 3, 2019 to May 2, 2020 | Computer printing jobs and packages | None |
| Outsourcing Contract | Taiwan Security Co., Ltd. and Lian-An Co., Ltd. | From Oct. 1, 2019 to Sep. 30, 2020 | Loading cash & troubleshooting of AMT | None |
| Outsourcing Contract | Taiwan Security Co., Ltd. | From Jun. 1, 2019 to May 31, 2020 | Securities, cheques and cash delivery | None |
| Outsourcing Contract | Feng Tay Motor Co., Ltd. | From Jun. 27, 2019 to Jun. 27, 2020 | To search cars for overdue payments of car loans | None |
| Outsourcing Contract | 21Century Finance Service | From Jun. 27, 2019 to Jun. 27, 2020 | To search cars for overdue payments of car loans | None |
| Outsourcing Contract | Sinjang Co., Ltd. | From Jun. 27, 2019 to Jun. 27, 2019 | Authorization of vehicle auction | None |
| Outsourcing Contract | President Chain Store Corporation | From May 1, 2019 to Apr. 30, 2019 | Collection for consumer loans | None |
| Outsourcing Contract | National Credit Card Center of R.O.C. | From Mar. 10, 2007 to either party in writing of termination and confirm the termination date | Credit card business (credit card payment system & support services) | None |
| Outsourcing Contract | President Chain Store Corporation | From Jun. 13, 2018 to Jun. 13, 2020 | Collection for credit card payments | None |
| Outsourcing Contract | Taiwan Family Mart Co., Ltd. | From Apr 5, 2018 to Apr 5, 2019 | Collection for credit card payments | None |
| Outsourcing Contract | Hi-Life International Co., Ltd. | From Apr 5, 2019 to Apr 5, 2020 | Collection for credit card payments | None |
| Outsourcing Contract | OK · Mart | From Apr 5, 2019 to Apr 5, 2020 | Collection for credit card payments | None |
| Outsourcing Contract | Taiwan Name Plate Co., Ltd. | From Mar. 10, 2019 to Mar. 9, 2020 | Chip-card processing, package and mailing | None |
| Outsourcing Contract | Chunghwa Post Co., Ltd. | From Sep. 20, 2019 to Sep. 19, 2020 | Statements printing & package of full management accounts | None |
| Outsourcing Contract | Transnational Logistic Solutions (Taiwan) Pte. Ltd. | From Dec. 1, 2019 to Nov. 30, 2020 | Bank cheques, documents & securities collection & delivery | None |

5-8. Information of Approved Securitization Products in Recent Years: None



Financial Status

6-1. Condensed Balance Sheet and Statement of Comprehensive Income over the Past Five Years

6-1-1. Consolidated Condensed Balance Sheet under IFRS

Unit: TWD thousand

| Descriptions | Year | Financial data during recent 5 years | | | | | Up to YYYY/ MM/DD financial data |
|---|------|--------------------------------------|-------------|-------------|-------------|-------------|--|
| | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Cash, Cash equivalents, due from the Central Bank, and call loan to other banks | | 11,523,070 | 10,439,306 | 9,509,193 | 24,477,847 | 24,937,444 | |
| Financial asset or Financial Liability at fair value through profit or loss | | 4,838,859 | 1,471,328 | 820,000 | 1,796,034 | 2,016,660 | |
| Financial assets measured at fair value through other comprehensive income | | 9,077,823 | 7,495,797 | - | - | - | |
| Debt instrument investment measured by amortized cost | | 19,611,071 | 18,116,779 | - | - | - | |
| Available-for-sale financial assets | | - | - | 3,736,500 | 6,375,802 | 4,345,123 | |
| Derivative Financial Assets for Hedging | | - | - | - | - | - | |
| Bonds and bills purchased under resale agreements | | 10,317,589 | 9,681,841 | 8,968,517 | 2,102,052 | 3,654,787 | |
| Net Receivables | | 374,098 | 392,836 | 385,124 | 404,658 | 396,245 | |
| Current tax Assets | | - | - | 6,725 | 6,725 | - | |
| Assets Held for Sell | | - | - | - | - | - | |
| Net Discounts and Loans | | 111,195,714 | 114,714,150 | 114,538,216 | 111,725,677 | 104,728,135 | |
| Held-to-maturity financial assets | | - | - | 18,762,940 | 3,525,120 | 3,506,657 | |
| Long-term investments under equity method | | - | - | - | - | - | |
| Restricted assets | | - | - | - | - | - | |
| Other financial assets | | - | 36 | 182,100 | 186,372 | 187,701 | |
| Net real estate and equipment | | 1,278,620 | 1,311,480 | 1,339,251 | 1,321,946 | 1,328,977 | |
| Net royalty assets | | 143,019 | - | - | - | - | |
| Net investment real estate | | 1,134,559 | 1,004,301 | 991,733 | 830,192 | 831,225 | |
| Net Intangible assets | | 111,730 | 114,567 | 111,395 | 107,688 | 107,588 | |
| Net Deferred tax assets | | 138,300 | 165,541 | 162,668 | 177,823 | 250,404 | |
| Other assets | | 120,631 | 140,232 | 105,505 | 70,841 | 66,915 | |
| Total Assets | | 169,865,083 | 165,048,194 | 159,619,867 | 153,108,777 | 146,357,861 | |
| Deposits to The Central Bank and other banks | | 39,201 | 64,470 | 77,837 | 64,470 | 64,470 | |
| Financing to The Central Bank and other banks | | - | - | - | - | - | |
| financial liability at fair value through loss | | 75 | 360 | 16 | 491 | 1,045 | |
| Hedging derivative financial liabilities | | - | - | - | - | - | |
| Bonds and bills held under repurchased agreements | | - | - | - | - | - | |
| Accounts Payable | | 807,168 | 790,203 | 825,747 | 732,650 | 839,543 | |
| Current tax liability | | 27,797 | 50,525 | 82,787 | 2,946 | 8,381 | |
| Liabilities directly associated with assets held for sale | | - | - | - | - | - | |

| Descriptions | Year | Financial data during recent 5 years | | | | | Up to YYYY/ MM/DD financial data |
|---|-------------------|--------------------------------------|-------------|-------------|-------------|-------------|--|
| | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Deposits and remittances | | 153,750,583 | 149,603,103 | 144,335,490 | 139,736,041 | 134,979,877 | |
| Bond payable | | 3,000,000 | 3,000,000 | 3,300,000 | 3,300,000 | 1,500,000 | |
| Preference share liabilities | | - | - | - | - | - | |
| Other financial liabilities | | - | - | - | - | - | |
| Provision for liabilities | | 175,081 | 255,287 | 259,015 | 299,452 | 447,437 | |
| Lease liabilities | | 144,822 | - | - | - | - | |
| Deferred tax liabilities | | 112,450 | 118,239 | 110,642 | 115,526 | 121,430 | |
| Other liabilities | | 348,137 | 322,950 | 337,280 | 339,951 | 358,966 | |
| Total liabilities | Before allocation | 158,405,314 | 154,205,137 | 149,328,814 | 144,591,527 | 138,321,149 | |
| | After allocation | - | 154,407,213 | 149,519,452 | 144,782,648 | 138,441,124 | |
| Equity attributable to owners of the parent | | 11,459,769 | 10,843,057 | 10,291,053 | 8,517,250 | 8,036,712 | |
| Share capital | Before allocation | 8,406,376 | 8,083,054 | 7,625,523 | 6,370,695 | 5,998,771 | |
| | After allocation | - | 8,406,376 | 8,083,054 | 6,625,523 | 6,370,695 | |
| Capital reserve | | 912,013 | 911,160 | 910,524 | 898,234 | 898,204 | |
| Retained earnings | Before allocation | 2,096,382 | 1,838,638 | 1,732,015 | 1,256,421 | 1,090,916 | |
| | After allocation | - | 1,313,240 | 1,083,846 | 810,472 | 599,017 | |
| Other components | | 44,998 | 10,205 | 22,991 | -8,100 | 48,821 | |
| Treasury Shares | | - | - | - | - | - | |
| non-controlling interests | | - | - | - | - | - | |
| Total Shareholders' equity | Before allocation | 11,459,769 | 10,843,057 | 10,291,053 | 8,517,250 | 8,036,712 | |
| | After allocation | - | 10,640,981 | 10,100,415 | 8,326,129 | 7,916,737 | |

Note:

1. The earnings distribution for 2019 has not been approved by the 2020 Shareholders' General Meeting.
 2. 2015 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD122, 018, 000.
 3. 2017 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD162, 574, 000.
 4. 2019 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD129,331, 000.
- As of the date of publication of the annual report, there is no recent financial information available for the CPA audit or review.



6-1-2.Entity Condensed Balance Sheet under IFRS

Unit: TWD thousand

| Descriptions | Year | Financial data during recent 5 years | | | | | Up to YYYY/ MM/DD financial data |
|---|------|--------------------------------------|-------------|-------------|-------------|-------------|--|
| | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Cash, Cash equivalents, due from the Central Bank, and call loan to other banks | | 11,523,070 | 10,439,306 | 9,509,193 | 24,477,847 | 24,937,444 | |
| Financial asset or Financial Liability at fair value through profit or loss | | 4,838,859 | 1,471,328 | 820,000 | 1,796,034 | 2,016,660 | |
| Financial assets measured at fair value through other comprehensive income | | 9,077,823 | 7,495,797 | - | - | - | |
| Debt instrument investment measured by amortized cost | | 19,611,071 | 18,116,779 | - | - | - | |
| Available-for-sale financial assets | | - | - | 3,736,500 | 6,375,802 | 4,345,123 | |
| Derivative Financial Assets for Hedging | | - | - | - | - | - | |
| Bonds and bills purchased under resale agreements | | 10,317,589 | 9,681,841 | 8,968,517 | 2,102,052 | 3,654,787 | |
| Net Receivables | | 374,098 | 392,836 | 385,124 | 390,473 | 396,919 | |
| Current tax Assets | | - | - | 6,725 | 6,725 | - | |
| Assets Held for Sell | | - | - | - | - | - | |
| Net Discounts and Loans | | 111,195,714 | 114,714,150 | 114,538,216 | 111,725,677 | 104,728,135 | |
| Held-to-maturity financial assets | | - | - | 18,762,940 | 3,525,120 | 3,506,657 | |
| Long-term investments under equity method | | - | - | - | 39,513 | 34,828 | |
| Restricted assets | | - | - | - | - | - | |
| Other financial assets | | - | 36 | 182,100 | 186,372 | 187,701 | |
| Net real estate and equipment | | 1,278,620 | 1,311,480 | 1,339,251 | 1,321,946 | 1,328,904 | |
| Net royalty assets | | 143,019 | - | - | - | - | |
| Net investment real estate | | 1,134,559 | 1,004,301 | 991,733 | 830,192 | 831,225 | |
| Net Intangible assets | | 111,730 | 114,567 | 111,395 | 107,688 | 107,588 | |
| Net Deferred tax assets | | 138,300 | 165,541 | 162,668 | 177,823 | 250,404 | |
| Other assets | | 120,631 | 140,232 | 105,505 | 68,825 | 64,790 | |
| Total Assets | | 169,865,083 | 165,048,194 | 159,619,867 | 153,132,089 | 146,391,165 | |
| Deposits to The Central Bank and other banks | | 39,201 | 64,470 | 77,837 | 64,470 | 64,470 | |
| Financing to The Central Bank and other banks | | - | - | - | - | - | |
| financial liability at fair value through loss | | 75 | 360 | 16 | 491 | 1,045 | |
| Hedging derivative financial liabilities | | - | - | - | - | - | |
| Bonds and bills held under repurchased agreements | | - | - | - | - | - | |
| Accounts Payable | | 807,168 | 790,203 | 825,747 | 722,944 | 839,816 | |
| Current tax liability | | 27,797 | 50,525 | 82,787 | - | 5,010 | |
| Liabilities directly associated with assets held for sale | | - | - | - | - | - | |
| Deposits and remittances | | 153,750,583 | 149,603,103 | 144,335,490 | 139,773,092 | 135,017,248 | |
| Bond payable | | 3,000,000 | 3,000,000 | 3,300,000 | 3,300,000 | 1,500,000 | |
| preference share liabilities | | - | - | - | - | - | |
| Other financial liabilities | | - | - | - | - | - | |

| Descriptions \ Year | | Financial data during recent 5 years | | | | | Up to YYYY/ MM/DD financial data |
|---|-------------------|--------------------------------------|-------------|-------------|-------------|-------------|--|
| | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Provision for liabilities | | 175,081 | 255,287 | 259,015 | 299,452 | 447,437 | |
| Lease liabilities | | 144,822 | - | - | - | - | |
| Deferred tax liabilities | | 112,450 | 118,239 | 110,642 | 115,526 | 121,430 | |
| Other liabilities | | 348,137 | 322,950 | 337,280 | 338,864 | 357,997 | |
| Total liabilities | Before allocation | 158,405,314 | 154,205,137 | 149,328,814 | 144,614,839 | 138,354,453 | |
| | After allocation | - | 154,407,213 | 149,519,452 | 144,805,960 | 138,474,428 | |
| Equity attributable to owners of the parent | | 11,459,769 | 10,843,057 | 10,291,053 | 8,517,250 | 8,036,712 | |
| Share capital | Before allocation | 8,406,376 | 8,083,054 | 7,625,523 | 6,370,695 | 5,998,771 | |
| | After allocation | - | 8,406,376 | 8,083,054 | 6,625,523 | 6,370,695 | |
| Capital reserve | | 912,013 | 911,160 | 910,524 | 898,234 | 898,204 | |
| Retained earnings | Before allocation | 2,096,382 | 1,838,638 | 1,732,015 | 1,256,421 | 1,090,916 | |
| | After allocation | - | 1,313,240 | 1,083,846 | 810,472 | 599,017 | |
| Other components | | 44,998 | 10,205 | 22,991 | -8,100 | 48,821 | |
| Treasury Shares | | - | - | - | - | - | |
| non-controlling interests | | - | - | - | - | - | |
| Total Shareholders' equity | Before allocation | 11,459,769 | 10,843,057 | 10,291,053 | 8,517,250 | 8,036,712 | |
| | After allocation | - | 10,640,981 | 10,100,415 | 8,326,129 | 7,916,737 | |

Note:

1. The earnings distribution for 2019 has not been approved by the 2020 Shareholders' General Meeting.
 2. 2015 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD122,018, 000.
 3. 2017 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD162,574, 000.
 4. 2019 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD129,331, 000.
- As of the date of publication of the annual report, there is no recent financial information available for the CPA audit or review.

6-1-3. Entity Consolidated Statement of Comprehensive Income under IFRS

Unit: TWD thousand

| Descriptions \ Year | | Financial data during recent 5 years | | | | | Up to YYYY/ MM/DD financial data |
|---|--|--------------------------------------|-----------|-----------|-----------|-----------|--|
| | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Interest income | | 3,605,294 | 3,578,908 | 3,497,564 | 3,414,505 | 3,467,577 | |
| Interest expense (Minus) | | 1,066,598 | 1,003,973 | 991,327 | 1,012,506 | 1,140,481 | |
| Net Interest income | | 2,538,696 | 2,574,935 | 2,506,237 | 2,401,999 | 2,327,096 | |
| Other net interest income | | 430,924 | 318,254 | 414,681 | 332,039 | 576,993 | |
| Net income | | 2,969,620 | 2,893,189 | 2,920,918 | 2,734,038 | 2,904,089 | |
| Provision for bad debt expense and guarantees | | 159,681 | 88,142 | (93,114) | 12,120 | 151,443 | |
| Operating expense | | 1,920,907 | 1,905,510 | 1,950,196 | 1,863,275 | 1,920,708 | |
| Income from continuing operations before income taxes | | 889,032 | 899,537 | 1,063,836 | 858,643 | 831,938 | |
| Tax income (expense) | | (140,406) | (145,926) | (146,554) | (143,826) | (110,746) | |
| Net profit from continuing operations | | 748,626 | 753,611 | 917,282 | 714,817 | 721,192 | |
| profit or loss from discontinuing operations | | - | - | - | - | - | |
| Current net profit (or loss) | | 748,626 | 753,611 | 917,282 | 714,817 | 721,192 | |

| Descriptions \ Year | Financial data during recent 5 years | | | | | Up to YYYY/ MM/DD financial data |
|---|--------------------------------------|----------|---------|-----------|---------|--|
| | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Current other comprehensive income (after taxes) | 69,309 | (17,062) | 35,352 | (114,334) | 22,715 | |
| Current Total other comprehensive income | 817,935 | 736,549 | 952,634 | 600,483 | 743,907 | |
| Net profit attributable to owners of the parent | 748,626 | 753,611 | 917,282 | 714,817 | 721,192 | |
| Net profit to non-controlling interests | - | - | - | - | - | |
| Current Total other comprehensive income to owners of the parent | 817,935 | 736,549 | 952,634 | 600,483 | 743,907 | |
| Current Total other comprehensive income to non-controlling interests | - | - | - | - | - | |
| Earnings per share | 0.89 | 0.90 | 1.13 | 1.08 | 1.13 | |

6-1-4. Entity Condensed of Comprehensive Income under IFRS

Unit: TWD thousand

| Descriptions \ Year | Financial data during recent 5 years | | | | | Up to YYYY/ MM/DD financial data |
|---|--------------------------------------|-----------|-----------|-----------|-----------|--|
| | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Interest income | 3,605,294 | 3,578,908 | 3,497,564 | 3,414,505 | 3,467,577 | |
| Interest expense (Minus) | 1,066,598 | 1,003,973 | 991,356 | 1,012,682 | 1,140,662 | |
| Net Interest income | 2,538,696 | 2,574,935 | 2,506,208 | 2,401,823 | 2,326,915 | |
| Other net interest income | 430,924 | 318,254 | 404,313 | 289,868 | 531,262 | |
| Net income | 2,969,620 | 2,893,189 | 2,910,521 | 2,691,691 | 2,858,177 | |
| Provision for bad debt expense and guarantees | 159,681 | 88,142 | (93,114) | 12,120 | 151,443 | |
| Operating expense | 1,920,907 | 1,905,510 | 1,940,954 | 1,826,369 | 1,879,783 | |
| Income from continuing operations before income taxes | 889,032 | 899,537 | 1,062,681 | 853,202 | 826,951 | |
| Tax income (expense) | (140,406) | (145,926) | (145,399) | (138,385) | (105,759) | |
| Net profit from continuing operations | 748,626 | 753,611 | 917,282 | 714,817 | 721,192 | |
| profit or loss from discontinuing operations | - | - | - | - | - | |
| Current net profit (or loss) | 748,626 | 753,611 | 917,282 | 714,817 | 721,192 | |
| Current other comprehensive income (after taxes) | 69,309 | (17,062) | 35,352 | (114,334) | 22,715 | |
| Current Total other comprehensive income | 817,935 | 736,549 | 952,634 | 600,483 | 743,907 | |
| Net profit attributable to owners of the parent | 748,626 | 753,611 | 917,282 | 714,817 | 721,192 | |
| Net profit to non-controlling interests | - | - | - | - | - | |
| Current Total other comprehensive income to owners of the parent | 817,935 | 736,549 | 952,634 | 600,483 | 743,907 | |
| Current Total other comprehensive income to non-controlling interests | - | - | - | - | - | |
| Earnings per share | 0.89 | 0.90 | 1.13 | 1.08 | 1.13 | |

Name of Visa Accountant for the last 5 years and his checking opinion

| Year | Name of accounting firm | Name of accountant | Checking comments |
|------|-------------------------|--------------------------------|---------------------|
| 104 | KPMG | Shih-Hua Kuo and Yuan-Chen Mei | Unqualified Opinion |
| 105 | KPMG | Shih-Hua Kuo and Yuan-Chen Mei | Unqualified Opinion |
| 106 | KPMG | Shih-Hua Kuo and Yuan-Chen Mei | Unqualified Opinion |
| 107 | KPMG | Chun-Yuan Wu and Yuan-Chen Mei | Unqualified Opinion |
| 108 | KPMG | Chun-Yuan Wu and Yuan-Chen Mei | Unqualified Opinion |

6-2. Analysis on Major Financial Ratios for Recent Five Years

6-2-1. Under IFRS Consolidated

Unit: TWD thousand; %

| Descriptions (Note.3) | | Year (Note.1) | Financial analysis during recent 5 years | | | | | Up to (Note 2) |
|---|--|---------------|--|---------|---------|---------|---------|----------------|
| | | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Operating Capability | Loans to deposits ratio (%) | | 73.52 | 78.01 | 80.83 | 81.54 | 79.39 | |
| | Overdue loan ratio (%) | | 0.44 | 0.50 | 0.24 | 0.22 | 0.21 | |
| | Interest expense to average balance of deposits ratio (%) | | 0.65 | 0.64 | 0.64 | 0.70 | 0.82 | |
| | Interest income to average balance of loans ratio (%) | | 2.63 | 2.59 | 2.59 | 2.79 | 2.80 | |
| | Total assets turnover (times) | | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | |
| | Average operating revenue per employee | | 2,719 | 2,606 | 2,560 | 2,417 | 2,543 | |
| | Average earnings per employee | | 686 | 679 | 804 | 626 | 632 | |
| Profitability | Return on first capital type assets (%) | | 7.79 | 8.54 | 11.75 | 10.85 | 11.90 | |
| | ROA (%) | | 0.45 | 0.46 | 0.59 | 0.48 | 0.50 | |
| | ROE (%) | | 6.71 | 7.13 | 9.75 | 8.64 | 9.82 | |
| | Net income ratio (%) | | 25.21 | 26.05 | 31.40 | 26.15 | 24.83 | |
| | EPS (loss) | | 0.89 | 0.90 | 1.13 | 1.08 | 1.13 | |
| Financial structure | Ratio of liabilities to assets | | 93.23 | 93.41 | 93.53 | 94.41 | 94.49 | |
| | Ratio of fix assets to shareholder's equity | | 11.16 | 12.10 | 13.01 | 15.52 | 16.54 | |
| Growth Rate | Asset growth rate (%) | | 2.92 | 3.40 | 4.25 | 4.61 | 4.96 | |
| | Profitability growth rate (%) | | -1.17 | -15.35 | 23.90 | 3.21 | 56.05 | |
| Cash flow | Cash flow ratio | | 162.25 | 122.20 | Note 9 | Note 9 | 67.27 | |
| | Cash flow adequacy ratio | | Note 9 | Note 9 | Note 9 | Note 9 | N/A | |
| | Ratio of cash flow for operating to cash flow from investing | | Note 9 | Note 9 | Note 9 | Note 9 | Note 9 | |
| Liquid Reserves Ratio (%) | | | 27.14 | 23.17 | 20.09 | 17.42 | 18.99 | |
| Secured Loans to Related Parties | | | 614,115 | 613,825 | 600,101 | 787,649 | 756,883 | |
| Secured Loans to Related Parties to Total Outstanding Loans Ratio (%) | | | 0.52 | 0.52 | 0.51 | 0.70 | 0.71 | |
| Operation Scale | Market share of assets (%) | | 0.21 | 0.22 | 0.22 | 0.22 | 0.22 | |
| | Market share of net worth (%) | | 0.16 | 0.17 | 0.15 | 0.15 | 0.14 | |
| | Market share of deposits (%) | | 0.43 | 0.44 | 0.44 | 0.44 | 0.45 | |
| | Market share of loan (%) | | 0.42 | 0.48 | 0.49 | 0.47 | 0.47 | |



Financial Status

The specify reasons of changes in financial ratios for the latest two years: (If the variation does not reach 20%, the analysis can be omitted.)

1. The decrease in profitability growth rate, mainly is because decrease income before tax result in 2019.

2. The increase in cash flow ratio, mainly is because the net cash inflow from operating activities result in 2019.

* If the company has the establishment individual financial report, should establish the company individual finance ratio analysis in addition.

Note:

1. It should be specified if the year without checked visa by CPA auditor.

2. If there is recent financial information reviewed by CPA before annual report was printed, the Bank will reveal all information.

3. Calculation formula

(1) Operating ability

(A) Ratio of loans to deposits = Total loans / deposits

(B) Ratio of overdue = (Loans Overdue + Other Overdue) / Total Loans

(C) Ratio of interest Cost to Annual Average Deposits = interest Cost / Annual Average Deposits

(D) Ratio of interest income to Annual Average Loans Outstanding

= Interest Income / Annual Average Loans Outstanding

(E) Total Assets Turnover = Net Operating Revenue / Total Assets

(F) Average Operation Revenue per Employee = Net Operating Revenue / Number of Employees

(G) Average Profit per Employee = After-tax Income / Total Number of Employees

(2) Profitability

(A) Return on Tier I Capital = Pretax Earnings or Losses / Total Average Tier I Capital

(B) Return on Assets = Net Income / Average of Total Assets

(C) Return on Shareholders' Equity = Net income / Average of Total Shareholders' Equities

(D) Ratio of Net Income = Net Income / Total Revenue

(E) Earnings per Share = (Net Income – Preferred stock Dividend) / Average Weighted Outstanding Stock (Note.5)

(3) Financial Structure

(A) Ratio of Liabilities to Assets = Liabilities / Total Assets

(B) Ratio of Fix Assets to Shareholders' Equity = Fix Assets / Shareholders' Equities

(4) Growth Rate

(A) Asset Growth Rate = (Total Assets of the Year-Total Assets of Previous Year)/Total Assets of Previous Year

(B) Profit Growth Rate=(Pretax Earnings or Losses of the Year-Before-tax Earnings or Losses of Previous Year)/ Pretax Earnings or Losses of Previous Year

(5) Cash Flow (Note.8)

(A) Ratio of Cash Flow= Net cash flow from business activities /(call loans and overdrafts from banks + commercial paper payable +financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreement + current portion of payables)

(B) Ratio of Net Cash Flow Adequacy = Net cash flow from business activities for the past five years/ (capital expenditures + cash dividends) for the past five years

(C) Ratio of Cash Flow for operating to cash flow from investing = Net cash flow from business activities/ Net cash flow from investing activities

(6) Liquidity Reserves Ratio= Liquid Assets Stipulated by CBC/Reserves Appropriated for various Types of Deposits

(7) Operating Scale

(A) Market Share of Asset= Total Asset/Total Asset of the major financial institutions (Note.6)

(B) Market Share of Net Worth= Net Worth/Total Asset of the major financial institutions

(C) Market Share of Deposit= Total Deposit/Total Asset of the major financial institutions

(D) Market Share of Loan= Total Loan/Total Asset of the major financial institutions

4. Total liabilities do not contain Prepare guarantee responsibility and Accident liability reserve.

5. The following shall be noted in the equations of EPS of the preceding paragraph:

(1) It is based on weighted average common stock shares instead of the issued stock shares at the end of year.

(2) For cash capitalization or Treasury stock trade, the circulation period is to be considered for the calculation of weighted average stock shares.

(3) For capitalized retained earnings or additional paid-in, for the calculation of earnings per share of previous years and semi-annual, it is to be adjusted retroactively and proportionally to the ratio of capitalization but not the issuance period of the capitalization.

(4) If the preferred stock is non-convertible cumulative preferred stock, the dividend (distributed or not distributed) is to be deducted from Net Income or is to be added to Net Loss.

(5) If the preferred stock is non-cumulative preferred stock; also, if there is Net income generated, preferred stock dividend is to be deducted from Net income; however, if there is net loss resulted, no adjustment is required.

6. Can apply for deposit and loan business: Local banks, Branches of foreign banks in Taiwan, Credit Cooperatives, Agriculture, Fisheries and credit department

7. The income means the total interest income and non-interest income.

8. The following shall be considered in measuring of cash flow analysis:

(1) Net cash flow from operating activities means the net cash inflow from operating activities in the cash flow statement.

(2) Capital expenditure means the cash outflow from capital investment per year.

(3) Cash dividends include of common and preferred stocks.

(4) Gross for real estate and equipment means the total real estate and equipment before deduction of accumulated depreciation.

9. Relevant ratio of cash flow is Negative, no disintegration.

Under IFRS Condensed

Unit: TWD thousand; %

| Descriptions (Note.3) | | Year (Note.1) | Financial analysis during recent 5 years | | | | | Up to (Note 2) |
|---|--|---------------|--|---------|---------|---------|---------|----------------|
| | | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Operating Capability | Loans to deposits ratio (%) | | 73.52 | 78.01 | 80.83 | 81.52 | 79.37 | |
| | Overdue loan ratio (%) | | 0.44 | 0.50 | 0.24 | 0.22 | 0.21 | |
| | Interest expense to average balance of deposits ratio (%) | | 0.65 | 0.64 | 0.64 | 0.70 | 0.82 | |
| | Interest income to average balance of loans ratio (%) | | 2.63 | 2.59 | 2.59 | 2.79 | 2.80 | |
| | Total assets turnover (times) | | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | |
| | Average operating revenue per employee | | 2,719 | 2,606 | 2,551 | 2,401 | 2,523 | |
| | Average earnings per employee | | 686 | 679 | 804 | 638 | 637 | |
| Profitability | Return on first capital type assets (%) | | 7.79 | 8.54 | 11.73 | 10.78 | 11.83 | |
| | ROA (%) | | 0.45 | 0.46 | 0.59 | 0.48 | 0.50 | |
| | ROE (%) | | 6.71 | 7.13 | 9.75 | 8.64 | 9.82 | |
| | Net income ratio (%) | | 25.21 | 26.05 | 31.52 | 26.56 | 25.23 | |
| | EPS (loss) | | 0.89 | 0.93 | 1.13 | 1.08 | 1.13 | |
| Financial structure | Ratio of liabilities to assets | | 93.23 | 93.41 | 90.58 | 94.41 | 94.49 | |
| | Ratio of fix assets to shareholder's equity | | 11.16 | 12.10 | 13.01 | 15.52 | 16.54 | |
| Growth Rate | Asset growth rate (%) | | 2.92 | 3.40 | 4.24 | 4.60 | 4.97 | |
| | Profitability growth rate (%) | | -1.17 | -15.35 | 24.55 | 3.17 | 56.04 | |
| Cash flow | Cash flow ratio | | 162.25 | 122.20 | Note 9 | Note 9 | 67.25 | |
| | Cash flow adequacy ratio | | Note 9 | Note 9 | Note 9 | Note 9 | N/A | |
| | Ratio of cash flow for operating to cash flow from investing | | Note 9 | Note 9 | Note 9 | Note 9 | Note 9 | |
| Liquid Reserves Ratio (%) | | | 27.14 | 23.17 | 20.09 | 17.42 | 17.43 | |
| Secured Loans to Related Parties | | | 614,115 | 613,825 | 600,101 | 787,649 | 720,777 | |
| Secured Loans to Related Parties to Total Outstanding Loans Ratio (%) | | | 0.52 | 0.52 | 0.51 | 0.70 | 0.70 | |
| Operation Scale | Market share of assets (%) | | 0.21 | 0.21 | 0.22 | 0.22 | 0.22 | |
| | Market share of net worth (%) | | 0.16 | 0.18 | 0.17 | 0.15 | 0.15 | |
| | Market share of deposits (%) | | 0.43 | 0.44 | 0.44 | 0.44 | 0.44 | |
| | Market share of loan (%) | | 0.42 | 0.45 | 0.48 | 0.49 | 0.47 | |

The specify reasons of changes in financial ratios for the latest two years: (If the variation does not reach 20%, the analysis can be omitted.)

1. The decrease in profitability growth rate, mainly is because decrease income before tax result in 2019.

2. The increase in cash flow ratio, mainly is because the net cash inflow from operating activities result in 2019.

* If the company has the establishment individual financial report, should establish the company individual finance ratio analysis in addition.

Note:

1. It should be specified if the year without checked visa by CPA auditor.

2. If there is recent financial information reviewed by CPA before annual report was printed, the Bank will reveal all information.

3. Calculation formula

(1) Operating ability

(A) Ratio of loans to deposits = Total loans / deposits

(B) Ratio of overdue = (Loans Overdue + Other Overdue) / Total Loans

(C) Ratio of interest Cost to Annual Average Deposits = interest Cost /Annual Average Deposits

(D) Ratio of interest income to Annual Average Loans Outstanding

= Interest Income / Annual Average Loans Outstanding

(E) Total Assets Turnover = Net Operating Revenue / Total Assets

(F) Average Operation Revenue per Employee (Note.7)= Net Operating Revenue / Number of Employees

(G) Average Profit per Employee = After-tax Income / Total Number of Employees

(2) Profitability

(A) Return on Tier I Capital = Pretax Earnings or Losses / Total Average Tier I Capital

(B) Return on Assets = Net Income / Average of Total Assets

(C) Return on Shareholders' Equity = Net income / Average of Total Shareholders' Equities

(D) Ratio of Net Income = Net Income / Total Revenue

(E) Earnings per Share = (Net Income – Preferred stock Dividend) /Average Weighted Outstanding Stock (Note.5)

(3) Financial Structure

(A) Ratio of Liabilities to Assets = Liabilities / Total Assets

(B) Ratio of Fix Assets to Shareholders' Equity = Fix Assets / Shareholders' Equities

(4) Growth Rate

(A) Asset Growth Rate = (Total Assets of the Year-Total Assets of Previous Year)/Total Assets of Previous Year

(B) Profit Growth Rate=(Pretax Earnings or Losses of the Year-Before-tax Earnings or Losses of Previous Year)/ Pretax Earnings or Losses of Previous Year

(5) Cash Flow (Note.8)

(A) Ratio of Cash Flow= Net cash flow from business activities /(call loans and overdrafts from banks + commercial paper payable +financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreement + current portion of payables)

(B) Ratio of Net Cash Flow Adequacy = Net cash flow from business activities for the past five years/ (capital expenditures + cash dividends) for the past five years

(C) Ratio of Cash Flow for operating to cash flow from investing = Net cash flow from business activities/ Net cash flow from investing activities

(6) Liquidity Reserves Ratio= Liquid Assets Stipulated by CBC/Reserves Appropriated for various Types of Deposits

(7) Operating Scale

(A) Market Share of Asset= Total Asset/Total Asset of the major financial institutions (Note.6)

(B) Market Share of Net Worth= Net Worth/Total Asset of the major financial institutions

(C) Market Share of Deposit= Total Deposit/Total Asset of the major financial institutions

(D) Market Share of Loan= Total Loan/Total Asset of the major financial institutions

4. Total liabilities do not contain Prepare guarantee responsibility and Accident liability reserve.

5. The following shall be noted in the equations of EPS of the preceding paragraph:

(1) It is based on weighted average common stock shares instead of the issued stock shares at the end of year.

(2) For cash capitalization or Treasury stock trade, the circulation period is to be considered for the calculation of weighted average stock shares.

(3) For capitalized retained earnings or additional paid-in, for the calculation of earnings per share of previous years and semi-annual, it is to be adjusted retroactively and proportionally to the ratio of capitalization but not the issuance period of the capitalization.

(4) If the preferred stock is non-convertible cumulative preferred stock, the dividend (distributed or not distributed) is to be deducted from Net Income or is to be added to Net Loss.

(5) If the preferred stock is non-cumulative preferred stock; also, if there is Net income generated, preferred stock dividend is to be deducted from Net income; however, if there is net loss resulted, no adjustment is required.

6. Can apply for deposit and loan business: Local banks, Branches of foreign banks in Taiwan, Credit Cooperatives, Agriculture, Fisheries and credit department

7. The income means the total interest income and non-interest income.

8. The following shall be considered in measuring of cash flow analysis:

(1) Net cash flow from operating activities means the net cash inflow from operating activities in the cash flow statement.

(2) Capital expenditure means the cash outflow from capital investment per year.

(3) Cash dividends include of common and preferred stocks.

(4) Gross for real estate and equipment means the total real estate and equipment before deduction of accumulated depreciation.

9. Net cash flow from business activities or relevant ratio of cash flow is Negative, no disintegration.



6-2-2. Consolidated Capital Adequacy Ratio under IFRS

Unit: TWD thousand; %

| Year (Note.1) Items | | | Capital Adequacy Ratio of Recent Five Year (Note.2) | | | | | Up to (Note 4) |
|-------------------------------------|---|--|---|-------------|-------------|-------------|------------|-------------------|
| | | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Net Capital | Common equity | | 11,127,355 | 10,542,187 | 9,950,751 | 8,163,589 | 7,659,153 | |
| | Other non-common equity of Tier I Capital | | 573,955 | 574,247 | - | - | - | |
| | Tier I Capital | | 3,066,952 | 3,435,395 | 3,112,248 | 3,379,440 | 1,721,351 | |
| | Net Capital Base | | 14,768,261 | 14,551,829 | 13,062,999 | 11,543,029 | 9,380,504 | |
| Total Weighted Risk Assets | Credit Risk | Standardized Approach | 102,399,255 | 103,195,398 | 98,167,383 | 97,220,080 | 83,437,336 | |
| | | Internal-rating-based Approach | - | - | - | - | - | |
| | | Securitization | 657,622 | 671,320 | - | - | - | |
| | Operational Risk | Basic Indicator Approach | 5,333,786 | 5,217,355 | 5,118,685 | 4,992,342 | 4,795,648 | |
| | | Standardized Approach / Alternative Approach | - | - | - | - | - | |
| | | Advanced Measurement Approach | - | - | - | - | - | |
| | Market Risk | Standardized Approach | 3,574,406 | 3,604,702 | 4,918,013 | 9,524,884 | 3,757,382 | |
| | | Internal Model Approach | - | - | - | - | - | |
| | Total Risk-weighted Assets | | 111,965,069 | 112,688,775 | 108,204,081 | 111,737,306 | 91,990,366 | |
| | Capital Adequacy Ratio | | | 13.19 | 12.91 | 12.07 | 10.33 | 10.20 |
| Tier I Capital to Risk Assets Ratio | | | 10.45 | 9.86 | 9.20 | 7.31 | 8.33 | |
| Common equity to Risk Assets Ratio | | | 9.94 | 9.36 | 9.20 | 7.31 | 8.33 | |
| Leverage rate | | | 6.20 | 6.00 | 5.51 | 4.65 | 4.61 | |

Note:

1. It should be specified if the year without audited by CPA auditor.
2. The definition of Self-Owned Capital, Risk-Weighted Assets and exposure measure hereby shall be in compliance with the "Regulations Governing the Capital Adequacy Ratio and Capital Category of Banks" and "Methods for calculation the Self-Owned Capital and Risk-Weighted Assets of Banks."
3. Calculation formula:
 - (1) Net Capital Base = Common equity + Other non-common equity of Tier I Capital + Tier II Capital
 - (2) Total Weighted Risk Asset = Credit Risk Weighted Risk Asset + (Operational Risk + Market Risk) Capital Requirement × 12.5
 - (3) Capital Adequacy Ratio = Net Capital Base / Total Risk Asset
 - (4) Ratio of Tier I Capital to Risk Asset = (Common equity + Other non-common equity of Tier I Capital) / Total Risk Asset
 - (5) Common equity to Risk Assets Ratio = Common equity / Total Risk Asset
 - (6) Leverage rate = Net Tier I Capital / Total risk exposure
4. Printed up to the annual report on the other day, the bank like will have most in the near future checks the visa or the nucleus after CPA auditor reads the financial material, should and gives the exposition.
5. Release lever ratio from 2015 years exposition.



Financial Status

Entity Capital Adequacy Ratio under IFRS

Unit: TWD thousand; %

| Year (Note.1) Items | | | Capital Adequacy Ratio of Recent Five Year (Note.2) | | | | | Up to (Note 4) |
|-------------------------------------|---|--|---|-------------|-------------|-------------|------------|-------------------|
| | | | 2019 | 2018 | 2017 | 2016 | 2015 | |
| Net Capital | Common equity | | 11,127,355 | 10,542,187 | 9,950,751 | 8,163,589 | 7,659,153 | |
| | Other non-common equity of Tier I Capital | | 573,955 | 574,247 | - | - | - | |
| | Tier I Capital | | 3,066,952 | 3,435,395 | 3,112,248 | 3,379,440 | 1,721,351 | |
| | Net Capital Base | | 14,768,261 | 14,551,829 | 13,062,999 | 11,543,029 | 9,380,504 | |
| Total Weighted Risk Assets | Credit Risk | Standardized Approach | 102,399,255 | 103,195,398 | 98,167,383, | 97,220,080 | 83,437,336 | |
| | | Internal-rating-based Approach | - | - | - | - | - | |
| | | Securitization | 657,622 | 671,320 | - | - | - | |
| | Operational Risk | Basic Indicator Approach | 5,333,786 | 5,217,355 | 5,118,685 | 4,992,342 | 4,795,648 | |
| | | Standardized Approach / Alternative Approach | - | - | - | - | - | |
| | | Advanced Measurement Approach | - | - | - | - | - | |
| | Market Risk | Standardized Approach | 3,574,406 | 3,604,702 | 4,918,013 | 9,524,884 | 3,757,382 | |
| | | Internal Model Approach | - | - | - | - | - | |
| | Total Risk-weighted Assets | | 111,965,069 | 112,688,775 | 108,204,081 | 111,737,306 | 91,990,366 | |
| | Capital Adequacy Ratio | | | 13.19 | 12.91 | 12.07 | 10.33 | 10.20 |
| Tier I Capital to Risk Assets Ratio | | | 10.45 | 9.86 | 9.20 | 7.31 | 8.33 | |
| Common equity to Risk Assets Ratio | | | 9.94 | 9.36 | 9.20 | 7.31 | 8.33 | |
| Leverage rate | | | 6.20 | 6.00 | 5.51 | 4.65 | 4.61 | |

Note:

1. It should be specified if the year without audited by CPA auditor.
2. The definition of Self-Owned Capital, Risk-Weighted Assets and exposure measure hereby shall be in compliance with the "Regulations Governing the Capital Adequacy Ratio and Capital Category of Banks" and "Methods for calculation the Self-Owned Capital and Risk-Weighted Assets of Banks."
3. Calculation formula:
 - (1) Net Capital Base = Common equity + Other non-common equity of Tier I Capital + Tier II Capital
 - (2) Total Weighted Risk Asset = Credit Risk Weighted Risk Asset + (Operational Risk + Market Risk) Capital Requirement × 12.5
 - (3) Capital Adequacy Ratio = Net Capital Base / Total Risk Asset
 - (4) Ratio of Tier I Capital to Risk Asset = (Common equity + Other non-common equity of Tier I Capital) / Total Risk Asset
 - (5) Common equity to Risk Assets Ratio = Common equity / Total Risk Asset
 - (6) Leverage rate = Net Tier I Capital / Total risk exposure
4. Printed up to the annual report on the other day, the bank like will have most in the near future checks the visa or the nucleus after CPA auditor reads the financial material, should and gives the exposition.
5. Release lever ratio from 2015 years exposition.

6-3. Auditing committee Report for Latest Year

COTA Commercial Bank Co., Ltd.,
Auditing committee Report for Year 2020

March 25, 2020

To: Shareholders' General Meeting of Year 2020

The Business Report, Financial Statement, Consolidated Financial Statement and Earning Distribution of fiscal year 2019, worked out and submitted by COTA Bank board of directors have been duly audited by KPMG Certified Public Accountants, and further verified by us. This Report duly submitted in accordance with Article 219 of the Company Law.

Independent Director : Kun-Hsien Lin

Independent Director : Tsung-Ta Kuo

Independent Director : Po-Yao Chi



Financial Status

6-4. Consolidated Financial Report of Accountants' Examinations for Latest Year

Independent Auditors' Report

To the Board of Directors of COTA Commercial Bank Co., Ltd.:

Opinion

We have audited the financial statements of COTA Commercial Bank Co., Ltd. ("the Company"), which comprise the balance sheet as of December 31, 2019 and 2018, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, the permit No. 10802731571 as issued by the Financial Supervisory Commission and the auditing standards generally accepted in the Republic of China as 2019. We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and the auditing standards generally accepted in the Republic of China as 2018. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Impairment of loan and receivables

Please refer to Note 4(e) "Financial Instrument", Note 5(a) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty", and Note 6(g), 6(h), 6(aj)(iii) of the financial statements.

Description of key audit matter:

The Company mainly engages in providing loans to its clients; hence, the recoverability of loans and receivables has a significant influence on its business operation which can result in its exposure to credit risk. Therefore, the valuation of impairment of loans and receivables has been identified as our key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter mentioned above, our principal audit procedures included testing the Company's internal controls on the credit rating of its clients and its supervising procedure; assessing whether the collateral assets and the crediting documents are thoroughly examined; assessing whether the loans and receivables are properly classified based on the status of credit guarantees and the length of time overdue; examining whether the measurement and the assumption the management has adopted to evaluate the expected credit loss of loans and receivables are appropriate; evaluating whether the 12-month ECL and lifetime expected credit loss recognized are reasonable; analyzing the recognized impairment to make sure that it complies with the "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans".

2. Measurement of investment property impairment

Refer to Note 4(j)"impairment of non-financial assets" for the accounting procedure, and Note 6(l)"investment property" for further description in the financial statements.

Description of key audit matter:

There are numbers of commercial real estate hold by the Company are rented to others. Lianwu part of land recognized impairment loss caused by market condition in 2008 is revalued by real estate appraiser outside the Company, after comparing the recoverable value provided by appraiser as fair value of land and book value of land, finding that the original evidence for the impairment is no longer exist, so the management reverses the impairment loss. In sight of current unsteady of real estate market, the impairment of investment property is possibly under significant risk. Therefore, the measurement of investment property impairment has been identified as our key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter mentioned above, our principal audit procedures included obtaining impairment document prepared by the Company and assessing the rationality of its evaluating procedure and result through internal and outside collectable information.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks” and IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including the Audit committee) are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements 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 engagement partners on the audit resulting in this independent auditors' report are Chun-Yuan Wu and Yuan-Chen Mei.

KPMG

Taipei, Taiwan (Republic of China)
March 25, 2020

Notes to Readers

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

The independent auditors' audit report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and financial statements, the Chinese version shall prevail.

COTA COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES**Balance Sheets****December 31, 2019 and 2018**

(Expressed in Thousands of New Taiwan Dollars)

| | December 31, 2019 | | December 31, 2018 | | | December 31, 2019 | | December 31, 2018 | |
|---|-----------------------|------------|--------------------|------------|--|-----------------------|------------|--------------------|------------|
| | Amount | % | Amount | % | | Amount | % | Amount | % |
| Assets | | | | | Liabilities and Equity | | | | |
| 11000 Cash and cash equivalents (note 6(a)) | \$ 1,948,237 | 1 | 1,679,974 | 1 | Liabilities: | | | | |
| 11500 Due from the Central Bank and call loans to banks (note 6(b)) | 9,574,833 | 6 | 8,759,332 | 5 | 21000 Due to the Central Bank and other banks (note 6(n)) | \$ 39,201 | - | 64,470 | - |
| 12000 Financial assets at fair value through profit or loss (note 6(c)) | 4,838,859 | 3 | 1,471,328 | 1 | 22000 Financial liabilities at fair value through profit or loss (note 6(c)) | 75 | - | 360 | - |
| 12100 Financial assets at fair value through other comprehensive income (note 6(d)) | 9,077,823 | 5 | 7,495,797 | 4 | 23000 Payables (note 6(o)) | 807,168 | - | 790,203 | - |
| 12200 Financial assets at amortized cost (note 6(e) and 8) | 19,611,071 | 12 | 18,116,779 | 11 | 23200 Current income tax liabilities | 27,797 | - | 50,525 | - |
| 12500 Securities purchased under resale agreements (note 6(f)) | 10,317,589 | 6 | 9,681,841 | 6 | 23500 Deposits and remittances (note 6(p) and 7) | 153,750,583 | 91 | 149,603,103 | 91 |
| 13000 Receivables, net (note 6(g)) | 374,098 | - | 392,836 | - | 24000 Subordinate financial debentures (note 6(q)) | 3,000,000 | 2 | 3,000,000 | 2 |
| 13500 Discounts and loans, net (note 6(h) and 7) | 111,195,714 | 65 | 114,714,150 | 70 | 25600 Provisions (note 6(r) and (t)) | 175,081 | - | 255,287 | - |
| 15500 Other financial assets, net (note 6(i)) | - | - | 36 | - | 26000 Lease liabilities (note 6(s)) | 144,822 | - | - | - |
| 18500 Property and equipment, net (note 6(j)) | 1,278,620 | 1 | 1,311,480 | 1 | 29300 Deferred income tax liabilities (note 6(u)) | 112,450 | - | 118,239 | - |
| 18600 Right-of-use assets (note 6(k)) | 143,019 | - | - | - | 29500 Other liabilities | 348,137 | - | 322,950 | - |
| 18700 Investment property, net (note 6(l)) | 1,134,559 | 1 | 1,004,301 | 1 | Total liabilities | 158,405,314 | 93 | 154,205,137 | 93 |
| 19000 Intangible assets, net (note 6(m)) | 111,730 | - | 114,567 | - | Equity attributable to owners of parent (note 6(v)): | | | | |
| 19300 Deferred income tax assets (note 6(u)) | 138,300 | - | 165,541 | - | Common stock | 8,406,376 | 5 | 8,083,054 | 5 |
| 19500 Other assets (note 6(t)) | 120,631 | - | 140,232 | - | Capital reserve | 912,013 | 1 | 911,160 | 1 |
| | | | | | Retained earnings: | | | | |
| | | | | | Statutory reserve | 1,297,501 | 1 | 1,071,418 | 1 |
| | | | | | Special reserve | 11,929 | - | 8,161 | - |
| | | | | | Undistributed earnings | 786,952 | - | 759,059 | - |
| | | | | | | 2,096,382 | 1 | 1,838,638 | 1 |
| | | | | | Other items in stockholders' equity | 44,998 | - | 10,205 | - |
| | | | | | Total equity | 11,459,769 | 7 | 10,843,057 | 7 |
| Total assets | \$ 169,865,083 | 100 | 165,048,194 | 100 | Total liabilities and equity | \$ 169,865,083 | 100 | 165,048,194 | 100 |

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

COTA COMMERCIAL BANK CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

| | 2019 | | 2018 | | Change |
|--|-------------------|------------|------------------|------------|------------|
| | Amount | % | Amount | % | % |
| 41000 Interest income (note 6(x) and 7) | \$ 3,605,294 | 122 | 3,578,908 | 124 | 1 |
| 51000 Less:Interest expense (note 6(x) and 7) | 1,066,598 | 36 | 1,003,973 | 35 | 6 |
| Net sales revenue | 2,538,696 | 86 | 2,574,935 | 89 | (1) |
| 49100 Service fees income, net (note 6(y) and 7) | 273,584 | 9 | 248,819 | 8 | 10 |
| 49200 Gains and losses on financial assets or liabilities measured at fair value through profit and loss (note 6(c) and (z)) | 48,314 | 2 | (3,225) | - | 1,598 |
| 49310 Realized gains and losses on financial assets measured at fair value through other comprehensive income (note 6(aa)) | 5,358 | - | 6,212 | - | (14) |
| 49450 Losses arising from derecognition of financial assets measured at amortized cost | - | - | (1) | - | (100) |
| 49600 Foreign exchange gains (loss), net | (8,007) | - | 45,412 | 2 | (118) |
| 49700 Impairment gain and reversal of impairment loss on assets (note 6(d), (e), (1) and (ab)) | 127,092 | 4 | (880) | - | 14,542 |
| 49800 Other non-interest income, net (note 6(ac)) | (15,417) | (1) | 21,917 | 1 | (170) |
| Operating revenue, net | 2,969,620 | 100 | 2,893,189 | 100 | 3 |
| 58200 Provisions for bad debt expenses and guarantee reserve (note 6(g), (h), (i), (r) and (ad)) | 159,681 | 5 | 88,142 | 3 | 81 |
| 58500 Personnel expenses (note 6(a) and (af)) | 1,333,880 | 45 | 1,321,986 | 46 | 1 |
| 59000 Depreciation and amortization expenses (note 6(ag)) | 104,721 | 4 | 51,340 | 2 | 104 |
| 59500 Other general and administrative expenses (note 6(ah)) | 482,306 | 16 | 532,184 | 18 | (9) |
| Total operating expenses | 1,920,907 | 65 | 1,905,510 | 66 | 1 |
| 61001 Profit (loss) from continuing operations before tax | 889,032 | 30 | 899,537 | 31 | (1) |
| 61003 Less : Income tax expenses (note 6(u)) | 140,406 | 5 | 145,926 | 5 | (4) |
| Profit (loss) | 748,626 | 25 | 753,611 | 26 | (1) |
| 65000 Other comprehensive income: | | | | | |
| 65200 Components of other comprehensive income that will not be reclassified to profit or loss | | | | | |
| 65201 Gains (losses) on remeasurements of defined benefit plans | 43,145 | 1 | 1,476 | - | 2,823 |
| 65204 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income | 30,226 | 1 | (16,380) | (1) | 285 |
| 65220 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | (8,629) | - | (295) | - | 2,825 |
| | 64,742 | 2 | (15,199) | (1) | 526 |
| 65300 Other components of other comprehensive income that will not be reclassified to profit or loss (note6(w)) | | | | | |
| 65301 Exchange differences of overseas subsidiaries' financial reports translation | (1,804) | - | 872 | - | (307) |
| 65309 Unrealized losses from investments in debt instruments measured at fair value through other comprehensive income | 6,371 | - | (2,735) | - | 333 |
| | 4,567 | - | (1,863) | - | 345 |
| 65000 Other comprehensive income | 69,309 | 2 | (17,062) | (1) | 506 |
| Total comprehensive income | \$ 817,935 | 27 | 736,549 | 25 | 11 |
| Earnings per share (NT dollars) (note 6(w)) | | | | | |
| Basic earnings per share | \$ 0.89 | | 0.90 | | |
| Diluted earnings per share | \$ 0.88 | | 0.89 | | |

See accompanying notes to financial statements.

COTA COMMERCIAL BANK CO., LTD.**Statements of Changes in Equity
For the years ended December 31, 2019 and 2018**

(Expressed in Thousands of New Taiwan Dollars)

| | Share capital | | | Retained earnings | | Total other equity interest | | | | | Total other interest | Total equity |
|--|-----------------|-----------------|---------------|-------------------|----------------------------------|-----------------------------|---|---|--|--|----------------------|-------------------|
| | Ordinary shares | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Total retained earnings | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Unrealized gains (losses) on available-for-sale financial assets | | | |
| Balance on January 1, 2018 | | | | | | | | | | | | |
| Effects of retrospective application | | | | | | | | | | | | |
| Balance on January 1, 2018 after adjustments | \$ 7,625,523 | 910,524 | 796,233 | 11,675 | 924,107 | 1,732,015 | (217) | - | 23,208 | | 22,991 | 10,291,053 |
| Appropriation and distribution of retained earnings: | | | | | | | | | (23,208) | | 5,457 | |
| Legal reserve appropriated | - | - | 275,185 | - | (275,185) | - | - | - | - | | - | - |
| Special reserve appropriated | - | - | - | (3,514) | 3,514 | - | - | - | - | | - | - |
| Cash dividends of ordinary share | - | - | - | - | (190,638) | (190,638) | - | - | - | | - | (190,638) |
| Stock dividends of ordinary share | 457,531 | - | - | - | (457,531) | (457,531) | - | - | - | | - | - |
| Other changes in capital surplus: | | | | | | | | | | | | |
| Donated capital | - | 24 | - | - | - | - | - | - | - | | - | 24 |
| Dividends not received overtime by shareholders | - | 612 | - | - | - | - | - | - | - | | - | 612 |
| Profit for 2018 | | | | | | | | | | | | |
| Other comprehensive income for 2018 | | | | | | | | | | | | |
| Total comprehensive income | 8,083,054 | 911,160 | 1,071,418 | 8,161 | 4,267 | 1,083,846 | (217) | 28,665 | - | | 28,448 | 10,106,508 |
| Balance on December 31, 2018 | | | | | | | | | | | | |
| | \$ 8,083,054 | 911,160 | 1,071,418 | 8,161 | 753,611 | 1,838,638 | 872 | (19,115) | - | | (18,243) | 753,611 |
| | | | | | 1,181 | 1,181 | | | | | | (17,062) |
| | | | | | 754,792 | 754,792 | 872 | (19,115) | - | | (18,243) | 736,549 |
| | | | | | 759,059 | 1,838,638 | 655 | 9,550 | - | | 10,205 | 10,843,057 |
| Balance on January 1, 2019 | | | | | | | | | | | | |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 226,083 | - | (226,083) | - | - | - | - | | - | - |
| Special reserve appropriated | - | - | - | 3,768 | (3,768) | - | - | - | - | | - | - |
| Cash dividends of ordinary share | - | - | - | - | (202,076) | (202,076) | - | - | - | | - | (202,076) |
| Stock dividends of ordinary share | 323,322 | - | - | - | (323,322) | (323,322) | - | - | - | | - | - |
| Other changes in capital surplus: | | | | | | | | | | | | |
| Donated capital | - | 15 | - | - | - | - | - | - | - | | - | 15 |
| Dividends not received overtime by shareholders | - | 838 | - | - | - | - | - | - | - | | - | 838 |
| Profit for 2019 | | | | | | | | | | | | |
| Other comprehensive income for 2019 | | | | | | | | | | | | |
| Total comprehensive income | 8,406,376 | 912,013 | 1,297,501 | 11,929 | 3,810 | 1,313,240 | 655 | 9,550 | - | | 10,205 | 10,641,834 |
| Balance at December 31, 2019 | | | | | | | | | | | | |
| | \$ 8,406,376 | 912,013 | 1,297,501 | 11,929 | 748,626 | 2,096,392 | (1,804) | 36,597 | - | | 34,793 | 748,626 |
| | | | | | 34,516 | 34,516 | (1,804) | 36,597 | - | | 34,793 | 69,309 |
| | | | | | 783,142 | 783,142 | (1,804) | 36,597 | - | | 34,793 | 817,935 |
| | | | | | 786,952 | 2,096,392 | (1,149) | 46,147 | - | | 44,998 | 11,459,769 |

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

COTA COMMERCIAL BANK CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

| | 2019 | 2018 |
|--|---------------------|--------------------|
| Cash flows from (used in) operating activities: | | |
| Profit before tax | \$ 889,032 | 899,537 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation expense | 101,722 | 48,628 |
| Amortization expense | 2,999 | 2,712 |
| Provision for bad debt expense | 153,681 | 82,642 |
| Interest expense | 1,066,598 | 1,003,973 |
| Net loss arising from derecognition of financial assets at amortized cost | - | 1 |
| Interest income | (3,605,294) | (3,578,908) |
| Dividend income | (6,887) | (7,321) |
| Net change in other provisions | 44,712 | 5,500 |
| Gain on disposal of property and equipment | (285) | (131) |
| Property and equipment transferred to expenses | 2,239 | 880 |
| Reversal of impairment gain on non-financial assets | (129,330) | - |
| Total adjustments to reconcile profit (loss) | (2,369,845) | (2,442,024) |
| Changes in operating assets and liabilities: | | |
| Changes in operating assets: | | |
| Increase in due from the Central Bank and call loans to banks | (22,213) | (447,122) |
| Increase in financial assets at fair value through profit or loss | (3,367,531) | (651,328) |
| Increase in financial assets at fair value through other comprehensive income | (1,546,732) | (3,645,060) |
| (Increase) decrease in financial assets at amortized cost | (1,495,228) | 697,829 |
| Increase in securities purchased under resell agreements | (635,748) | (713,324) |
| (Increase) decrease in receivables | (4,644) | 14,904 |
| (Increase) decrease in discounts and loans | 3,366,097 | (233,599) |
| Decrease in other financial assets | 36 | 13 |
| (Increase) decrease in other assets | 35,548 | (29,732) |
| Total changes in operating assets | (3,670,415) | (5,007,419) |
| Changes in operating liabilities: | | |
| Decrease in due to the Central Bank and other banks | (25,269) | (13,367) |
| Increase (decrease) in financial liabilities at fair value through profit or loss | (285) | 344 |
| Increase (decrease) in payable | 24,447 | (22,155) |
| Increase in deposits and remittances | 4,147,480 | 5,267,613 |
| Decrease in provisions for employee benefits | (98,222) | (30,761) |
| Increase (decrease) in other liabilities | 25,181 | (14,321) |
| Total changes in operating liabilities | 4,073,332 | 5,187,353 |
| Total changes in operating assets and liabilities | 402,917 | 179,934 |
| Total adjustments | (1,966,928) | (2,262,090) |
| Cash outflow generated from operations | (1,077,896) | (1,362,553) |
| Interest received | 3,628,863 | 3,557,031 |
| Dividends received | 5,358 | 6,212 |
| Interest paid | (1,074,080) | (1,017,362) |
| Income taxes paid | (150,311) | (167,034) |
| Net Cash flows from (used in) operating activities | 1,331,934 | 1,016,294 |
| Cash flows from (used in) investing activities: | | |
| Acquisition of property and equipment | (18,308) | (33,824) |
| Proceeds from disposal of property and equipment | 970 | 530 |
| Acquisition of intangible assets | (162) | (5,884) |
| Decrease (Increase) in other assets | 508 | (4,995) |
| Net cash flows from (used in) investing activities | (16,992) | (44,173) |
| Cash flows from (used in) financing activities: | | |
| Proceeds from issuing bank notes payable | - | 1,200,000 |
| Repayments of bank notes payable | - | (1,500,000) |
| Payment of lease liabilities | (50,364) | - |
| Payments to acquire treasury shares | 838 | 612 |
| Proceeds from sale of treasury shares | 15 | 24 |
| Cash dividends paid | (202,076) | (190,638) |
| Net cash flows from (used in) financing activities | (251,587) | (490,002) |
| Effect of exchange rate changes on cash and cash equivalents | (1,804) | 872 |
| Net increase in cash and cash equivalents | 1,061,551 | 482,991 |
| Cash and cash equivalents at beginning of period | 5,477,841 | 4,994,850 |
| Cash and cash equivalents at end of period | \$ 6,539,392 | 5,477,841 |
| Composition of cash and cash equivalents: | | |
| Cash and cash equivalents in the statement of financial position | \$ 1,948,237 | 1,679,974 |
| Due from the Central Bank and call loans to banks following the definition of cash and cash equivalents under IAS 7 as accepted by FSC | 4,591,155 | 3,797,867 |
| Cash and cash equivalents at end of period | \$ 6,539,392 | 5,477,841 |

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

COTA COMMERCIAL BANK CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

COTA COMMERCIAL BANK CO., LTD. ("the Company") was established in 1915 as a credit cooperative bank. Effective January 1, 1999, the Company changed its status to commercial bank and its name to COTA Commercial Bank Co., Ltd. in accordance with the Company Law and the Banking Law. Pursuant to the resolution decided during the shareholders' meeting held on September 17, 2005 and as approved by the regulatory authorities, the Company merged with Fengyuan Credit Cooperative on January 1, 2006. Currently, the Company has 30 domestic branches and one offshore banking unit.

The Company is engaged in:

- Receiving deposits, extending loans, investing in bills and bonds, processing funds remittance, acceptances and guarantees, issuing letters of credit and providing other agency business (except for issuing foreign letters of credit and providing foreign guarantees);
- Buying and selling foreign currencies and traveler's checks;
- Credit card related services;
- Trust and fiduciary services;
- Foreign exchange service as authorized by the Central Bank;
- Commercial banking business related to international trade.

In order to optimize resources, reduce operating costs, and improve efficiency, the Board of Directors approved the merger of the Company and Cota Bank Insurance Brokers Co., Ltd on August 26, 2016, with the Company being the surviving entity and the latter as the dissolved company, having May 1, 2017 as the merger date.

(2) Approval date and procedures of the financial statements:

The Financial Statements were authorized for issuance by the Board of Directors on March 25, 2020.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

(Continued)

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|--------------------------------|
| IFRS 16 "Leases" | January 1, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(h).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases - i.e. these leases are on-balance sheet.

The Company decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment.

• Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other lease.

(Continued)



Financial Status

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3) As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Company is required to assess the classification of a sub-lease by reference to the right-of-use asset, not the underlying asset. On transition, the Company reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Company concluded that the sub-lease is a finance lease under IFRS 16.

4) Impacts on financial statements

On transition to IFRS 16, the Company recognized additional \$146,498 thousand of right-of-use assets and \$146,498 thousand of lease liabilities, recognizing the difference in retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.0625%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

| | <u>January 1, 2019</u> |
|--|------------------------|
| Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements | \$ 147,252 |
| Recognition exemption for: | |
| Leases of low-value assets | (378) |
| | <u>146,874</u> |
| Discounted using the incremental borrowing rate at January 1, 2019 | 146,498 |
| Finance lease liabilities recognized as at December 31, 2018 | - |
| Lease liabilities recognized at January 1, 2019 | <u>\$ 146,498</u> |

(ii) IFRIC 23 "Uncertainty over Income Tax Treatments"

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will

(Continued)

examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

When transitioning to the new standard, the above changes did not affect deferred income tax liabilities and retained earnings for December 31, 2019, and income tax expenses for December 31, 2019.

(b) The impact of IFRS issued by the FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|--|--------------------------------|
| Amendments to IFRS 3 "Definition of a Business" | January 1, 2020 |
| Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform" | January 1, 2020 |
| Amendments to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 |

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its financial statements.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|--|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| Amendments to IFRS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2022 |

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the financial statements.

(Continued)

Financial Status

(a) Statement of compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the financial statements have been prepared on a historical cost basis:

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured a fair value of plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The financial statements are presented in New Taiwan Dollar (NTD), which is the Company’s functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(c) Foreign Currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Company at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which recognized in other comprehensive income is an investment in equity securities designated as at fair value through other comprehensive income.

(ii) Foreign operations

Regarding offshore banking unit (OBU), the assets and liabilities reported in functional currencies are translated into New Taiwan Dollars at the exchange rates on reporting date; the income and expenses, excluding in hyperinflationary economic situation, are translated into New Taiwan Dollars at the rate of exchange prevailing on the date of the transaction date. Exchange differences are recognized as other comprehensive income. When the settlement of monetary receivables/payables to OBU is neither planned nor likely to happen in the foreseeable future, gains and losses arising from currency exchange are valued as part of net investment and are recognized as other comprehensive income.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, checks for clearance, checking and demand deposits due from other banks, money deposited in other financial institutions without designated purposes or with unrestricted access and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents reported in the statement of cash flows are assets that

(Continued)

reported in the statement of financial positions, due from central bank, call loans to bank following the definition of cash and cash equivalents under IAS 7 as accepted by FSC, and securities purchased under resell agreements.

Time deposits with maturities less than one year are aimed for short-term cash commitments instead of investment purposes, subjected to insignificant risk in changes of fair value, and hence are classified as cash and cash equivalents.

(e) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

Financial assets at amortized cost included cash and cash equivalents, financial assets at amortized cost, securities purchased under resell agreements, loans and receivables, guarantee deposit paid, and other financial assets measured at non-fair value.

A financial asset measured at amortized cost is initially recognized at fair value, plus, any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by using impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

A. Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold the assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

B. Securities purchased under resell agreements

Securities sold/purchased, with a commitment, are treated as financing transactions, which are recorded at cost. The difference between the cost and the repurchase/resell price is treated as interest expenses/revenue and recognized over the term of the agreement.

C. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, including receivables and loans. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition

Interest income is recognized in profit or loss, and it is included in statement of comprehensive income account.

(Continued)



Financial Status

Loans and receivables shall be transferred to overdue loans account if either of the following situation qualifies:

- Collection of payment of principal or interest accrued is considered highly unlikely; or
- Payment of principal or interest accrued is over 3 or 6 months past due; or

According to “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-Performing and Non-Accrual Loans”, non-performing loans with interest accrued shall be transferred to overdue loans after 6-month-additional extension of overdue payment. However, the reclassification does not apply to those of agreed installment payments, consultative consumer credit, and cases executed by the “Statute for Consumer Debt Clearance”.

Reclassified overdue loans are assorted into discounts and loans, while other overdue receivables reclassified from guarantees, acceptances, factoring accounts receivable, and receivables-other credit card, are classified as other financial assets.

Outstanding balances of overdue loans'unrecoverable parts are written-off under approval of Board of Directors.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable, which are presented as accounts receivable.

On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized

(Continued)

cost (including cash and cash equivalents, amortized costs, notes and trade receivables, other receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, and contract assets.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment, as well as forward looking information.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than a year past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(Continued)

5) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(g) Property, plant, and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Company.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

(Continued)

- 1) Buildings : 5 years ~ 80 years
- 2) Machinery equipment : 1 year ~ 20 years
- 3) Transportation equipment : 4 years ~ 10 years
- 4) Miscellaneous equipment : 3 year ~ 50 years
- 5) The significant portion of buildings and their useful life are as follow :

| Item | useful life |
|---------------------|---------------------|
| Buildings | |
| Main building | 60 years ~ 80 years |
| Premises Renovation | 5 years |

Depreciation methods, useful lives, and residual values are reviewed at each reporting date adjusted if appropriate.

(iv) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner occupied to investment property.

(h) Lease

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(ii) As a lease

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

(Continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- 1) fixed payments, including in-substance fixed payments;
- 2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- 3) amounts expected to be payable under a residual value guarantee; and
- 4) payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- 1) there is a change in future lease payments arising from the change in an index or rate; or
- 2) there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- 3) there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- 4) there is a change of its assessment on whether it will exercise an extension or termination option; or
- 5) there is any lease modification

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets for the location of ATM. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Applicable before December 31, 2018

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. In order to earn lease income, incurred costs would be recognized as expense, such as depreciation.

(Continued)

(ii) Lessee

Leases in which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized in the Company's statement of financial position.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Intangible assets

(i) Computer software

Computer software system expenses, which are recorded on the basis of the cost of acquisition less accumulated depreciation and accumulated impairment, are amortized using a straight-line method over a period of 1 to 10 years. The amortization is recognized in profit or loss.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(ii) Goodwill

Goodwill derives from enterprise acquisition is included in intangible assets.

Goodwill is measured at cost less accumulated impairment losses. Impairment loss on equity investment in investees accounted for under the equity method is not allocated to any asset, including goodwill that forms part of the carrying amount of such investment.

(j) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets and assets arising from employee benefits) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and an outflow of economic benefits is possibly required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(Continued)



Financial Status

(l) Financial guarantee contract

The Company recognized financial guarantee liabilities initially at their fair value at the date of providing guarantee. The Company receives commission income with arm's-length transaction at contract date; this is, the income could represent the fair value of financial guarantee contract. The advanced service fee is recognized as deferred item and amortized by straight-line method over the contract period of the financial guarantee.

(m) Revenue recognition

Interest revenue arising from credits is estimated on an accrual basis. All interest accrued shall be suspended from the date the loans are classified as nonperforming loans. Interest earned from nonperforming loans shall be recognized as interest income when the interest has been collected by the Company. If the repayment of loan is extended under an agreement, the related interest should be recognized as deferred revenue, classified into other liability and recognized as income when collected.

Service fee income is recognized when collected or when the majority of project is completed. Service fee income is received when loans and receivables are recognized. The service fee income which are caused by loans or receivables shall be recognized as interest revenue when they meet a suggested policy announced by the Bankers Association of the Republic of China. This policy requires an individual loan that meets the materiality criteria to have its effective interest rate be consistent with its interest revenue. Overall, the service fees shall be adjusted from the original agreed interest rate to the effective interest rate.

Rental income of a property is incurred during the lease term. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

(n) Employee benefits

(i) Short-term employee benefit

Short-term employee benefits are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefit: The Company's pension plan comprises defined contribution plan and defined benefit plan.

1) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which the related service is provided by employees.

2) Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

The Company's defined benefit pension plan follows the Labor Standards Act. Pension payments to employees are calculated based on years of service and average salary upon retirement. The Company will make monthly contributions to the employees' pension accounts, which are managed by the Employee Pension Fund Committee, and the contributions are deposited in the employees' pension accounts with Bank of Taiwan. The pension fund for management is contributed 8% of salaries to individual pension accounts monthly.

(Continued)

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Deposits with favorable rate

The Company provides deposits with favorable rate to employees, which include fix amount deposits with favorable rate for current employees and post-employment fix amount deposits with favorable rate for retired and current employees. The rate difference between the favorable rate and the market rate is considered employee benefit.

According to article 30 of "Regulations Governing the Preparation of Financial Report by Public Banks", the additional interests resulted from the difference between deposit with favorable rate and the deposits with market interest rate need actuary per the regulations related to defined benefit plan in IAS 19 . The parameters of actuarial assumptions should obey the competent authority if any regulation is applicable.

(o) Income taxes

Income taxes comprise both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on taxable profits (losses) for the year and any adjustments to the tax payable or receivable in respect of previous year. The amount of current tax payable or receivables are the best estimate of the tax amount expected to be paid or received.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) The Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) The deferred tax assets and the deferred liabilities relate to income taxes levied by the same taxation authority on either
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(Continued)

Financial Status

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date, and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(p) Earnings per share (EPS)

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potential dilutive ordinary shares.

(q) Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company). Operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. The Company's chief operating decision maker is the Board of Directors.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is as follows:

(a) Impairment loss on loans and receivables

When the Company decide whether to recognize impairment loss, they mainly assess if there are any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or local economic situation related to debt payment in arrears. When analyzing expected cash flow, the estimates by the management are based on past losses experience on assets of similar credit risk characteristics. The Company quarterly reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss. Please refer to Note 6(ak) for impairment loss on loans.

(b) Measurement of defined benefit obligations

Accrued pension liabilities and resulting pension expenses under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, future salary increase rate, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

The Company's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Company's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Company strives to use market observable when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

(Continued)

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

| | December 31, 2019 | December 31, 2018 |
|---------------------------|----------------------|----------------------|
| Cash on hand | \$ 1,530,296 | 1,328,485 |
| Checks for clearance | 172,301 | 164,917 |
| Deposits from other banks | 245,640 | 186,572 |
| | <u>\$ 1,948,237</u> | <u>1,679,974</u> |

The cash and cash equivalents presented in the statement of cash flows had the following components, please refer to note 6(b).

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Cash and cash equivalents in the statement of financial position | \$ 1,948,237 | 1,679,974 |
| Due from the Central Bank and call loans to banks following the definition of cash and cash equivalents under IAS 7 as accepted by FSC | 4,591,155 | 3,797,867 |
| Cash and cash equivalents reported in the statement of cash flows | <u>\$ 6,539,392</u> | <u>5,477,841</u> |

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

| | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Deposit reserve - checking accounts | \$ 2,617,395 | 2,486,732 |
| Deposit reserve - demand accounts | 4,498,196 | 4,377,728 |
| Deposit reserve - foreign currency deposits | 4,215 | 4,302 |
| Call loans to banks | 1,973,760 | 1,311,135 |
| Deposits with Financial Information Service Co., Ltd. | 481,267 | 579,435 |
| | <u>\$ 9,574,833</u> | <u>8,759,332</u> |

The reserves for deposits are calculated at prescribed rates, using the average monthly balances of various deposit accounts, and are appropriated and deposited in the reserve account of the Central Bank of the Republic of China (Taiwan). Deposits reserve — demand accounts cannot be withdrawn except for the monthly adjustment to the required reserve permitted by relevant regulations.

Due from Central Bank and call loans to bank following the definition of cash and cash equivalents under IAS 7 as accepted by FSC are as follows:

| | December 31, 2019 | December 31, 2018 |
|-------------------------------------|----------------------|----------------------|
| Call loans to banks | \$ 1,973,760 | 1,311,135 |
| Deposit reserve - checking accounts | 2,617,395 | 2,486,732 |
| | <u>\$ 4,591,155</u> | <u>3,797,867</u> |

(Continued)

6 Financial Status

(c) Financial assets (liabilities) at fair value through profit or loss

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Financial assets | | |
| Securities of listed companies | \$ 50,704 | 34,314 |
| Beneficiary certificates | 60,894 | 57,866 |
| Short-term bills | 4,020,631 | 767,075 |
| Convertible bonds | 699,968 | 609,669 |
| Derivatives | 6,662 | 2,404 |
| | \$ 4,838,859 | 1,471,328 |
| Financial liabilities at fair value through profit or loss | | |
| Derivatives | \$ 75 | 360 |

The Company engages in derivative transactions to mitigate exchange rate risks and interest rate risks. The Company's financial hedging policy is to minimize its market price or cash flow exposures.

The nominal amount information of outstanding derivative contracts as of December 31, 2019 and 2018 was as follows:

| | December 31, 2019 | December 31, 2018 |
|----------------------|----------------------|----------------------|
| Derivative contracts | \$ 597,313 | 1,056,354 |

The net gains (losses) on financial assets at fair value through profit or loss for the years ended December 31, 2019 and 2018, were \$8,030 thousand and \$(2,881) thousand, respectively. The net gains (losses) on financial liabilities at fair value through profit or loss for the years ended December 31, 2019 and 2018, were \$284 thousand and \$(344) thousand, respectively.

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

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Debt investments at fair value through other comprehensive income: | | |
| Corporate bonds | \$ 8,944,586 | 7,392,785 |
| Equity investments at fair value through other comprehensive income: | | |
| Domestic unlisted stock | 133,237 | 103,012 |
| Total | \$ 9,077,823 | 7,495,797 |

(i) Debt investments at fair value through other comprehensive income

The Company has assessed that the following securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and by selling securities; therefore, they have been classified as debt investments at fair value through other comprehensive income.

(ii) Equity investments at fair value through other comprehensive income

The Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term strategic purposes.

(Continued)

During the years ended December 31, 2019 and 2018, the dividends of \$5,358 thousand and \$6,212 thousand, respectively, related to equity investments at fair value through other comprehensive income held on the years then ended, were recognized.

There were no disposals of strategic investments and transfers of any cumulative gain or loss within equity relating to these investments of December 31, 2019 and 2018.

(iii) For credit risk (including the impairment of debt investments) and market risk, please refer to note 6(aj).

(iv) The financial assets of the Company had not been pledged as collateral.

(v) The movement in the allowance for debt investments at fair value through other comprehensive income was as follows:

| | 2019 | 2018 |
|---|-----------------|--------------|
| Balance on January 1 per IAS 39 | | \$ - |
| Adjustment on initial application of IFRS 9 | | 957 |
| Balance on January 1 per IFRS 9 | \$ 1,997 | 957 |
| Recognized during the period | 1,303 | 1,040 |
| Balance on December 31 | <u>\$ 3,300</u> | <u>1,997</u> |

(e) Financial assets measured at amortized cost

| | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Government bonds | \$ 1,001,569 | 1,008,793 |
| Corporate bonds | 2,059,050 | 1,811,640 |
| Negotiable certificates of deposits | 16,380,000 | 15,000,000 |
| Financial bonds | 178,479 | 303,596 |
| Deposits from other banks | 1,000 | 1,000 |
| Subtotal | 19,620,098 | 18,125,029 |
| Less: the allowance for impairment loss | (9,027) | (8,250) |
| Total | <u>\$ 19,611,071</u> | <u>18,116,779</u> |

(i) The Company has assessed that these financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost.

(ii) For credit risk, please refer to note 6(aj).

(iii) Government bond of \$179,600 thousand and \$221,300 thousand, respectively, was placed as deposits in courts as of the years then ended. Government bonds provided and deposited as trust compensation reserve as of December 31, 2019 and 2018, both amounted to \$50,000 thousand.

(iv) The movement in the allowance for financial assets measured at amortized cost was as follows:

| | 2019 | 2018 |
|---|----------------|--------------|
| Balance on January 1 per IAS 39 | | \$ 7,537 |
| Adjustment on initial application of IFRS 9 | | 650 |
| Balance on January 1 per IFRS 9 | \$ 8,250 | 8,187 |
| Provision (reversal) during the period | 935 | (160) |
| Effect of exchange rate changes | (158) | 223 |
| Balance on December 31 | <u>\$9,027</u> | <u>8,250</u> |

(Continued)

6 Financial Status

(f) Securities purchased under resell agreements

Securities purchased under resell agreements, and their sold back amounts, using determined price were as follow:

| Item | December 31, 2019 | | | |
|-------------------|----------------------|-------------------|-------------------|------------------------------------|
| | Bond book value | Resell agreement | Resell price | Resell price |
| Commercial papers | \$ 7,421,000 | 7,412,760 | 7,414,043 | Resell gradually before 2020.01.09 |
| Corporate bonds | 1,957,000 | 1,960,287 | 1,960,741 | Resell gradually before 2020.01.07 |
| Government bonds | 941,000 | 944,542 | 944,898 | Resell gradually before 2020.01.13 |
| | \$ 10,319,000 | 10,317,589 | 10,319,682 | |

| Item | December 31, 2018 | | | |
|-------------------|---------------------|------------------|------------------|------------------------------------|
| | Bond book value | Resell agreement | Resell price | Resell price |
| Commercial papers | \$ 8,443,100 | 8,429,755 | 8,431,324 | Resell gradually before 2019.01.09 |
| Corporate bonds | 1,053,000 | 1,053,251 | 1,053,406 | Resell gradually before 2019.01.08 |
| Government bonds | 197,800 | 198,835 | 198,868 | Resell gradually before 2019.01.07 |
| | \$ 9,693,900 | 9,681,841 | 9,683,598 | |

(g) Receivables, net

| | December 31, 2019 | December 31, 2018 |
|---------------------------------------|-------------------|-------------------|
| Credit card accounts receivable | \$ 145,566 | 149,213 |
| Interest receivable | 219,628 | 243,197 |
| Accrued income | 13,743 | 8,610 |
| Acceptances receivable | 1,441 | - |
| Guarantee payments receivable | 10,050 | 8,663 |
| Others | 32,930 | 28,726 |
| Sub-total | 423,358 | 438,409 |
| Less: allowance for doubtful accounts | (49,260) | (45,573) |
| | \$ 374,098 | 392,836 |

(Continued)

The movement in the allowance for receivables during the year ended December 31, 2019 was as follows:

| | 12-month ECL | Lifetime ECL-group | Lifetime ECL-individual | Lifetime ECL- not new financial assets acquired or credit-impaired | Lifetime ECL- new financial assets acquired or credit-impaired | expected credit loss accordance with IFRS9 | Difference of impairment loss in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal | Total |
|--|-----------------|-----------------------|----------------------------|--|--|---|--|---------------|
| Balance on January 1 | \$ 1,329 | 3,144 | - | 5,534 | - | 10,007 | 35,601 | 45,608 |
| Reconciliation arising from financial instruments recognized at the beginning of the year: | | | | | | | | |
| -Transfer to lifetime ECL | (29) | 44 | - | (15) | - | - | | - |
| -Transfer to credit-impaired financial assets | (24) | (85) | - | 109 | - | - | | - |
| -Transfer to 12-month ECL | 50 | (46) | - | (3) | - | 1 | | 1 |
| - Financial assets repaid | (388) | (172) | - | (582) | - | (1,142) | | (1,142) |
| New financial assets acquired | 206 | 6 | - | 34 | - | 246 | | 246 |
| Difference of impairment in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal | | | | | | | 6,294 | 6,294 |
| Bad debts | (892) | (100) | - | (558) | - | (1,550) | (1,101) | (2,651) |
| Recovered bad debts | 12 | 7 | - | 4,521 | - | 4,540 | 344 | 4,884 |
| Foreign exchange gains (losses) and others | 625 | 180 | - | (4,785) | - | (3,980) | | (3,980) |
| Balance on December 31 | <u>\$ 889</u> | <u>2,978</u> | <u>-</u> | <u>4,255</u> | <u>-</u> | <u>8,122</u> | <u>41,138</u> | <u>49,260</u> |

(Continued)



Financial Status

The movement in the allowance for receivables during the year ended December 31, 2018 was as follows:

| | 12-month ECL | Lifetime ECL-group | Lifetime ECL-individual | Lifetime ECL- not new financial assets acquired or credit-impaired | Lifetime ECL- new financial assets acquired or credit-impaired | expected credit loss accordance with IFRS9 | Difference of impairment loss in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal | Total |
|--|-----------------|-----------------------|----------------------------|--|--|---|--|---------------|
| Balance on January 1 | \$ 646 | 1,236 | - | 6,790 | - | 8,672 | 32,664 | 41,336 |
| Reconciliation arising from financial instruments recognized at the beginning of the year: | | | | | | | | |
| -Transfer to lifetime ECL | (8) | 32 | - | (24) | - | - | | - |
| -Transfer to credit-impaired financial assets | (85) | (385) | - | 470 | - | - | | - |
| -Transfer to 12-month ECL | 98 | (35) | - | (63) | - | - | | - |
| - Financial assets repaid | (165) | (139) | - | (592) | - | (896) | | (896) |
| New financial assets acquired | 427 | 94 | - | 40 | - | 561 | | 561 |
| Difference of impairment in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal | | | | | | | 1,006 | 1,006 |
| Bad debts | (1,238) | (150) | - | (695) | - | (2,083) | (1,109) | (3,192) |
| Recovered bad debts | 92 | - | - | 3,962 | - | 4,054 | 3,040 | 7,094 |
| Foreign exchange gains (losses) and others | 1,562 | 2,491 | - | (4,354) | - | (301) | | (301) |
| Balance on December 31 | <u>\$ 1,329</u> | <u>3,144</u> | <u>-</u> | <u>5,534</u> | <u>-</u> | <u>10,007</u> | <u>35,601</u> | <u>45,608</u> |

These included the delinquent receivables not arising from loans for the years ended December 31, 2019 and 2018, amounting to \$0 thousand and \$35 thousand, respectively.

(h) Discounts and loans, net

| | December 31, 2019 | December 31, 2018 |
|------------------------------------|-----------------------|----------------------|
| Overdrafts | \$ 31,517 | 38,999 |
| Short-term loans | 10,735,534 | 12,863,499 |
| Medium-term loans | 74,223,588 | 72,804,134 |
| Long-term loans | 27,597,748 | 30,589,954 |
| Overdue loans | 456,257 | 401,757 |
| Sub-total | 113,044,644 | 116,698,343 |
| Less: allowance for bad debts | (1,593,172) | (1,715,676) |
| adjustment of discount and premium | (255,758) | (268,517) |
| | <u>\$ 111,195,714</u> | <u>114,714,150</u> |

(Continued)

The movement in the allowance for discounts and loans during the year ended December 31, 2019 was as follows:

| | 12-month ECL | Lifetime ECL-group | Lifetime ECL-indivi dual | Lifetime ECL- not new financial assets acquired or credit-impai red | Lifetime ECL- new financial assets acquired or credit-impai red | expected credit loss accordance with IFRS9 | Difference of impairment loss in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal | Total |
|--|-------------------|-----------------------|--------------------------------|---|--|---|--|------------------|
| Balance on January 1 | \$ 243,299 | 67,117 | - | 386,721 | - | 697,137 | 1,018,539 | 1,715,676 |
| Reconciliation arising from financial instruments recognized at the beginning of the year: | | | | | | | | |
| -Transfer to lifetime ECL | (1,008) | 5,585 | - | (4,577) | - | - | - | - |
| -Transfer to credit-impaired financial assets | (10,673) | (9,626) | - | 20,299 | - | - | - | - |
| -Transfer to 12-month ECL | 3,882 | (1,908) | - | (1,974) | - | - | - | - |
| - Financial assets repaid | (112,720) | (52,613) | - | (96,115) | - | (261,448) | - | (261,448) |
| New financial assets acquired | 101,945 | 366 | - | 10,841 | - | 113,152 | - | 113,152 |
| Difference of impairment in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal | | | | | | | 241,664 | 241,664 |
| Bad debts | - | - | - | - | - | - | (494,042) | (494,042) |
| Recovered bad debts | - | - | - | - | - | - | 219,464 | 219,464 |
| Foreign exchange gains (losses) and others | (37,448) | 20,820 | - | 75,334 | - | 58,706 | - | 58,706 |
| Balance on December 31 | <u>\$ 187,277</u> | <u>29,741</u> | <u>-</u> | <u>390,529</u> | <u>-</u> | <u>607,547</u> | <u>985,625</u> | <u>1,593,172</u> |



(Continued)



Financial Status

The movement in the allowance for discounts and loans during the year ended December 31, 2018 was as follows:

| | 12-month ECL | Lifetime ECL-group | Lifetime ECL-indivi dual | Lifetime ECL- not new financial assets acquired or credit-impa ired | Lifetime ECL- new financial assets acquired or credit-impa ired | expected credit loss accordance with IFRS9 | Difference of impairment loss in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal | Total |
|--|-------------------|-----------------------|--------------------------------|---|--|---|--|------------------|
| Balance on January 1 | \$ 200,568 | 70,635 | - | 396,833 | - | 668,036 | 1,190,628 | 1,858,664 |
| Reconciliation arising from financial instruments recognized at the beginning of the year: | | | | | | | | |
| -Transfer to lifetime ECL | (1,063) | 5,844 | - | (4,781) | - | - | - | - |
| -Transfer to credit-impaired financial assets | (6,483) | (55,851) | - | 62,334 | - | - | - | - |
| -Transfer to 12-month ECL | 5,048 | (1,374) | - | (3,674) | - | - | - | - |
| - Financial assets repaid | (77,202) | (11,028) | - | (86,236) | - | (174,466) | - | (174,466) |
| New financial assets acquired | 127,318 | 45,270 | - | 9,226 | - | 181,814 | - | 181,814 |
| Difference of impairment in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal | | | | | | | 28,907 | 28,907 |
| Bad debts | - | - | - | - | - | - | (400,843) | (400,843) |
| Recovered bad debts | - | - | - | - | - | - | 199,847 | 199,847 |
| Foreign exchange gains (losses) and others | (4,887) | 13,621 | - | 13,019 | - | 21,753 | - | 21,753 |
| Balance on December 31 | <u>\$ 243,299</u> | <u>67,117</u> | <u>-</u> | <u>386,721</u> | <u>-</u> | <u>697,137</u> | <u>1,018,539</u> | <u>1,715,676</u> |

(i) Other financial assets, net

| | December 31, 2019 | December 31, 2018 |
|-------------------------------|----------------------|----------------------|
| Overdue receivables | \$ - | 71 |
| Less: allowance for bad debts | - | (35) |
| Net | <u>\$ -</u> | <u>36</u> |

For the movement in the allowance for overdue receivables during the year ended December 31, 2019 and 2018, please refer to note (6)(g).

(Continued)

(j) Property and equipment, net

The cost, depreciation, and impairment of the property and equipment of the Company were as follows:

| | Land | Buildings | Machinery equipment | Transportation equipment | Miscellaneous equipment | Leasehold improvements | Total |
|--|-------------------|------------------|------------------------|-----------------------------|----------------------------|---------------------------|------------------|
| Cost: | | | | | | | |
| Balance at January 1, 2019 | \$ 815,829 | 633,217 | 149,371 | 35,180 | 210,443 | 95,941 | 1,939,981 |
| Additions | - | - | 9,954 | 2,713 | 4,826 | 815 | 18,308 |
| Disposals | - | - | (4,584) | (2,445) | (3,528) | - | (10,557) |
| Reclassification | - | (3,796) | - | - | - | - | (3,796) |
| Balance at December 31, 2019 | <u>\$ 815,829</u> | <u>629,421</u> | <u>154,741</u> | <u>35,448</u> | <u>211,741</u> | <u>96,756</u> | <u>1,943,936</u> |
| Balance at January 1, 2018 | \$ 828,818 | 636,693 | 133,201 | 34,347 | 206,867 | 95,831 | 1,935,757 |
| Additions | - | - | 18,963 | 2,535 | 12,216 | 110 | 33,824 |
| Disposals | - | - | (2,793) | (1,702) | (8,640) | - | (13,135) |
| Reclassification | (12,989) | (3,476) | - | - | - | - | (16,465) |
| Balance at December 31, 2018 | <u>\$ 815,829</u> | <u>633,217</u> | <u>149,371</u> | <u>35,180</u> | <u>210,443</u> | <u>95,941</u> | <u>1,939,981</u> |
| Depreciation and impairment losses: | | | | | | | |
| Balance at January 1, 2019 | \$ - | (285,237) | (100,803) | (17,176) | (167,828) | (57,457) | (628,501) |
| Depreciation for the period | - | (12,150) | (13,888) | (3,659) | (9,682) | (9,053) | (48,432) |
| Disposals | - | - | 4,572 | 1,772 | 3,528 | - | 9,872 |
| Reclassification | - | 1,745 | - | - | - | - | 1,745 |
| Balance at December 31, 2019 | <u>\$ -</u> | <u>(295,642)</u> | <u>(110,119)</u> | <u>(19,063)</u> | <u>(173,982)</u> | <u>(66,510)</u> | <u>(665,316)</u> |
| Balance at January 1, 2018 | \$ - | (275,860) | (90,037) | (15,005) | (167,542) | (48,062) | (596,506) |
| Depreciation for the period | - | (12,182) | (13,450) | (3,583) | (8,926) | (9,395) | (47,536) |
| Disposals | - | - | 2,684 | 1,412 | 8,640 | - | 12,736 |
| Reclassification | - | 2,805 | - | - | - | - | 2,805 |
| Balance at December 31, 2018 | <u>\$ -</u> | <u>(285,237)</u> | <u>(100,803)</u> | <u>(17,176)</u> | <u>(167,828)</u> | <u>(57,457)</u> | <u>(628,501)</u> |
| Carrying amounts: | | | | | | | |
| Balance at December 31, 2019 | <u>\$ 815,829</u> | <u>333,779</u> | <u>44,622</u> | <u>16,385</u> | <u>37,759</u> | <u>30,246</u> | <u>1,278,620</u> |
| Balance at January 1, 2018 | <u>\$ 828,818</u> | <u>360,833</u> | <u>43,164</u> | <u>19,342</u> | <u>39,325</u> | <u>47,769</u> | <u>1,339,251</u> |
| Balance at December 31, 2018 | <u>\$ 815,829</u> | <u>347,980</u> | <u>48,568</u> | <u>18,004</u> | <u>42,615</u> | <u>38,484</u> | <u>1,311,480</u> |

No property and equipment was pledged as collateral.

(Continued)

6 Financial Status

(k) Right-of-use assets

The Company leases many assets including land and buildings, transportation equipment and ATM Placement. Information about leases for which the Company as a lessee was presented below :

| | Land | Buildings | Transportation equipment | Superficies | Total |
|--|----------------|-----------------|--------------------------|----------------|-----------------|
| Cost: | | | | | |
| Balance at January 1, 2019 | \$ 18 | 140,593 | 2,337 | 3,550 | 146,498 |
| Additions | 106 | 48,582 | - | - | 48,688 |
| Disposal | (18) | (6,893) | - | - | (6,911) |
| Balance at December 31, 2019 | <u>\$ 106</u> | <u>182,282</u> | <u>2,337</u> | <u>3,550</u> | <u>188,275</u> |
| Accumulated depreciation and impairment losses: | | | | | |
| Balance at January 1, 2019 | \$ - | - | - | - | - |
| Depreciation for the year | (54) | (49,583) | (1,402) | (1,128) | (52,167) |
| Disposal | 18 | 6,893 | - | - | 6,911 |
| Balance at December 31, 2019 | <u>\$ (36)</u> | <u>(42,690)</u> | <u>(1,402)</u> | <u>(1,128)</u> | <u>(45,256)</u> |
| Carrying amount: | | | | | |
| Balance at December 31, 2019 | <u>\$ 70</u> | <u>139,592</u> | <u>935</u> | <u>2,422</u> | <u>143,019</u> |

The Company leases offices, transportation equipment and ATM placement under an operating lease, please refer to note 6 (aj).

(l) Investment property, net

Investment property comprises office buildings that are leased to third parties under operating leases, including properties that are held as right-of-use assets, as well as properties that are owned by the Company. The leases of investment properties contain an initial non-cancellable lease term of three to eight years, the rental income is fixed under the contracts.

| | Land | Buildings | Total |
|--|---------------------|-----------------|------------------|
| Cost: | | | |
| Balance at January 1, 2019 | \$ 1,106,520 | 65,481 | 1,172,001 |
| Reclassify from PPE | - | 3,796 | 3,796 |
| Balance at December 31, 2019 | <u>\$ 1,106,520</u> | <u>69,277</u> | <u>1,175,797</u> |
| Balance at January 1, 2018 | \$ 1,093,531 | 62,005 | 1,155,536 |
| Reclassify from PPE | 12,989 | 3,476 | 16,465 |
| Balance at December 31, 2018 | <u>\$ 1,106,520</u> | <u>65,481</u> | <u>1,172,001</u> |
| Depreciation and impairment losses: | | | |
| Balance at January 1, 2019 | \$ (131,095) | (36,605) | (167,700) |
| Depreciation for the period | - | (1,123) | (1,123) |
| Reclassify from PPE | - | (1,745) | (1,745) |
| Reversal of impairment loss | 129,330 | - | 129,330 |
| Balance at December 31, 2019 | <u>\$ (1,765)</u> | <u>(39,473)</u> | <u>(41,238)</u> |
| Balance at January 1, 2018 | \$ (131,095) | (32,708) | (163,803) |
| Depreciation for the period | - | (1,092) | (1,092) |
| Reclassify from PPE | - | (2,805) | (2,805) |
| Balance at December 31, 2018 | <u>\$ (131,095)</u> | <u>(36,605)</u> | <u>(167,700)</u> |
| Carrying amounts: | | | |
| Balance at December 31, 2019 | <u>\$ 1,104,755</u> | <u>29,804</u> | <u>1,134,559</u> |
| Balance at January 1, 2018 | <u>\$ 962,436</u> | <u>29,297</u> | <u>991,733</u> |
| Balance at December 31, 2018 | <u>\$ 975,425</u> | <u>28,876</u> | <u>1,004,301</u> |

(Continued)

Investment property comprises a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of one to five years. Subsequent renewals are negotiated with the lessee. No contingent rents are charged.

The fair value of investment property (as disclosed in the financial statements) is based on a valuation by an internal or independent external valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The fair value of investment property as of December 31, 2019 and 2018 are \$1,297,151 thousand and \$1,226,485 thousand, respectively.

Based on the results of the Company's assessment, a \$129,330 thousand reversal gain of impairment loss on investment property is recognized for the year ended December 31, 2019.

Related rent revenue and direct operating expenses are as below:

| | 2019 | 2018 |
|---------------------------|-----------|--------|
| Rent revenue | \$ 20,574 | 20,235 |
| Direct operating expenses | \$ 1,123 | 1,092 |

No investment property was pledged as collateral.

(m) Intangible assets

The costs of intangible assets, amortization, and the impairment loss of the Company as of and for the years ended December 31, 2019 and 2018, were as follows:

| | Goodwill | Software | Total |
|------------------------------|-------------------|---------------|----------------|
| Cost: | | | |
| Balance at January 1, 2019 | \$ 154,027 | 20,984 | 175,011 |
| Additions | - | 162 | 162 |
| Decreases | - | (3,012) | (3,012) |
| Balance at December 31, 2019 | <u>\$ 154,027</u> | <u>18,134</u> | <u>172,161</u> |
| Balance at January 1, 2018 | \$ 154,027 | 22,851 | 176,878 |
| Additions | - | 5,884 | 5,884 |
| Decreases | - | (7,751) | (7,751) |
| Balance at December 31, 2018 | <u>\$ 154,027</u> | <u>20,984</u> | <u>175,011</u> |
| Amortization: | | | |
| Balance at January 1, 2019 | \$ 51,738 | 8,706 | 60,444 |
| Amortization for the period | - | 2,999 | 2,999 |
| Decreases | - | (3,012) | (3,012) |
| Balance at December 31, 2019 | <u>\$ 51,738</u> | <u>8,693</u> | <u>60,431</u> |
| Balance at January 1, 2018 | \$ 51,738 | 13,745 | 65,483 |
| Amortization for the period | - | 2,712 | 2,712 |
| Decreases | - | (7,751) | (7,751) |
| Balance at December 31, 2018 | <u>\$ 51,738</u> | <u>8,706</u> | <u>60,444</u> |
| Carrying amounts: | | | |
| Balance at December 31, 2019 | <u>\$ 102,289</u> | <u>9,441</u> | <u>111,730</u> |
| Balance at January 1, 2018 | <u>\$ 102,289</u> | <u>9,106</u> | <u>111,395</u> |
| Balance at December 31, 2018 | <u>\$ 102,289</u> | <u>12,278</u> | <u>114,567</u> |

Goodwill represents the excess of consideration over the net fair value of acquired tangible assets, identifiable intangible assets and liabilities in the acquisition of Fengyuan Credit Cooperative on January 1, 2006.

(Continued)

Financial Status

Fengyuan Credit Cooperative's original business and goodwill are identified as one cash-generating unit (CGU) in impairment test. The recoverable value of the CGU is based on the key assumptions such as operating revenues, operating costs, operating expenses and discount rate.

The Company's goodwill has been tested for impairment, where the recoverable amount is determined based on the value in use. The accumulated goodwill impairment loss amounted to \$51,738 thousand.

No intangible assets were pledged as collateral.

(n) Due to the Central Bank and other banks

| | December 31, 2019 | December 31, 2018 |
|--------------------------|----------------------|----------------------|
| Postal deposits accepted | \$ 25,670 | 64,470 |
| Call loans to banks | 13,531 | - |
| | \$ 39,201 | 64,470 |

(o) Payables

| | December 31, 2019 | December 31, 2018 |
|----------------------|----------------------|----------------------|
| Interest payable | \$ 137,137 | 141,505 |
| Tax payable | 31,742 | 32,414 |
| Collections payable | 47,886 | 39,554 |
| Accrued expenses | 359,285 | 353,600 |
| Checks for clearance | 172,301 | 164,917 |
| Others | 58,817 | 58,213 |
| | \$ 807,168 | 790,203 |

(p) Deposits and remittances

| | December 31, 2019 | December 31, 2018 |
|-------------------------|-----------------------|----------------------|
| Checking accounts | \$ 1,898,444 | 2,117,753 |
| Cashiers' checks | 369,745 | 209,847 |
| Demand deposits | 22,112,409 | 21,345,928 |
| Time deposits | 32,958,825 | 31,945,912 |
| Demand savings deposits | 40,326,755 | 39,077,792 |
| Term savings deposits | 56,080,486 | 54,905,862 |
| Remittances outstanding | 3,919 | 9 |
| | \$ 153,750,583 | 149,603,103 |

(q) Subordinate financial debentures

| | December 31, 2019 | December 31, 2018 |
|-----------------------------------|----------------------|----------------------|
| Subordinate financial debentures: | | |
| 107-2 | \$ 600,000 | 600,000 |
| 107-1 | 600,000 | 600,000 |
| 105-1 | 1,800,000 | 1,800,000 |
| | \$ 3,000,000 | 3,000,000 |

(Continued)

- (i) In order to increase the capital adequacy and raise medium-term and long-term operating funds, the Board of Directors of the Company resolved to issue subordinate financial debentures in a total amount of \$600,000 thousand on November 9, 2017, which was approved by the regulation authorities on August 31, 2018. The Company issued these debentures on December 12, 2018, and the subscription was completed during the year.

The details were as follows:

- 1) Issue price: At face value.
- 2) Issue period: From December 12, 2018 to December 12, 2025.
- 3) Interest rate: For 107-2A, 1.95%.
- 4) Interest accrual: Annually accrued and paid since the issued date.
- 5) Repayment of principal: Outright repayment of principal at maturity.

- (ii) In order to increase the capital adequacy and raise medium-term and long-term operating funds, the Board of Directors of the Company resolved to issue subordinate financial debentures in a total amount of \$600,000 thousand on November 9, 2017, which was approved by the regulation authorities on March 5, 2018. The Company issued these debentures on June 21, 2018, and the subscription was completed during the year.

The details were as follows:

- 1) Issue price: At face value.
- 2) Issue period: From June 21, 2018 to Null.
- 3) Interest rate: For 107-1A, 3.06%, based on the Company's term deposits regular rate plus 1.65%.
- 4) Interest accrual: Annually accrued and paid since the issued date.
- 5) Repayment of principal: After the expiration of 5 years after the issuance of this bond, if the ratio of the Company's own capital to the risky assets after the redemption is calculated meets the minimum ratio requirements set by the competent authority, the Company may redeem it with the consent of the competent authority; Announcement on the 30th day of the redemption date, the interest payable plus the denomination, and all redemption.

- (iii) In order to increase the capital adequacy and raise medium-term and long-term operating funds, the Board of Directors of the Company resolved to issue subordinate financial debentures in a total amount of \$1,800,000 thousand on June 23, 2016, which was approved by the regulation authorities on September 5, 2016. The Company issued these debentures on November 16, 2016, and the subscription was completed during the year.

The details were as follows:

- 1) Issue price: At face value.
- 2) Issue period: From November 16, 2016 to November 16, 2023.
- 3) Interest rate: For 105-1A, 2.1%.
- 4) Interest accrual: Annually accrued and paid since the issued date.
- 5) Repayment of principal: Outright repayment of principal at maturity.

(r) Provisions

| | December 31, 2019 | December 31, 2018 |
|----------------------------------|----------------------|----------------------|
| Provisions for guarantees | \$ 39,505 | 39,511 |
| Provisions of loan commitments | 29,500 | 23,500 |
| Provisions for other | 5,000 | 5,000 |
| Provisions for employee benefits | 62,364 | 187,276 |
| Provisions for other operations | 38,712 | - |
| | \$ 175,081 | 255,287 |

(Continued)

6 Financial Status

Provisions were as follows:

| | January 1, 2019 | Current increase | Current decrease | Exchange rate differences | December 31, 2019 |
|--|--------------------|---------------------|---------------------|------------------------------|----------------------|
| Provisions for guarantees | \$ 39,511 | - | - | (6) | 39,505 |
| Provisions of loan commitments | 23,500 | 6,000 | - | - | 29,500 |
| Provisions for other | 5,000 | - | - | - | 5,000 |
| Provisions for other operation (Note 9(b)) | - | 38,712 | - | - | 38,712 |

| | January 1, 2018 | IFRS 9 adjustment | Current increase | Current decrease | Exchange rate differences | December 31, 2018 |
|--------------------------------|--------------------|----------------------|---------------------|---------------------|------------------------------|----------------------|
| Provisions for guarantees | \$ 39,502 | - | - | - | 9 | 39,511 |
| Provisions of loan commitments | - | 23,000 | 500 | - | - | 23,500 |
| Provisions for other | - | - | 5,000 | - | - | 5,000 |

Provisions for employee benefits please refer to Note 6 (t).

(s) Lease Liabilities

The Company's lease liabilities was as follows:

| | December 31, 2019 | | |
|----------------------------|----------------------------------|--------------|---|
| | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than one year | \$ 45,171 | 2,575 | 42,596 |
| Between one and five years | 104,361 | 3,151 | 101,210 |
| More than five years | 1,020 | 4 | 1,016 |
| | \$ 150,552 | 5,730 | 144,822 |

For the maturity analyses, please refer to note 6 (ai).

The amounts recognized in profit or loss was as follows:

| | 2019 |
|---|-----------|
| Interest on lease liabilities | \$ 3,1140 |
| Expenses relating to leases of low-value assets | \$ 5,375 |

The amounts recognized in the statement of cash flows for the Company was as follows:

| | 2019 |
|---|-----------|
| Total cash outflow for leases (Including payment of lease liabilities, interest paid, and the amounts recognized above in profit or loss) | \$ 58,853 |

(i) Real estate leases

As of December 31, 2019, the Company leases land and buildings for its office space. The leases of office space typically run for five to seven years.

(ii) Other leases

The Company leases vehicles and equipment, with lease terms of three years. The leases term of superficies right is five years, and some cases are lease liabilities for leases of low-value assets. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

(Continued)

(t) Employee benefits

| | December 31, 2019 | December 31, 2018 |
|------------------------------------|----------------------|----------------------|
| Defined benefit plans | \$ (16,456) | 125,373 |
| Employee Promotions Deposits plans | 62,364 | 61,903 |
| | \$ 45,908 | 187,276 |

(i) Defined benefit plans:

The reconciliation in the present value of defined benefit obligations and fair value of plan assets as follows:

| | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Total present value of obligations | \$ 1,059,605 | 1,060,099 |
| Fair value of plan assets | (1,076,061) | (934,726) |
| Recognized liabilities (assets) for defined benefit obligations | \$ (16,456) | 125,373 |

The Company makes defined benefit plan contributions to the pension fund account in the Bank of Taiwan. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on the years of service and the average monthly salary for six months prior to retirement.

1) Composition of plan assets

The Company's employee retirement benefits are based on the policy of the labor dismissal and the implementation rules of the labor pension. The actual retirement pension entitlement of employees is calculated by applying the above two methods in stages according to their periods of service, and the payment base is determined according to the number of years in service, and the amount is determined by the hourly retirement salary.

According to the Labor Standards Law, the Company provides labor retirement reserves to 15% of the total monthly salary of employees (except for appointed managers) to the pension fund account in the Bank of Taiwan to meet the needs of employee pensions. In addition, to support the pension of the appointed managers, a special bank account is set up, which is paid monthly based on 8% of the total salary of the appointed managers.

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$1,076,061 thousand as of December 31, 2019. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Change in present value of defined benefit obligations

The change in present value of defined benefit obligations were as follows:

| | 2019 | 2018 |
|---|---------------------|------------------|
| Defined benefit obligation at January 1 | \$ 1,060,099 | 1,034,706 |
| Current service costs and interest | 31,721 | 34,049 |
| Actuarial (losses) gains | (11,401) | 21,492 |
| Benefits paid by the plan assets | (20,814) | (30,148) |
| Defined benefit obligation at December 31 | \$ 1,059,605 | 1,060,099 |

(Continued)



Financial Status

3) Change in fair value of defined benefit plan assets

The change in the fair value of defined benefit plan assets were as follows:

| | 2019 | 2018 |
|---|---------------------|----------------|
| Fair value of plan assets at January 1 | \$ 934,726 | 874,971 |
| Interest income | 10,564 | 12,130 |
| Remeasurements loss (gain): | 31,745 | 22,968 |
| - Return on plan assets excluding interest income | | |
| Benefits paid by the plan assets | 119,840 | 52,925 |
| Contributions made | (20,814) | (28,268) |
| Fair value of plan assets at December 31 | <u>\$ 1,076,061</u> | <u>934,726</u> |

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss were as follows:

| | 2019 | 2018 |
|---|------------------|---------------|
| Current service costs | \$ 20,041 | 20,080 |
| Net Interest on the defined benefit liability (asset) | 1,116 | 1,839 |
| | <u>\$ 21,157</u> | <u>21,919</u> |
| Administrative expenses | <u>\$ 21,157</u> | <u>21,919</u> |
| Actual return on assets | <u>\$ 42,309</u> | <u>35,098</u> |

5) Actuarial gains and losses recognized in other comprehensive income

The Company's actuarial gains and losses recognized in other comprehensive income were as follows:

| | 2019 | 2018 |
|----------------------------------|------------------|----------------|
| Cumulative amount at January 1 | \$ 123,222 | 124,698 |
| Recognized during the period | (43,145) | (1,476) |
| Cumulative amount at December 31 | <u>\$ 80,077</u> | <u>123,222</u> |

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follow:

| | December 31, 2019 | December 31, 2018 |
|-------------------------|----------------------|----------------------|
| Discount rate | 1.000% | 1.125% |
| Future salary increases | 1.500% | 1.75% |

Actuarial assumptions in deciding cost of defined benefit plans:

| | 2019 | 2018 |
|-------------------------|--------|--------|
| Discount rate | 1.125% | 1.375% |
| Future salary increases | 1.75% | 2.00% |

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is \$119,840 thousand.

The weighted average duration of the defined benefit plan is 13.15 years.

(Continued)

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on present value of defined benefit obligation shall be as follows:

| | Influences of defined benefit obligations | |
|-------------------------|--|-----------------------|
| | Increase 0.25% | Decrease 0.25% |
| December 31, 2019 | | |
| Discount rate | (23,734) | 24,561 |
| Future salary increases | 23,615 | (22,942) |

| | Influences of defined benefit obligations | |
|-------------------------|--|-----------------------|
| | Increase 0.25% | Decrease 0.25% |
| December 31, 2018 | | |
| Discount rate | (25,660) | 26,605 |
| Future salary increases | 25,591 | (24,816) |

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Employee Promotions Deposits plans

The Company was obligated to pay present employees and retired employees fixed preferential interest rate for their deposits in conformity with "Rules Employee Preferential Deposit for Retired Employees for COTA commercial Bank". If the Company's preferential deposit interest rate for an employee as stated in the employment contract exceeds the market interest rate, the excess will be subject to IAS 19 "Employee Benefits" upon the employees' retirement.

| | December 31, 2019 | December 31, 2018 |
|---|------------------------------|------------------------------|
| Present value of defined benefit obligation | \$ 62,364 | 61,903 |

1) Expenses recognized in profit or loss

As of December 31, 2019 and 2018, the Company's expenses recognized in profit or loss were \$12,479 thousand and \$13,851 thousand, respectively.

2) Actuarial assumptions

| | 2019 | 2018 |
|--|-------------|-------------|
| Discount rate | 4.00% | 4.00% |
| Interest rate of employee promotions deposits plans | 8.87% | 8.87% |
| Return on funds deposited | 2.00% | 2.00% |
| Account balance annual decline rate | 1.00% | 1.00% |
| Chance of future changes in the system of employee promotions deposits plans | 50.00% | 50.00% |

3) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

(Continued)



Financial Status

The pension costs incurred from the contributions to the Bureau of Labor Insurance amounted to 27,404 thousand and 26,418 thousand for the years ended December 31, 2019 and 2018, respectively.

(u) Income tax

(i) The components of income tax in the years 2019 and 2018 were as follows:

| | 2019 | 2018 |
|--|-------------------|----------------|
| Current tax expense | | |
| Current | \$ 127,583 | 141,045 |
| Adjustment for prior periods | - | 452 |
| | <u>127,583</u> | <u>141,497</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 12,823 | 35,954 |
| Tax rate change | - | (31,525) |
| | <u>12,823</u> | <u>4,429</u> |
| Income tax expense excluding tax on sale of discontinued operation | <u>\$ 140,406</u> | <u>145,926</u> |

The amount of income tax recognized in other comprehensive income for 2019 and 2018 was follows:

| | 2019 | 2018 |
|---|-----------------|------------|
| Items that will not be reclassified subsequently to profit or loss: | | |
| Re-measurement from defined benefit plans | <u>\$ 8,629</u> | <u>295</u> |

Reconciliation of income tax and profit before tax for 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|-------------------|----------------|
| Profit excluding income tax | \$ 889,032 | 899,537 |
| Income tax using the Company's domestic tax rate | 177,806 | 179,907 |
| Adjustment in tax rate | - | (31,525) |
| Tax effect of tax-exempt gains from sale of marketable securities | (2,855) | 3,679 |
| Changes in unrecognized temporary differences | (5,000) | (2,000) |
| Other adjustments | (29,545) | (4,757) |
| Income tax underestimates in prior year | - | 452 |
| Undistributed earnings additional tax at 5% | - | 170 |
| | <u>\$ 140,406</u> | <u>145,926</u> |

(ii) Deferred tax asset and liability

1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Tax effect of deductible temporary differences | <u>\$ 30,000</u> | <u>35,000</u> |

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2019 and 2018 were as follows:

(Continued)

| | Defined benefit plans | Fair value losses | Allowance of impairment loss | Other | Total |
|--|-----------------------|-------------------|------------------------------|---------------|----------------|
| Deferred tax assets: | | | | | |
| Balance at January 1, 2019 | \$ 37,468 | 25,732 | 83,058 | 19,283 | 165,541 |
| Recognized in profit or loss | (19,349) | 1,555 | (11,419) | 10,601 | (18,612) |
| Recognized in other comprehensive income | (8,629) | - | - | - | (8,629) |
| Balance at December 31, 2019 | <u>\$ 9,490</u> | <u>27,287</u> | <u>71,639</u> | <u>29,884</u> | <u>138,300</u> |
| Balance at January 1, 2018 | \$ 36,456 | 29,220 | 87,031 | 9,961 | 162,668 |
| Recognized in profit or loss | 1,307 | (3,488) | (3,973) | 9,322 | 3,168 |
| Recognized in other comprehensive income | (295) | - | - | - | (295) |
| Balance at December 31, 2018 | <u>\$ 37,468</u> | <u>25,732</u> | <u>83,058</u> | <u>19,283</u> | <u>165,541</u> |

| | Accrued land value increment tax | Fair value losses | Other | Total |
|----------------------------------|----------------------------------|-------------------|---------------|----------------|
| Deferred tax liabilities: | | | | |
| Balance at January 1, 2019 | \$ 83,799 | 4,425 | 30,015 | 118,239 |
| Recognized in profit or loss | - | (4,425) | (1,364) | (5,789) |
| Balance at December 31, 2019 | <u>\$ 83,799</u> | <u>-</u> | <u>28,651</u> | <u>112,450</u> |
| Balance at January 1, 2018 | \$ 83,799 | - | 26,843 | 110,642 |
| Recognized in profit or loss | - | 4,425 | 3,172 | 7,597 |
| Balance at December 31, 2018 | <u>\$ 83,799</u> | <u>4,425</u> | <u>30,015</u> | <u>118,239</u> |

3) Examination and approval

The Company's tax returns for the years through 2017 were examined and approved by the Tax Authorities.

(v) Share capital and other equity accounts

As of December 31, 2019, and 2018, the Company's authorized capital consisted of 10,000,000 thousand shares and issued shares worth \$8,406,376 thousand and \$8,083,054 thousand, respectively, with par value of \$10 per share.

Outstanding shares reconciliation as below:

| | Common Stock | |
|------------------------|----------------|----------------|
| (thousand shares) | 2019 | 2018 |
| Balance at January 1 | 808,305 | 762,552 |
| Common stock dividend | 32,332 | 45,753 |
| Balance at December 31 | <u>840,637</u> | <u>808,305</u> |

(i) Share capital

It was resolved in the stockholders' meeting on June 22, 2018 to increase capital through a capitalization of retained earnings amounting to \$457,531 thousand. This had been registered and approved by the government authorities on July 27, 2018.

(Continued)

6 Financial Status

It was resolved in the stockholders' meeting on June 14, 2019 to increase capital through a capitalization of retained earnings amounting to \$323,322 thousand. This had been registered and approved by the government authorities on July 26, 2019.

(ii) Capital reserve

The components of capital reserve were as follows:

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Statutory reserve and special reserve transferred in | \$ 742,056 | 742,056 |
| Additional Paid-in Capital | 167,738 | 167,738 |
| Others | 215 | 200 |
| Dividends not received overtime by shareholders | 2,004 | 1,166 |
| | \$ 912,013 | 911,160 |

In accordance with the ROC Company Law, capital reserve is exclusively used for offsetting prior losses and conversion to capital and cannot be distributed as cash dividends. According to the ROC Company Law and relevant securities exchange regulations, a capital increase using capital reserve has to be reserves arisen from issuing stock or donated assets received and cannot exceed 10% of a Company's paid-in capital in any year. Capital reserve arisen from long-term equity investments cannot be used to offset prior losses or converted to capital.

(iii) Retained earnings

The Company's article of incorporation stipulates that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 30% is to be appropriated as legal reserve but the legal reserve has reached its total capital, or the financial business is sound and raise the legal reserve who under the ROC Bank Act, Have unrestricted preceding paragraph; And the operation needs of the Company with the Act provides for the extension or rotation of the special reserve, If there are reserve, together with the unallocated surplus at the beginning of the period, Drafted by the Board of Directors for distribution of profits brought to the shareholders' meeting dispatch shareholders dividends.

According to the Banking Law, cash dividends are limited to 15% of total capital until the balance of statutory reserve reaches the amount of capital.

Except as otherwise provided by law, cash dividend shall not be lower than 10% of the total dividend distributed. If the cash dividend distributed per share is lower than \$0.1, expect for otherwise resolved by the shareholder's meeting, it is not distributed.

1) Legal reserve

Under the ROC Bank Act, the Company must retain 10% of its earnings as legal reserve until such retention equals the amount of the total capital. According to the amendment of the ROC Bank Act as of January 2012, legal reserve is limited to the extent of 25% of the share capital. In addition, under the ROC Bank Act, the Bank shall retain 30% of its after-tax earnings as the legal reserve before distributing them. Before the amount of legal reserves reaches the amount of the total capital, the maximum amount of distributing earnings in cash shall not exceed 15% of the total capital. The restriction is not applied if the amount of legal reserves equals the amount of the total capital, or if the Bank is in a sound financial condition and when it complies the ROC Bank Act.

2) Special reserve

In accordance with permit NO.10510001510 as issued by the Financial Supervisory Commission, the Company shall retain 0.5% to 1% of its after-tax earnings as the special reserve before distributing the earning for 2016 to 2018. The special reserve from this as of December 31, 2019 and 2018 were \$11,929 thousand and \$8,161 thousand, respectively.

(Continued)

3) Appropriation of earnings

Earning distribution for 2018 and 2017 was decided via the general meeting of shareholders held on June 14, 2019 and June 22, 2018, respectively. The details were as follows:

| | 2018 | | 2017 | |
|--|------------------|-------------------|------------------|----------------|
| | Amount per share | Total amount | Amount per share | Total amount |
| Dividends distributed to ordinary shareholders | | | | |
| Cash | \$ 0.25 | 202,076 | 0.25 | 190,638 |
| Shares | 0.40 | 323,322 | 0.60 | 457,531 |
| Total | | <u>\$ 525,398</u> | | <u>648,169</u> |

4) Other equity accounts

| | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Unrealized gains (losses) on available-for-sale financial assets | Total |
|---|---|---|--|---------------|
| Balance, January1, 2019 | \$ 655 | 9,550 | | 10,205 |
| Unrealized gains on financial assets, measured at fair value through other comprehensive income | - | 36,597 | - | 36,597 |
| Foreign currency translation differences (net of tax): | (1,804) | - | - | (1,804) |
| Balance, December 31, 2019 | <u>\$ (1,149)</u> | <u>46,147</u> | <u>-</u> | <u>44,998</u> |
| Balance, January1, 2018 | \$ (217) | - | 23,208 | 22,991 |
| Retroactive application of new criteria | - | 28,665 | (23,208) | 5,457 |
| Adjusted balance on January 1, 2018 | (217) | 28,665 | - | 28,448 |
| Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | - | (19,115) | - | (19,115) |
| Foreign currency translation differences (net of tax): | 872 | - | - | 872 |
| Balance, December 31, 2018 | <u>\$ 655</u> | <u>9,550</u> | <u>-</u> | <u>10,205</u> |

(Continued)



Financial Status

(w) Earnings per share

The basic and diluted earnings per share for 2019 and 2018 were calculated as follows:

| | 2019 | 2018 |
|---|------------|---------|
| Basic earnings per share: | | |
| Profit of the Company for the year | \$ 748,626 | 753,611 |
| Weighted-average number of ordinary shares at 31 December | 840,637 | 840,637 |
| Basic Earnings per share (in NT dollars) | \$ 0.89 | 0.90 |
| Diluted earnings per share: | | |
| Profit of the Company for the year | \$ 748,626 | 753,611 |
| Weighted-average number of ordinary shares at 31 December | 840,637 | 840,637 |
| Effect of dilutive potential ordinary shares: | | |
| Employee bonuses | 5,271 | 5,581 |
| Weighted-average number of ordinary shares (diluted) at 31 December | 845,908 | 846,218 |
| Diluted earnings per share (in NT dollar) | \$ 0.88 | 0.89 |

(x) Net interest income

| | 2019 | 2018 |
|---|--------------|-----------|
| Interest income | | |
| Discount and loans | \$ 3,076,934 | 3,087,609 |
| Due from banks | 69,847 | 75,542 |
| Short-term bills and bonds | 271,175 | 231,045 |
| Other | 187,338 | 184,712 |
| Sub-total | 3,605,294 | 3,578,908 |
| Interest expense | | |
| Deposit | 985,376 | 937,686 |
| Due to the Central Bank and other banks and call loans to banks | 2,223 | 2,422 |
| Financial bonds | 74,291 | 62,686 |
| Other | 4,708 | 1,179 |
| Sub-total | 1,066,598 | 1,003,973 |
| | \$ 2,538,696 | 2,574,935 |

(y) Service fee income

| | 2019 | 2018 |
|---------------------------------------|------------|---------|
| Service fee income | | |
| Insurance agency service fee | \$ 172,791 | 149,794 |
| Fund service fee | 29,887 | 30,261 |
| Guarantee service fee | 28,164 | 28,113 |
| Consumer financial center service fee | 13,286 | 13,064 |
| Remittance service fee | 12,182 | 11,884 |
| Credit card service fee | 12,793 | 12,859 |
| Other | 27,796 | 26,186 |
| Sub-total | 296,899 | 272,161 |
| Service fee expense | 23,315 | 23,342 |
| | \$ 273,584 | 248,819 |

(Continued)

(z) Gains and losses on financial assets or liabilities measured at fair value through profit or loss

| | 2019 | 2018 |
|---------------------------------|------------------|----------------|
| Disposal gains (losses) | | |
| Convertible bonds | \$ 11,297 | 11,733 |
| Listed and OTC securities | 186 | (5,868) |
| Beneficiary certificates | 2,017 | (3,946) |
| Subtotal | 13,500 | 1,919 |
| Valuation gains (losses) | | |
| Convertible bonds | - | (467) |
| Listed and OTC securities | 1,192 | (557) |
| Short-term bills | 1,334 | 181 |
| Beneficiary certificates | 5,005 | (3,404) |
| Derivative | 4,542 | (4,331) |
| Subtotal | 12,073 | (8,578) |
| Dividend and interest income | 22,741 | 3,434 |
| | \$ 48,314 | (3,225) |

(aa) Realized gains and losses on financial assets measured at fair value through other comprehensive income.

| | 2019 | 2018 |
|-----------------|-----------------|--------------|
| Dividend income | \$ 5,358 | 6,212 |

(ab) Asset impairment (loss) revolving interest

| | 2019 | 2018 |
|---|-------------------|--------------|
| Investment property | \$ 129,330 | - |
| Financial assets at fair value through other comprehensive income | (1,303) | (1,040) |
| Financial assets at amortized cost | (935) | 160 |
| | \$ 127,092 | (880) |

(ac) Other net non-interest income, net

| | 2019 | 2018 |
|---|--------------------|---------------|
| Rental income | \$ 20,574 | 20,235 |
| Net gains on disposal of premises and equipment | 285 | 131 |
| Other operating reserves | (38,712) | - |
| Other revenues-net | 2,436 | 1,551 |
| | \$ (15,417) | 21,917 |

(ad) Bad debt expenses and provision for guarantee reserve

| | 2019 | 2018 |
|---------------------------|-------------------|---------------|
| Discounts and loans | \$ 152,339 | 82,272 |
| Receivables | 1,342 | 370 |
| Finance committed reserve | 6,000 | 500 |
| Other reserve | - | 5,000 |
| | \$ 159,681 | 88,142 |

(Continued)

Financial Status

(ae) Employee compensation and directors' and supervisors' remuneration

In accordance with the Articles of incorporation, the Company should contribute no less than 6% of the profit as employee compensation and less than 2% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the Board of Directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

For the year ended December 31, 2019 and 2018, the Company estimated its employee remuneration amounting to \$57,980 thousand and \$58,665 thousand, and directors' and supervisors' remuneration amounting to \$19,327 thousand and \$19,555 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating expenses during 2019 and 2018. The amounts, as stated in the financial statements, are identical to those of the actual distributions for 2019 and 2018.

(af) Employee benefits expenses

| | 2019 | 2018 |
|---------------------------|---------------------|------------------|
| Salary expenses | \$ 1,068,890 | 1,062,047 |
| Insurance expenses | 83,167 | 80,519 |
| Retirement expenses | 48,561 | 48,337 |
| Remuneration of directors | 34,993 | 35,527 |
| Other employee benefits | 98,269 | 95,556 |
| | <u>\$ 1,333,880</u> | <u>1,321,986</u> |

(ag) Depreciation and amortization expenses

| | 2019 | 2018 |
|--|-------------------|---------------|
| Depreciation of property and equipment | \$ 48,432 | 47,536 |
| Depreciation of right-of-use assets | 52,167 | - |
| Depreciation of investment property | 1,123 | 1,092 |
| Amortization of intangible assets | 2,999 | 2,712 |
| | <u>\$ 104,721</u> | <u>51,340</u> |

(ah) Other general and administrative expenses

| | 2019 | 2018 |
|-----------------------------------|-------------------|----------------|
| Taxes and fees | \$ 210,742 | 211,409 |
| Insurance expense | 45,349 | 52,380 |
| Rental expense | 5,376 | 58,148 |
| Occupational group membership fee | 41,269 | 19,207 |
| Advertising and printing expense | 27,260 | 28,459 |
| Security fees | 21,899 | 21,525 |
| Other | 130,411 | 141,056 |
| | <u>\$ 482,306</u> | <u>532,184</u> |

(Continued)

(ai) Financial instruments

(i) Fair value Measurement

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 measured at fair value on initial recognition, which, in most cases, refers to the entry price. Subsequent valuation is based on the fair value basis except for financial instruments measured at amortized cost. The optimal evidence in deciding fair value is the exit price of an active market. Considering those financial instruments without an active market, the Company adopts the valuation techniques, or the references of the exit price offered by Bloomberg, Reuters and counterparties in fair value valuation.

2) Definition of three - level fair value hierarchy

a) Level 1

Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. The definition of active market has all of the following conditions: the products traded in the market are homogeneous, willing parties are available anytime in the market, and price information is available for the public. The Company's investments in listed and TPEX securities, beneficiary certificates, popular Taiwan central government bonds, and derivative financial instruments which had the quoted price in an active market, are classified to Level 1.

b) Level 2

Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than quoted price in an active market including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The Company's investments in government bonds not in popular demand, corporate bonds, financial debentures, convertible bonds, and majority derivative instruments, are classified to Level 2.

c) Level 3

Input for a fair value measurement for a financial instrument classified in Level 3 is not based on obtainable data from the market (an unobservable input, such as volatility for a share option derived from the share's historical prices, as it does not generally represent current market expectations about future volatility). The equity instruments with no active market which the Company invested are Level 3.

3) Fair value hierarchy

a) The table below analyses recurring financial instruments carried at fair value

| Fair value measurement for financial instruments | December 31, 2019 | | | |
|---|-------------------|-----------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Non-derivative financial instruments | | | | |
| Assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Investment in stocks | \$ 50,704 | 50,704 | - | - |
| Investment in bonds | 699,968 | - | 699,968 | - |
| Short-term bills | 4,020,631 | 4,020,631 | - | - |
| Others | 60,894 | 60,894 | - | - |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in stocks | 133,237 | - | - | 133,237 |
| Investment in bonds | 8,944,586 | 8,944,586 | - | - |

(Continued)



Financial Status

| December 31, 2019 | | | | |
|--|--------------|----------------|----------------|----------------|
| <u>Fair value measurement for financial instruments</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>Derivative financial instruments</u> | | | | |
| Assets: | | | | |
| Financial assets at fair value through profit or loss | \$ 6,662 | - | 6,662 | - |
| Liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | 75 | - | 75 | - |
| Financial assets at amortized cost | 19,611,071 | - | 19,611,071 | - |

| December 31, 2018 | | | | |
|---|--------------|----------------|----------------|----------------|
| <u>Fair value measurement for financial instruments</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>Non-derivative financial instruments</u> | | | | |
| Assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Investment in stocks | \$ 34,314 | 34,314 | - | - |
| Investment in bonds | 609,669 | - | 609,669 | - |
| Short-term bills | 767,075 | 767,075 | - | - |
| Others | 57,866 | 57,866 | - | - |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in stocks | 103,012 | - | - | 103,012 |
| Investment in bonds | 7,392,785 | 7,392,785 | - | - |

| December 31, 2018 | | | | |
|--|--------------|----------------|----------------|----------------|
| <u>Fair value measurement for financial instruments</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>Derivative Financial Instruments</u> | | | | |
| Assets: | | | | |
| Financial assets at fair value through profit or loss | \$ 2,404 | - | 2,404 | - |
| Liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | 360 | - | 360 | - |
| Financial assets at amortized cost | 18,116,779 | - | 18,116,779 | - |

b) Valuation techniques of financial assets and liabilities measured by fair value

If there is a quoted price in an active market for non-derivative financial assets and liabilities measured at fair value through profit or loss, financial assets at fair value through other comprehensive income, the quoted price is regarded as its fair value. Financial instruments with public market prices (except for stocks and depositary receipt), such as government bonds, use the latest trade price TPEX Electronic Bond Trading System (EBTS) or reference theory price under as fair value. Foreign currency bonds use the latest trade price as fair value. If no quoted price available, the fair value is estimated using the valuation techniques of which the assumptions and estimates are in conformity with those information (available for the Company) used in pricing the financial instruments. Financial derivative instruments with an active market price use the market value as fair value. When there is no active market price, the valuation model is mainly adopted in evaluation. Derivative instruments - non-option use the discounted cash flow method; Derivative instruments - options mainly use the Black - Scholes Model in evaluation.

(Continued)

c) Fair value adjustment

i) Limitations to Evaluation Models and uncertain inputs

The outputs of evaluation models are estimated, while the model is possibly incapable of reflecting all relevant factors relating to financial instruments held by the Company. In such circumstances, the estimates are hence adjusted according to suitable extra parameters, such as model risk or liquidity risk. The Company's operation process of financial instrument evaluation policy considers the adjustment to evaluation, which is adequate and necessary so as to fairly present the financial instrument's fair value in statement of financial position. In the evaluation process, the pricing information and parameters are deliberately assessed and modulated in light of market situation.

ii) Credit risk valuation adjustment

Credit risk valuation adjustment can be classified into Credit value adjustments and Debit value adjustments. The adjustments reflect the possibility of delayed repayment by the counterparty or the Company in fair value and of failure in transaction's entire market value collected (paid) by the Company.

d) Reconciliation of Level 3 fair values

| | | 2019 | | | | | | |
|--|--|-------------------|-------------------|-------------------------------|---------------------|----------------------|------------------|--------------------------|
| | | profit or loss | | | Increase | | Decrease | |
| account | | Opening balance | In profit or loss | In other comprehensive income | Purchased or issued | Transfers in Level 3 | Sell or Disposal | Transfers out of Level 3 |
| | | | | | | | | Ending Balance |
| Financial assets at fair value other comprehensive income | | <u>\$ 103,012</u> | <u>-</u> | <u>30,225</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>133,237</u> |
| | | 2018 | | | | | | |
| | | profit or loss | | | Increase | | Decrease | |
| account | | Opening balance | In profit or loss | In other comprehensive income | Purchased or issued | Transfers in Level 3 | Sell or Disposal | Transfers out of Level 3 |
| | | | | | | | | Ending Balance |
| Financial assets at fair value other comprehensive income (note) | | <u>\$ 134,392</u> | <u>-</u> | <u>(16,380)</u> | <u>-</u> | <u>-</u> | <u>(15,000)</u> | <u>103,012</u> |

notes: For IAS30 to IFRS9, the amount of \$134,392 thousand was transferred from financial assets at amortized cost.

e) Profit and loss for Level 3

For the years ended December 31, 2019 and 2018, the total gains and losses that were included in unrealized gains and losses from financial assets at fair value through other comprehensive income were as follows:

| | 2019 | 2018 |
|--|------------------|-----------------|
| Recognized as "unrealized gains and losses from financial assets at fair value through other comprehensive income" | <u>\$ 30,225</u> | <u>(16,380)</u> |

(Continued)



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f) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

| 2019 | | | | |
|--|-------------------|----------------------------|--|--|
| | <u>fair value</u> | <u>Valuation technique</u> | <u>Significant unobservable inputs</u> | <u>Inter-relationship between significant unobservable inputs and fair value measurement</u> |
| Financial assets at fair value through other comprehensive income | | | | |
| Stocks unlisted | \$ 133,237 | Market Method | value growth rate | The estimated fair value would increase (decrease) if: |
| | | Net Asset Value | Net Asset Value | <ul style="list-style-type: none"> the value growth rate was higher the Net Asset Value was higher |
| 2018 | | | | |
| | <u>fair value</u> | <u>Valuation technique</u> | <u>Significant unobservable inputs</u> | <u>Inter-relationship between significant unobservable inputs and fair value measurement</u> |
| Financial assets at fair value through other comprehensive income | | | | |
| Stocks unlisted | \$ 103,012 | Market Method | value growth rate | The estimated fair value would increase (decrease) if: |
| | | Net Asset Value | Net Asset Value | <ul style="list-style-type: none"> the value growth rate was higher the Net Asset Value was higher |

g) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions by 5% to reflect reasonably possible alternative assumptions would have the following effects:

i) market method

| Profit or loss | | |
|---|-----------------------|-------------------------|
| | <u>Favorable (5%)</u> | <u>Unfavorable (5%)</u> |
| December 31, 2019 | | |
| financial assets at fair value through other comprehensive income | | |
| Stocks unlisted | \$ 5,755 | (5,755) |
| Profit or loss | | |
| | <u>Favorable (5%)</u> | <u>Unfavorable (5%)</u> |
| December 31, 2018 | | |
| financial assets at fair value through other comprehensive income | | |
| Stocks unlisted | \$ 3,600 | (3,600) |

(Continued)

ii) Net Asset Value

| | Profit or loss | |
|---|----------------|------------------|
| | Favorable (5%) | Unfavorable (5%) |
| December 31, 2019 | | |
| financial assets at fair value through other comprehensive income | | |
| Stocks unlisted | \$ 2,750 | (2,800) |
| | | |
| | Profit or loss | |
| | Favorable (5%) | Unfavorable (5%) |
| December 31, 2018 | | |
| financial assets at fair value through other comprehensive income | | |
| Stocks unlisted | \$ 2,750 | (2,800) |

(ii) Methods and assumptions used by the Company for fair value evaluation of financial instruments were as follows:

- 1) Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since these instruments have short maturities, the book value is adopted as a reasonable basis in estimating the fair value. The method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, securities purchased under reverse repurchase agreements, receivables, other assets, due to the Central Bank and other banks, and payables.
- 2) If there is a quoted price in an active market for the financial asset, including financial instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets at amortized cost, the quoted price is regarded as its fair value. If there is no quoted price in an active market for the financial asset, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices provided by financial institutions. The discounted cash flow technique is used to estimate the fair value of a debt instrument where an active market does not exist. The estimates and assumptions made by the Company using the valuation method are consistent with the information made by the market participants, in which the Company can obtain, to estimate and assume the financial instruments.
- 3) Loans and deposits are both classified as interest-bearing financial assets; therefore, the book value of financial assets is equivalent to their fair value. The net book value of the nonaccrual account, after deducting provision for credit loss, is adopted as the fair value.
- 4) Financial Bonds Payable: It refers to the financial bonds issued by the Company. Their coupon rates are almost equal to the market interest rate, so it is reasonable to using the discounted present values of the expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.
- 5) Except those with quoted price in an active market, the fair values of the other financial instruments are attained by valuation techniques or quoted prices from countered parties. The fair value calculated using valuation techniques can refer to the present fair values of financial instruments with similar conditions and characteristics, the discounted cash flow method or other valuation techniques, including the modular valuation method of which the calculated values are computed using attainable market information (such as the commercial paper fixing rates of Reuters.)

(aj) Financial risk information

(i) Overview

The main risks that the Company faced, and the management strategies are as follows:

1) Management of capital adequacy ratio

The Company risk management considers the Bank as a continuous operation and is being based on the best practice of Basel III, to develop a complete risk management structure and capital adequacy management to ensure the Bank fulfills the minimum capital requirements and enable to bear pressure of capital shock.

(Continued)



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2) Credit risk management

Credit strategy includes returns and risk diversification. The asset portfolio includes qualified retail bonds, corporate credit and mortgages. It is also distinguished based on the level of client risk to control the acceptable range of the overall credit risk. The Bank also made use of the risk transfer in credit guarantee fund to strengthen the collateral of small-and-medium enterprises, reduce breach of contract risk and accomplish benefits of risk capital at the same time. To effectively maintain the asset quality and risk return, the Bank has improved its credit investigation and review procedures. It has also managed its collateral and strengthened the development use of risk management instruments and credit risk management schemes.

3) Liquidity risk and market risk management

Assets and liabilities committee is responsible of the liquidity, security and profitability of assets and liabilities. The committee not only conducts regular assessment on the duration and the maturity analysis of assets and liabilities but also set limit structure and the related liquidity limits to control index, adjust capital gap in order to conform with the objective of risk appetite. Profitability is strengthened through the optimization of assets and liabilities structure. Market risk management includes investment in trading book and banking book. To prevent financial instruments from suffering from excessive fluctuations in market price, management measures and restrictions on investment are set, sensitivity index on market risk factors.

4) Operational risk management

In order to integrate risk management culture with employees, the Company not only restricts employees by undertaking regulations, discipline and incentive and penalty measures, but also adopts standard operating procedures and internal control systems to enhance capability of information systems control and the timeliness and accuracy of information on risk management. Risk is controlled and reviewed regularly through the risk appetite, key risk indicator and warning system of risk events for early planning to improve measures.

The Company has set the risk management policies and risk management procedures, which have been approved by the BOD for effective recognition, measurement, monitoring and control of credit risk, market risk and liquidity risk.

(ii) Organizational structure of risk management

The organizational structure of risk management includes BOD, Risk Committee, Risk Management Committee, Assets and Liabilities Committee, Loan Review Committee, Department of Risk Management, Department of Audit, Department of Law, Credit Management Headquarter and Department of Credit Analysis and Appraisal and other management departments, with BOD as the ultimate responsible unit. The risk committee is subordinated to the BOD, and the member of risk committee is elected from the Board of Directors, who monitor risks on behalf of the BOD. The BOD and risk committee will delegate authorities to the general manager and committees in setting management rules as regards to risk identification, measurement, disclosure, report, monitoring and offsetting. The Company also established independent risk management department to monitor the credit risk, market risk, operational risk and liquidity risk. At the same time, the Company promotes the framework of new Basel capital agreement that identifies measures, discloses and reports management system and proposes each risk management report for management decision on a regular basis. Also, the law department is set up to carry out law risk management and procedures on review of legal compliance. The business units, which are subordinated to the general manager, ensure the coordination of each risk management policies; establish appropriate internal control and standard operating procedures and support the risk management project based on the business needs. The audit department is responsible for auditing the compliance of all internal and external business norms in all units, as well as the implementation of internal control in practice.

(iii) Credit risk

1) The source and definition of credit risk

Credit risk is the risk of financial loss to the Company if a creditor or counterparty fails to meet its contractual obligations. Credit risk management should be adopted in all operating activities that involved in credit risk, including

(Continued)

loans, investment in banking book, financial derivatives, transactions in repurchase agreement and other operating activities in relation to the credit risk.

2) Management policy of credit risk

The Company has set standard control procedures on credit risk identification, measurement, and information on disclosures and reports to conduct rational identification, measurement, disclosures and effective control on credit risk. The Company also deliberates the fluctuation in economics and adjusts the credit risk structure accordingly to control the risks in credit portfolio within the risk appetite. These procedures include criteria for targeted client, credit investigation, credit approval or rejection, approval on exceptions, risk control and management, credit review, management on non-performing loans and requests and control of all related documents and information. Based on the risk management policies, the illustration of management process carried out by the competent authority is as follows:

a) Credit investigation

With respect to the criteria for targeted client, the Company should ask for all necessary documents from the clients in order to filter client accurately and control credit portfolio within the acceptable range.

b) Credit approval

Cases that have passed through the credit investigation are reviewed by the credit authority of each level. The credit authorities authorize credits in compliance with the credit limitation structure and authorization policies of the Company. The credit limitation structure and authorization policies of the Company are not only based on banking act and the rules stipulated by the authority, concerning the credit extended to same person or same affiliated enterprises/groups, stock collateral, industry and country, but also based on the professionalism of the credit authorities and the quality of asset control. The amounts of credit authorized are reviewed by the credit authorities on occasional basis.

c) Post-lending loan review mechanisms

The corporate banking business of the Company strengthens the tracking control of the financial and business conditions on creditors, carry out risk assessment report of credit asset portfolio on a regular basis, set-up warning system and adjust business development strategy to cope with economic conditions and changes in asset quality through the account management scheme and regular reassessment system. As regards to delinquent loans, the Company uses concentration management method, together with information systems and analysis model to conduct regular review to improve the performance on overdue to expedite the collection of nonperforming loans.

d) Development, application and verification of risk information system

The Company has actively developed quantify risk assessment model as a reference for credit decision. The Bank develops the credit rating model based on products and characteristics of counterparties and use the results from the model to filter new clients, risk pricing and limit management, to analyze and develop overdue management strategy on overdue loans based on client behavior pattern. To improve the effectiveness of credit investigation and ensure the consistency with the investigation standards, the Company built a credit investigation operating system, which not only strengthen the effectiveness of the Company operation and information system, but also improve the development of model for quantifying risk. The Company conducts verification on the risk assessment model on a regular basis and evaluates the effectiveness of the model and made necessary amendments.

The methods of risk measurement in the main operating departments are as follows:

i) Loans (including credit commitment and guarantee)

Classifications in credit assets and level of credit quality are illustrated as follows:

1. Classification of credit assets

The credit assets are classified into 5 categories, where the normal credit assets are classified as Category 1. After nonperforming credit assets are evaluated by assessing the status of the loan collaterals and the length

(Continued)



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of time overdue, they are classified under Category 2 assets that require special mention. Assets that are substandard are classified as Category 3, assets that are doubtful are classified as Category 4 and assets for which incurred a loss are classified as Category 5. The Bank has set “Regulations Governing the Procedures to Evaluate Credit Assets, Set Aside Loss Reserves and Handle Non-performing Credit, Non-accrual Loans and Bad Debts” as management for doubtful loans and as a basis for handling overdue loans.

2. Level of credit quality

The level of credit quality is set to accommodate the characteristics and the scale of operating business and conduct risk management.

ii) Due from the Central Banks and call loans to banks, investments in debt instruments and financial derivatives instruments

The Company always assesses the credit situation of the counterparty before entering into a transaction. The counterparty's rating and information on financial condition from domestic and international credit rating agency are being considered and different credit risk limits are set. The credit risk limits are approved by the BOD or the authority level. Overall, most of the investments are above investment grade ratings.

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

The Company assesses the change in the probability of default of loans during the lifetime on each reporting date to determine if the credit risk has increased significantly since the initial recognition. In order to make this assessment, the Company's considerations show the reasonable and supportable information that the credit risk has increased significantly since the initial recognition. The main considerations include: The borrowers of various types of credit assets that have not paid their principal and interest over the contract for more than 30 days and less than 90 days, and the recent credit rating of the debt instruments on the reporting date that has dropped by more than 3 grades (inclusive) from the original rating. Non-investment grades, financial guarantees, and letters of credit, not classified as reference indicators for significant increase in credit risk, are therefore, temporarily classified as a significant increase in credit risk.

4) Credit risk that has not increased significantly or is judged as low credit risk on the reporting date

The Company assesses that there is no significant increase in the risk of default in the expected renewal period of each type of credit assets or low credit risk on each reporting date. The 12-month expected credit loss is used as the risk change if the credit risk of the credit asset is low on the reporting date. It is also assumed that the credit risk of the credit assets has not increased significantly since the original recognition. The credit assets of the low credit risk refer to the credit rating of the borrower's principal and interest and debt instruments as above than BBB-.

5) Reversal policy

The merger company shall determine the unrecoverable creditor's rights, report it to the Board of Directors for approval, and then resell it. Afterwards, the balance of the allowance will be adjusted.

6) Impairment of financial assets

If the financial assets are deducted from the objective evidence, the difference between the book value of the financial assets and the present value of the original effective interest rate of the estimated future cash flows should be recognized as the impairment loss. The impairment loss should be included in the current profit and loss. When determining the amount of the impairment, the estimated future cash flows are estimated to include the collateral and other credit enhancements.

The objective impairment certificate includes the following information:

- The issuer or the debtor's credit rating is reduced to the default level or the principal and interest are not settled.
- The loan has been overdue for 90 days or has been procured to the principal and clerk for the collateral, which is the overdue loan of Class A and Class B.

(Continued)

7) Measurement of expected credit losses

a) Assumption of adoption

After considering the factors, such as the attributes of financial assets and credit assets and the adequacy of default experience, the internal risk data or institutional information, such as external credit ratings, are used to estimate the credit risk component factors, such as the debtor's probability of default (PD), the loss given default (LGD), and the exposure at default (EAD).

For credit assets that have not significantly increased credit risk or low credit risk since the original recognition, the allowance loss is measured by the 12-month expected credit loss amount; the credit risk has been significantly increased or credit has been deducted since the original recognition production, expected credit losses during the existence of a measure of the amount.

The difference between all the cash flows expected to be received by the combined companies is based on all the contractual cash flows receivable during the expected period of the financial instrument and all the contractual terms of the consideration period (including the collateral held by the sale or other credit enhancements, etc.) The difference between all cash flows that are expected to be charged is the credit risk loss measured by the amount discounted at the original effective interest rate as follows:

- The amount that is determined to be unbiased and weighted by chance, as assessed by each possible outcome.
- Time value of money.
- Reasonable and corroborative information relating to past facts, current conditions and future economic forecasts.

b) Forward-looking information considerations

Forward-looking information is taken into account when determining whether credit risk has significantly increased after the original recognition of credit assets and measures expected credit losses. The Company performs analysis with historical data and adjusts the probability of default based on "Taiwan business indicators" issued regularly by National Development Council, in which five light signals are used to indicate the current economy. The analysis is further taken into account when the Company assesses the overall expected credit loss.

8) Mitigation or hedging of risk

Based on the risk assessment of the credit counterparty and transactions, the Bank requires high liquidity and sufficient collateral or transfer of credit guarantee and guarantee association (for instance, Small and Medium Enterprise Credit Guarantee Fund) to strengthen the guarantee of loans. In order to avoid and control risks, the Company not only requires the provision of necessary legal documents, but also conducts field survey on the status of collateral and determines whether to reassess the value of collateral and demand for additional collateral or adjust the credit amount. The lists of management conduct by the Company are as follows:

- a) Setting the value of collateral and management measures, including types of acceptable collateral, valuation process, frequency of revaluation, market assessment and law enforcement procedures.
- b) The liquidity and value of collateral and the degree of law enforcement should be assessed by independent party.
- c) The selection of appraise or appraisal institute, the requirements of appraisal and its related fees should be in compliance with the internal management procedures.
- d) Transfer of collateral, authority setting, and other insurance procedures should be completed before being appropriated, and the amount set, insured and other legal aspects should be complied with the Company regulations.

(Continued)



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9) Maximum exposure credit risk

Without taking collateral or other credit enhancement mitigation effect into account, the maximum exposure to credit risk of on-balance sheet financial assets are equal to their carrying values and the maximum exposure of credit risk of off-balance sheet financial instruments were as follows:

| | December 31, 2019 | December 31, 2018 |
|-----------------------------|----------------------|----------------------|
| Irrevocable loan commitment | \$ 15,257,520 | 16,385,811 |
| Credit card commitment | 20,314 | 22,726 |
| Unused credit card limit | 1,503,856 | 1,484,383 |
| Undrawn letters of credit | - | 12,650 |
| Guarantees | 39,676 | 264,059 |
| | \$ 16,821,366 | 18,169,629 |

The Company believe the adopting stringent selection processes and conducting regular review afterwards are the reasons why they can continuously control and minimize the credit risk exposure of their off-balance sheet items.

10) Concentrations of credit risk

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

Credit risk concentration can arise in a bank's assets, liabilities, or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. It includes credit, loan and deposits, call loan to banks, investment, receivables and derivatives. The Bank maintains a diversified portfolio, limits its exposure on a continuous basis. The Company's most significant concentrations of credit risk are summarized as follows:

a) By Industry

| | December 31, 2019 | | December 31, 2018 | |
|-------------------------|-----------------------|---------------|--------------------|---------------|
| | Amount | % | Amount | % |
| Private enterprise | \$ 35,280,920 | 31.21 | 34,977,632 | 29.97 |
| Public Sector | 38,906 | 0.03 | 271,548 | 0.23 |
| Non-profit organization | 199,341 | 0.18 | 180,175 | 0.16 |
| Individuals | 77,295,919 | 68.38 | 81,045,320 | 69.45 |
| Financial institutions | 229,558 | 0.20 | 223,668 | 0.19 |
| | \$ 113,044,644 | 100.00 | 116,698,343 | 100.00 |

b) By Area

Not applicable since the Company conducts its business domestically.

(Continued)

c) By Collateral

| | December 31, 2019 | | December 31, 2018 | |
|-------------------|-----------------------|---------------|--------------------|---------------|
| | Amount | % | Amount | % |
| Non-secured | \$ 12,815,984 | 11.34 | 14,046,657 | 12.04 |
| Securities | | | | |
| Stock | 35,141 | 0.03 | 94,441 | 0.08 |
| Bond | 86,567 | 0.08 | 121,876 | 0.10 |
| Real estate | 74,222,168 | 65.66 | 77,021,231 | 66.00 |
| Chattel | 20,997,756 | 18.57 | 20,202,060 | 17.31 |
| Notes receivables | 23,876 | 0.02 | 34,998 | 0.03 |
| Guarantee | 4,856,856 | 4.30 | 5,051,910 | 4.33 |
| Other | 6,296 | - | 125,170 | 0.11 |
| | \$ 113,044,644 | 100.00 | 116,698,343 | 100.00 |

11) Credit quality and overdue impairment loss of financial assets of the Bank

Part of the financial assets, such as cash and cash equivalent, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, bills and bonds purchased under resell agreement, guarantee deposits paid and operation guarantee deposits and settlement funds are considered of minimum credit risk due to the good credit ratings of the trade counterparties.

Expect for the abovementioned items, the credit quality analysis of the rest of the financial assets are as follows:

a) Credit quality analysis of discounts and loans as well as receivables

| December 31, 2019 | Neither past due nor impaired (A) | Past due not impaired (B) | Impaired (C) | | Total (A)+(B)+(C) | Impairment allowance (D) | Net (A)+(B)+(C)-(D) |
|---------------------------|-----------------------------------|---------------------------|--------------|---------|-------------------|--------------------------|---------------------|
| | | | Individual | Group | | | |
| Receivables | | | | | | | |
| - Credit card | 141,192 | 292 | - | 4,082 | 145,566 | 40,121 | 105,445 |
| - Revenue | 13,743 | - | - | - | 13,743 | - | 13,743 |
| - Interest | 215,876 | 1,157 | 445 | 2,150 | 219,628 | 4,076 | 215,552 |
| - Acceptances receivables | 1,441 | - | - | - | 1,441 | - | 1,441 |
| - Others | 32,863 | 10,117 | - | - | 42,980 | 5,063 | 37,917 |
| Subtotal | 405,115 | 11,566 | 445 | 6,232 | 423,358 | 49,260 | 374,098 |
| Discounts and loans | 111,222,642 | 161,947 | 688,853 | 971,202 | 113,044,644 | 1,593,172 | 111,451,472 |
| Off balance sheet items | | | | | | | |
| - Guarantee | - | 2,135,580 | - | - | 2,135,580 | 39,505 | 2,096,075 |
| - Letter of credit | - | 89,579 | - | - | 89,579 | 5,000 | 84,579 |
| - Agreed financing amount | 16,821,252 | 114 | - | - | 16,821,366 | 29,500 | 16,791,866 |

(Continued)

| December 31, 2018 | Neither past due nor impaired (A) | Past due not impaired (B) | Impaired (C) | | Total (A)+(B)+(C) | Impairment allowance (D) | Net (A)+(B)+(C)-(D) |
|---------------------------|-----------------------------------|---------------------------|--------------|-----------|-------------------|--------------------------|---------------------|
| | | | Individual | Group | | | |
| Receivables | | | | | | | |
| - Credit card | 143,657 | 185 | - | 5,442 | 149,284 | 36,788 | 112,496 |
| - Revenue | 8,610 | - | - | - | 8,610 | - | 8,610 |
| - Interest | 236,446 | 2,185 | 1,572 | 2,994 | 243,197 | - | 243,197 |
| - Others | 28,651 | 8,738 | - | - | 37,389 | 8,820 | 28,569 |
| Subtotal | 417,364 | 11,108 | 1,572 | 8,436 | 438,480 | 45,608 | 392,872 |
| Discounts and loans | 114,471,859 | 288,752 | 895,993 | 1,041,739 | 116,698,343 | 1,715,676 | 114,982,667 |
| Off balance sheet items | | | | | | | |
| - Guarantee | - | 2,046,806 | - | - | 2,046,806 | 39,511 | 2,007,295 |
| - Letter of credit | - | 133,500 | - | - | 133,500 | 5,000 | 128,500 |
| - Agreed financing amount | 16,684,346 | 100 | - | - | 16,684,446 | 23,500 | 16,660,946 |

b) Credit quality analysis of security investments

| December 31, 2019 | Neither past due nor impaired | | | | Past due Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Impairment Allowance (D) | Net (A)+(B)+(C)-(D) |
|---|-------------------------------|------|--------|------------|---------------------------|--------------|-------------------|--------------------------|---------------------|
| | Very Good | Good | Normal | Total (A) | | | | | |
| Fair value through other comprehensive income | | | | | | | | | |
| - Bond | 8,944,586 | - | - | 8,944,586 | - | - | 8,944,586 | 3,300 | 8,941,286 |
| - Other | 133,237 | - | - | 133,237 | - | - | 133,237 | - | 133,237 |
| Amortized cost | | | | | | | | | |
| - Bond | 19,558,868 | - | 60,230 | 19,619,098 | - | - | 19,619,098 | 9,027 | 19,610,071 |
| - Other | 1,000 | - | - | 1,000 | - | - | 1,000 | - | 1,000 |

| December 31, 2018 | Neither past due nor impaired | | | | Past due Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Impairment Allowance (D) | Net (A)+(B)+(C)-(D) |
|---|-------------------------------|------|--------|------------|---------------------------|--------------|-------------------|--------------------------|---------------------|
| | Very Good | Good | Normal | Total (A) | | | | | |
| Fair value through other comprehensive income | | | | | | | | | |
| - Bond | 7,392,785 | - | - | 7,392,785 | - | - | 7,392,785 | 1,997 | 7,390,788 |
| - Other | 103,012 | - | - | 103,012 | - | - | 103,012 | - | 103,012 |
| Amortized cost | | | | | | | | | |
| - Bond | 18,062,563 | - | 61,466 | 18,124,029 | - | - | 18,124,029 | 8,250 | 18,115,779 |
| - Other | 1,000 | - | - | 1,000 | - | - | 1,000 | - | 1,000 |

(Continued)

12) Management of Foreclosed Collateral

Foreclosed collateral is recorded at cost, using lower-at-cost or market approach as at balance sheet date. If collateral is not disposed of within the statutory period, the Bank should apply for an extension of the disposal period and increase its provision for possible losses if necessary.

13) Disclosures required in the

a) Asset quality of nonperforming loan and overdue credits

| | | | December 31, 2019 | | | | |
|--|-----------------------------------|--|------------------------|-----------------------|----------------------------------|----------------------------------|----------------|
| Period | | Nonperforming Loans (NPL) (Note 1) | Total Loans | NPL Ratio (Note 2) | Allowance for Possible Losses | Coverage Ratio (Note 3) | |
| Items | | | | | | | |
| Corporate Banking | Secured | | 235,680 | 28,431,355 | 0.83% | 393,901 | 167.13% |
| | Unsecured | | 73,464 | 7,317,370 | 1.00% | 146,186 | 198.99% |
| Consumer Banking | Mortgage loans (Note 4) | | 19,824 | 16,376,502 | 0.12% | 214,281 | 1,080.92% |
| | Cash card | | - | - | - % | - | - % |
| | Small-scale credit loans (Note 5) | | 26,435 | 8,225,196 | 0.32% | 138,816 | 525.12% |
| | Other (Note 6) | Secured | 135,683 | 52,603,745 | 0.26% | 695,956 | 512.93% |
| | | Unsecured | 736 | 90,476 | 0.81% | 4,032 | 548.77% |
| Total loans | | | 491,822 | 113,044,644 | 0.44% | 1,593,172 | 323.93% |
| | | | Overdue Receivables | Receivables | Delinquency Ratio | Allowance for Possible Losses | Coverage Ratio |
| Credit cards | | | 919 | 145,566 | 0.63% | 40,121 | 4,365.72% |
| Accounts receivable factoring without recourse | | | - | - | - % | - | - % |

| | | | December 31, 2018 | | | | |
|--|-----------------------------------|-----------|--|-------------|-----------------------|----------------------------------|----------------------------|
| Items | | Period | Nonperforming Loans (NPL) (Note 1) | Total Loans | NPL Ratio (Note 2) | Allowance for Possible Losses | Coverage Ratio (Note 3) |
| Corporate Banking | Secured | | 307,812 | 27,901,857 | 1.10% | 419,311 | 136.22% |
| | Unsecured | | 40,687 | 7,751,165 | 0.52% | 126,756 | 311.54% |
| Consumer Banking | Mortgage loans (Note 4) | | 55,702 | 18,359,739 | 0.30% | 261,455 | 469.38% |
| | Cash card | | - | 566 | - % | 9 | - % |
| | Small-scale credit loans (Note 5) | | 42,184 | 9,141,146 | 0.46% | 168,668 | 399.84% |
| | Other (Note 6) | Secured | 131,718 | 53,443,444 | 0.25% | 733,037 | 556.52% |
| | | Unsecured | 2,078 | 100,426 | 2.07% | 6,441 | 309.96% |
| Total loans | | | 580,181 | 116,698,343 | 0.50% | 1,715,676 | 295.71% |
| | | | Overdue Receivables | Receivables | Delinquency Ratio | Allowance for Possible Losses | Coverage Ratio |
| Credit cards | | | 788 | 149,284 | 0.53% | 36,788 | 4,668.53% |
| Accounts receivable factoring without recourse | | | - | - | - % | - | - % |

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming / Non-accrued Loans."

Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

(Continued)



Financial Status

Note 2: For loan business: NPL ratio= Nonperforming loans ÷ Total loan balance.

For credit card business: Delinquency ratio= Overdue credit card receivables ÷ Credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Overdue credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower or the spouse or the minor children of the borrower.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude mortgages, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factoring without recourse are reported as overdue receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

b) Exemption of nonperforming loans and overdue receivables

| | December 31, 2019 | | December 31, 2018 | |
|--|--|--|--|--|
| | Amount exempted from reporting as non-performing loans | Amount exempted from reporting as overdue account receivable | Amount exempted from reporting as non-performing loans | Amount exempted from reporting as overdue account receivable |
| Amounts of executed contracts on negotiated debts not reported (Note 1) | 5,780 | 762 | 8,697 | 1,572 |
| Amounts of executed debt settlement program and rehabilitation program not reported (Note 2) | 250,389 | 1,923 | 271,822 | 2,018 |
| Total | 256,169 | 2,685 | 280,519 | 3,590 |

Note 1: The disclosure of excluded NPLs and excluded overdue receivables resulting from debt negotiations and loan agreements is based on the Banking Bureau letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: The disclosure of excluded NPLs and excluded overdue receivables resulting from consumer debt clearance is based on the Banking Bureau letter dated September 15, 2008 (Ref. No. 09700318940).

c) Concentration of credit extensions

| December 31, 2019 | | | |
|-------------------|---|---|-------------------------------------|
| Rank (Note 1) | Business Groups' Standard Industrial Classification and Symbol (Note 2) | Total Amount of Credit Endorsement or Other Transactions (note 3) | Percentage of the Bank's Equity (%) |
| 1 | n Company- Real Estate | 811,840 | 7.08 |
| 2 | l Company -Civil Engineering | 539,896 | 4.71 |
| 3 | i Company -Private Pulp, Paper and Paper products Manufacturing | 500,000 | 4.36 |
| 4 | x Company -Construction Industry | 473,780 | 4.13 |
| 5 | t Company -Real Estate | 349,600 | 3.05 |
| 6 | k Company -Private Food Products Manufacturing | 295,800 | 2.58 |
| 7 | X Company -Real Estate | 234,500 | 2.05 |
| 8 | v Company -Private Wholesales | 232,200 | 2.03 |
| 9 | w Company -Real Estate | 223,500 | 1.95 |
| 10 | o Company -Real Estate | 215,000 | 1.88 |

(Continued)

December 31, 2018

| Rank (Note 1) | Business Groups' Standard Industrial Classification and Symbol (Note 2) | Total Amount of Credit Endorsement or Other Transactions (note 3) | Percentage of the Bank's Equity (%) |
|--------------------------|--|--|--|
| 1 | n Company- Real Estate | 811,840 | 7.49 |
| 2 | i Company -Private Pulp, Paper and Paper Products Manufacturing | 507,382 | 4.68 |
| 3 | k Company -Private Food Products Manufacturing | 349,000 | 3.22 |
| 4 | s Company -Transport | 339,630 | 3.13 |
| 5 | o Company -Real Estate | 302,000 | 2.79 |
| 6 | l Company -Civil Engineering | 298,605 | 2.75 |
| 7 | r Company -Private Civil Engineering | 265,006 | 2.44 |
| 8 | p Company -Other Manufacturing | 229,115 | 2.11 |
| 9 | l Company -Electronic Parts and Components Manufacturing | 221,220 | 2.04 |
| 10 | b Company -Private Wholesales | 210,097 | 1.94 |

Note 1: The top ten enterprise groups other than government or state-owned enterprises are ranked according to their total outstanding credit amount. If the borrowers belong to an enterprise group, the aggregate credit balance of the enterprise should be calculated and disclosed as a code number for each such borrower together with an indication of the borrowers' line of business. In addition, if the borrowers are enterprise groups, the enterprise group's industry sector with the maximum exposure to credit risk in its main industry sector should be disclosed, along with the "class" of the industry, in compliance with the Standard Industrial Classification System of the R.O.C. posted by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C.

Note 2: Enterprise group is as defined in Article 6 of the "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings".

Note 3: Consists of loans (foreign currency imports financing, foreign currency export financing, notes discounted, customer overdrafts, short-term unsecured loans, short-term secured loans, receivables from securities lending, medium-term unsecured loans, medium-term secured loans, long-term unsecured loans, loan-term secured loans, non-performing loans), foreign currency long positions, accounts receivable-factoring discount, bankers' acceptance receivable, guarantees receivable.

(iv) Liquidity risk

1) Causes and definition of liquidity risk

The Company's definition for liquidity risk is the risk the Company encounter difficulty in meeting the obligations with its financial liabilities and cause the losses, for example, a saving account cancels its saving ahead of time, the ways or conditions to call loans to banks drop, creditors' credit become worsen and cause an exceptional condition, financial instruments cannot be financed and etc. The situation mentioned above may reduce the money for lending, trading, and investing activities. In some extreme situation, the lack of liquidity may decrease the level of balance sheet, sale assets, or the possibility of could not fulfill the promise of loan. Liquidity risk is containing in the inherent risk of bank operating, and could be affected by every industry individual or whole market's incident, which are included but not only as: credit event, consolidation or merger and acquisition, system shock, and natural disaster.

2) Management policy of liquidity risk

The Company carries out its management procedures respectively and is monitored by their respective independent risk management department. The procedures include:

- a) Daily capital movement: monitoring future cash flows in order to ensure all requirements are fulfilled.
- b) Maintain adequate stock of liquid assets to buffer unexpected events that may interrupt cash flows.
- c) Monitor liquidity ratios of balance sheets in accordance with the internal management purposes and external regulatory requirements.

The monitoring and reporting procedures are based on the estimation of future 1 month, 1-3 months, 3-6 months, 6-12 months and one-year capital flow. The estimation of future cash flow is based on the contract maturity date

(Continued)

of financial liabilities and the estimated collection date of financial assets. The Bank monitors the interest rate risk, structure of assets and liabilities, and the liquidity conditions based on the related report and indices in ALCO and set alert and limits or MAT based on the key indices.

Related information is regularly provided to the risk management committee and BOD.

3) To manage liquidity risk of financial assets hold and non-derivative financial liabilities maturity analysis

a) To manage liquidity risk of financial assets held

The financial assets include cash and assets that are of highly liquid and high quality for the purpose of paying liabilities and capital movement during emergency. The assets held for managing liquidity risk include cash and cash equivalents, due from the central bank and call loans to banks, financial assets at FVTPL, discounts and loans, financial assets at fair value through other comprehensive income and financial assets at amortized cost.

b) Maturity analysis for non-derivative financial liabilities

The Company's non-derivative financial liabilities are based both on the maturing of assets and liabilities, and the corresponding interest rate and controlled gaps that do not match. As the transaction conditions are uncertain and are of different types, the maturity of assets and liabilities usually does not match. This may result in gains or losses. The following table shows the maturity analysis of liquidity based on liabilities.

| December 31, 2019 | 0~30 days | 31~90 days | 91~180 days | 181 days~ 1 year | Over 1 year | Total |
|---|------------|------------|-------------|------------------|-------------|-------------|
| Due to the Central Bank and call loans from banks | - | 39,201 | - | - | - | 39,201 |
| Payables | 379,315 | 39,688 | 284,966 | 77,657 | 25,236 | 806,862 |
| Current tax liabilities | - | - | 27,797 | - | - | 27,797 |
| Deposit and remittance | 11,352,349 | 18,917,748 | 25,223,367 | 46,650,802 | 51,606,317 | 153,750,583 |
| Financial debentures | - | - | - | - | 3,000,000 | 3,000,000 |
| Lease liabilities | 4,070 | 7,199 | 10,537 | 20,790 | 102,226 | 144,822 |

| December 31, 2018 | 0~30 days | 31~90 days | 91~180 days | 181 days~ 1 year | Over 1 year | Total |
|---|------------|------------|-------------|------------------|-------------|-------------|
| Due to the Central Bank and call loans from banks | - | 25,670 | - | 38,800 | - | 64,470 |
| Payables | 554,567 | 34,182 | 108,537 | 69,546 | 23,371 | 790,203 |
| Current tax liabilities | - | - | 50,525 | - | - | 50,525 |
| Deposit and remittance | 14,841,009 | 19,190,712 | 25,471,068 | 44,581,940 | 45,518,374 | 149,603,103 |
| Financial debentures | - | - | - | - | 3,000,000 | 3,000,000 |

4) The maturity analysis of lease agreement

The derivative instruments of the Company's possession which are settled by net amount include foreign derivative instruments, such as non-delivery forward contracts, foreign exchange options settled by net amount. After evaluation the Company concluded that the maturity date is the basic element to comprehend all the derivative financial instruments listed in the financial statement.

The maturity analysis of derivative financial liabilities settled by net amount is as follows:

(Continued)

| | December 31, 2019 | | | | | |
|---|-------------------|---------------|----------------|-----------------|------------------|-----------|
| | 0-30 days | 31-90 days | 91-180 days | 180-365 days | Over 365 days | Total |
| Financial assets at fair value through profit or loss, Derivative instruments | | | | | | |
| - Foreign exchange | \$ <u>75</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>75</u> |

| | December 31, 2018 | | | | | |
|---|-------------------|---------------|----------------|-----------------|------------------|-------|
| | 0-30 days | 31-90 days | 91-180 days | 180-365 days | Over 365 days | Total |
| Financial assets at fair value through profit or loss, Derivative instruments | | | | | | |
| - Foreign exchange | \$ 360 | - | - | - | - | 360 |

5) Maturity analysis for off balance sheet items

The table below shows the maturity analysis of the off-balance-sheet items of the Bank based on the remaining days from the financial statement date to the contract maturity date. For the financial guarantee contracts issued, the maximum amount of the guarantee is listed in the earliest time zone that the guarantee may be executed. The amount disclosed is based on the cash flows of the contracts and thus part of the amount disclosed may not correspond to the amount disclosed in the financial statement.

| December 31, 2019 | 0~30 days | 31~90 days | 91~180days | 181~365 days | Over 356 days | Total |
|--------------------------------------|-----------|------------|------------|--------------|---------------|------------|
| Commitment of loans | 2,361,887 | 4,685,767 | 7,083,992 | 1,125,874 | - | 15,257,520 |
| Commitment for letter of credit card | - | 9 | 132 | 605 | 19,568 | 20,314 |
| Unused cycle quota of credit cards | - | 21,007 | 28,277 | 53,072 | 1,401,500 | 1,503,856 |
| Undrawn letters of credit | - | - | - | - | - | - |
| Guarantees | - | 38,007 | 1,669 | - | - | 39,676 |

| December 31, 2018 | 0~30 days | 31~90 days | 91~180days | 181~365 days | Over 356 days | Total |
|--------------------------------------|-----------|------------|------------|--------------|---------------|------------|
| Commitment of loans | 2,470,933 | 4,879,766 | 7,210,840 | 1,824,272 | - | 16,385,811 |
| Commitment for letter of credit card | - | 15 | 517 | 559 | 21,635 | 22,726 |
| Unused cycle quota of credit cards | - | 14,110 | 66,387 | 55,379 | 1,348,507 | 1,484,383 |
| Undrawn letters of credit | - | - | - | 12,650 | - | 12,650 |
| Guarantees | - | 62,100 | 201,959 | - | - | 264,059 |

6) The maturity analysis of lease agreement

The lease contracts of the Company are operating lease and financial lease. Operating lease commitment is the future minimum rental payment under irrevocable operating lease condition.

The maturity analysis of lease agreement is as follows:

| December 31, 2018 | Less than 1 year | 1~5 year | Over 5 year | Total |
|-----------------------------------|------------------|----------|-------------|---------|
| Lease commitments | | | | |
| Operating lease payments (Lessee) | 45,069 | 102,183 | - | 147,252 |
| Operating lease income (Lessor) | 13,327 | 32,134 | 2,600 | 48,061 |

(Continued)



Financial Status

7) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a) Maturity analysis of assets and liabilities in New Taiwan Dollars

(in thousands of New Taiwan Dollars)

| December 31, 2019 | | | | | | | |
|----------------------------------|----------------|--|------------|--------------|--------------|-------------------|-------------|
| | Total | Amount for each remaining period to maturity | | | | | |
| | | 0~10 days | 11~30 days | 31~90 days | 91~180 days | 181 days ~ 1 year | Over 1 year |
| Main capital inflow on maturity | \$ 167,769,932 | 21,261,019 | 13,207,713 | 5,256,598 | 6,883,404 | 15,372,751 | 105,788,447 |
| Main capital outflow on maturity | 182,435,903 | 4,565,186 | 9,529,829 | 23,400,188 | 32,551,298 | 47,577,834 | 64,811,568 |
| Gap | (14,665,971) | 16,695,833 | 3,677,884 | (18,143,590) | (25,667,894) | (32,205,083) | 40,976,879 |

(in thousands of New Taiwan Dollars)

| December 31, 2018 | | | | | | | |
|----------------------------------|----------------|--|------------|--------------|--------------|-------------------|-------------|
| | Total | Amount for each remaining period to maturity | | | | | |
| | | 0~10 days | 11~30 days | 31~90 days | 91~180 days | 181 days ~ 1 year | Over 1 year |
| Main capital inflow on maturity | \$ 163,500,839 | 21,914,559 | 10,724,343 | 4,135,074 | 6,739,801 | 13,005,878 | 106,981,184 |
| Main capital outflow on maturity | 179,444,551 | 6,963,856 | 9,718,758 | 23,967,223 | 32,961,156 | 46,253,290 | 59,580,268 |
| Gap | (15,943,712) | 14,950,703 | 1,005,585 | (19,832,149) | (26,221,355) | (33,247,412) | 47,400,916 |

b) Maturity analysis of assets and liabilities in US Dollars

(in thousands of USD)

| December 31, 2019 | | | | | | |
|----------------------------------|------------|--|------------|-------------|------------------|-------------|
| | Total | Amount for each remaining period to maturity | | | | |
| | | 0~30 days | 31~90 days | 91~180 days | 181 days ~1 year | Over 1 year |
| Main capital inflow on maturity | \$ 102,965 | 35,350 | 33,652 | 5,225 | 2,437 | 26,301 |
| Main capital outflow on maturity | 102,965 | 43,077 | 7,911 | 4,861 | 7,389 | 39,727 |
| Gap | - | (7,727) | 25,741 | 364 | (4,952) | (13,426) |

(in thousands of USD)

| December 31, 2018 | | | | | | |
|----------------------------------|------------|--|------------|-------------|------------------|-------------|
| | Total | Amount for each remaining period to maturity | | | | |
| | | 0~30 days | 31~90 days | 91~180 days | 181 days ~1 year | Over 1 year |
| Main capital inflow on maturity | \$ 102,030 | 36,850 | 26,594 | 5,130 | 3,937 | 29,519 |
| Main capital outflow on maturity | 102,030 | 80,662 | 8,894 | 5,218 | 6,668 | 588 |
| Gap | - | (43,812) | 17,700 | (88) | (2,731) | 28,931 |

(Continued)

(v) Financial risk information

1) Market risk

Market risk means the changes in market price that lead to the fair value and future cash flow volatility risk of the held financial instruments, even if it is not included in the financial statements. The risk factors usually refer to interest rate, exchange rate, equity investment and price. When the factors change, the Company's net operating income and the value of investment portfolio will have volatility risk.

The main market risks of the Company and its subsidiary are interest rate risk, exchange rate risk and equity investment risk. The main position of interest rate risk includes transactions with conditions, bonds, securities investments, interest rate swaps and so on. The main position of exchange risks includes forward exchange, foreign exchange swaps, and FX options and so on. The main position of equity investment risk includes stocks, funds, and stock market index futures and so on.

The major objective of the risk management of the Company is to control the risk under the scope approved by the Board of Directors by using effective management methods to utilize resource and create maximum economic profit. For major risks, the Company had established the risk management policies to serve as its primary principle, which covers managerial objective, organizational structure, accountability, and risk management procedures, and by implementing these mechanisms, operational risks can be controlled at an acceptable level.

Market risk is the risk that the Company's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rate (including credit spread), foreign exchange rate, securities price and commodity price. The market correlation and liquidity of these types of instruments are also covered.

The Company divides market risk exposures into either trading or non-trading portfolios. The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making. The non-trading portfolio includes positions not held for the purpose of earning capital gains.

Sensitivity analysis for exchange rate risk, interest rate risk and equity security price risk are as follows:

| December 31, 2019 | | | |
|----------------------------|--|------------------|--------------|
| Main risk | Range | Amount influence | |
| | | Equity | Gain or loss |
| Exchange rate risk | USD/NTD, EUR/NTD increase 3%, other currency/NTD decrease 5% | - | 23,094 |
| Exchange rate risk | USD/NTD, EUR/NTD decrease 3%, other currency/NTD decrease 5% | - | (23,094) |
| Interest rate risk | Interest rate curve rise 20BPS | (55,174) | (1,747) |
| Interest rate risk | Interest rate curve fall 20BPS | 55,174 | 1,747 |
| Price of equity stock risk | Price of equity stock rise 15% | 19,986 | 16,740 |
| Price of equity stock risk | Price of equity stock fall 15% | (19,986) | (16,740) |

(Continued)



Financial Status

| December 31, 2018 | | | |
|----------------------------|--|------------------|--------------|
| Main risk | Range | Amount influence | |
| | | Equity | Gain or loss |
| Exchange rate risk | USD/NTD, EUR/NTD increase 3%, other currency/NTD decrease 5% | - | 22,737 |
| Exchange rate risk | USD/NTD, EUR/NTD decrease 3%, other currency/NTD decrease 5% | - | (22,737) |
| Interest rate risk | Interest rate curve rise 20BPS | (51,776) | (1,643) |
| Interest rate risk | Interest rate curve fall 20BPS | 51,776 | 1,643 |
| Price of equity stock risk | Price of equity stock rise 15% | 15,452 | 13,827 |
| Price of equity stock risk | Price of equity stock fall 15% | (15,452) | (13,827) |

2) Exchange rate risk concentration information

1) Market risk

All held foreign financial assets and liabilities are classified by currencies and represented using the carrying amounts.

(in thousands of New Taiwan Dollars)

| December 31, 2019 | USD | JPY | CNY | NZD | AUD | Total |
|---|-----------|--------|---------|--------|---------|-----------|
| Foreign currency Financial assets | | | | | | |
| Cash and cash equivalents | 42,589 | 27,689 | 15,952 | - | - | 86,230 |
| Due from Central Bank and call loans to bank | 1,747,319 | 28,789 | 17,683 | 1,171 | 248,149 | 2,043,111 |
| Fair value through other comprehensive income | 170,859 | - | - | - | - | 170,859 |
| Discounts and loans | 761,929 | - | - | - | - | 761,929 |
| Receivables | 69,984 | - | - | - | 661 | 70,645 |
| Others | 290,446 | 17,153 | 154,099 | 69,810 | 10,340 | 541,848 |
| Total assets | 3,083,126 | 73,631 | 187,734 | 70,981 | 259,150 | 3,674,622 |
| Foreign currency Financial liabilities | | | | | | |
| Deposits and remittances | 1,890,929 | 73,631 | 159,250 | 70,906 | 254,757 | 2,449,473 |
| Payables | 95,448 | - | 28,419 | 75 | 385 | 124,327 |
| Others | 1,079,492 | - | 65 | - | 4,008 | 1,083,565 |
| Total liabilities | 3,065,869 | 73,631 | 187,734 | 70,981 | 259,150 | 3,657,365 |

Note: As of December 31, 2019, USD/TWD: 30.106; JPY/TWD: 0.2771; CNY/TWD: 4.3231; NZD/TWD: 20.2674; AUD/TWD: 21.1013.

(Continued)

(in thousands of New Taiwan Dollars)

| December 31, 2018 | USD | JPY | CNY | EUR | ZAR | Total |
|---|-----------|--------|---------|--------|--------|-----------|
| Foreign currency Financial assets | | | | | | |
| Cash and cash equivalents | 39,205 | 19,766 | 13,246 | 9,925 | - | 82,142 |
| Due from Central Bank and call loans to bank | 1,075,587 | 51,163 | 1,242 | 42,750 | 163 | 1,170,905 |
| Fair value through other comprehensive income | 295,827 | - | - | - | - | 295,827 |
| Discounts and loans | 904,900 | - | - | 2,816 | - | 907,716 |
| Receivables | 91,581 | - | - | 12 | - | 91,593 |
| Others | 728,583 | 28,463 | 165,549 | 7,469 | 59,688 | 989,752 |
| Total assets | 3,135,683 | 99,392 | 180,037 | 62,972 | 59,851 | 3,537,935 |
| Foreign currency Financial liabilities | | | | | | |
| Deposits and remittances | 1,894,510 | 99,392 | 154,869 | 62,971 | 54,038 | 2,265,780 |
| Payables | 107,210 | - | 20,749 | 1 | 5,716 | 133,676 |
| Others | 1,115,900 | - | 4,419 | - | 97 | 1,120,416 |
| Total liabilities | 3,117,620 | 99,392 | 180,037 | 62,972 | 59,851 | 3,519,872 |

Note: As of December 31, 2018, USD/TWD: 30.7330; JPY/TWD: 0.2784; CNY/TWD: 4.4742; EUR/TWD: 35.2047; ZAR/TWD: 2.1286.

3) Disclosure required by the Regulations Governing the Preparation of Financial Reports by Public Banks.

a) The analysis table of interest rate sensitivity in New Taiwan Dollars

December 31, 2019

(in thousands of New Taiwan Dollars)

| Items | 1 to 90 Days | 91 to 180 Days | 181 Days to 1 Year | Over 1 Year | Total |
|--|----------------|----------------|--------------------|-------------|-------------|
| Interest-rate-sensitive assets | \$ 117,983,544 | 5,409,431 | 2,762,558 | 33,672,431 | 159,827,964 |
| Interest-rate-sensitive liabilities | 58,232,163 | 71,711,539 | 18,827,098 | 2,923,486 | 151,694,286 |
| Interest rate sensitivity gap | 59,751,381 | (66,302,108) | (16,064,540) | 30,748,945 | 8,133,678 |
| Net worth | | | | | 11,459,769 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 105.36 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | 70.98 |

December 31, 2018

(in thousands of New Taiwan Dollars)

| Items | 1 to 90 Days | 91 to 180 Days | 181 Days to 1 Year | Over 1 Year | Total |
|--|----------------|----------------|--------------------|-------------|-------------|
| Interest-rate-sensitive assets | \$ 117,745,429 | 5,391,054 | 1,738,381 | 31,220,213 | 156,095,077 |
| Interest-rate-sensitive liabilities | 58,519,538 | 70,141,900 | 16,053,978 | 2,979,648 | 147,695,064 |
| Interest rate sensitivity gap | 59,225,891 | (64,750,846) | (14,315,597) | 28,240,565 | 8,400,013 |
| Net worth | | | | | 10,843,057 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 105.69 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | 77.47 |

Note 1: The above amount included only new Taiwan dollar amounts held by the Bank and excluded contingent assets and contingent liabilities.

Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues and costs affected by interest rate changes.

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

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets/Interest-rate-sensitivity liabilities.

(Continued)



Financial Status

b) The analysis table of interest rate sensitivity in US Dollars

December 31, 2019

(in thousands of USD)

| Items | 1 to 90 Days | 91 to 180 Days | 181 Days to 1 Year | Over 1 Year | Total |
|--|--------------|----------------|--------------------|-------------|----------|
| Interest-rate-sensitive assets | \$ 58,722 | 2,225 | 2,437 | 26,301 | 89,685 |
| Interest-rate-sensitive liabilities | 12,064 | 4,861 | 7,389 | 39,154 | 63,468 |
| Interest rate sensitivity gap | 46,658 | (2,636) | (4,952) | (12,853) | 26,217 |
| Net worth | | | | | 573 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 141.31 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | 4,575.39 |

December 31, 2018

(in thousands of USD)

| Items | 1 to 90 Days | 91 to 180 Days | 181 Days to 1 Year | Over 1 Year | Total |
|--|--------------|----------------|--------------------|-------------|----------|
| Interest-rate-sensitive assets | \$ 38,490 | 2,122 | 3,937 | 29,519 | 74,068 |
| Interest-rate-sensitive liabilities | 49,793 | 5,201 | 6,650 | - | 61,644 |
| Interest rate sensitivity gap | (11,303) | (3,079) | (2,713) | 29,519 | 12,424 |
| Net worth | | | | | 588 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 120.15 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | 2,112.93 |

Note 1: The above amount included only new Taiwan dollar amounts held by the Bank, and excluded contingent assets and contingent liabilities.

Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues and costs affected by interest rate changes.

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

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets/Interest-rate-sensitivity liabilities.

(ak) Capital management

(i) Introduction

In accordance with the “Regulations Governing the Capital Adequacy and Capital Category of Banks” announced by FSC, regular calculation and preparation of related reports and report to the authorities for review are required in order to perform financial disclosures and conduct internal capital adequacy management. In accordance with the operation plans and budget targets, also considering the Company’s development strategy, capital adequacy, liabilities ratios, and increased of return on equity.

(ii) Regulatory capital

Based on the “Regulations Governing the Capital Adequacy and Capital Category of Banks” announced by FSC, self-owned capital is classified into Tier 1 capital and Tier 2 capital:

1) Tier 1 capital: includes common equity and other Tier 1 capital.

a) Common equity: Common equity includes common stock, capital surplus (excluding premium on preference shares issuance), accumulated surplus and equity adjustments, less the following items: intangible assets (including goodwill), unamortized loss on disposal of non-performing loans, major investments, deferred tax assets, deferred pension costs and the items originally deducted from Tier 1 capital and Tier 2 capital.

b) Other Tier 1 capital including non-cumulative perpetual preferred stock and non-cumulative perpetual subordinated debts.

2) Tier 2 capital: includes cumulative perpetual preferred stock, cumulative perpetual subordinated debts, revaluation appreciation, convertible debt, operational provisions and loan-loss reserves

(Continued)

(iii) Capital adequacy ratio:

| Item | | Year | December 31, 2019 | December 31, 2018 |
|--|----------------------------|---|-------------------|-------------------|
| Eligible Capital | Common stock capital | | 11,127,355 | 10,542,187 |
| | Other tier 1 capital | | 573,955 | 574,247 |
| | Tier 2 Capital | | 3,066,952 | 3,435,395 |
| | Eligible capital | | 14,768,261 | 14,551,829 |
| Risk-weighted Assets | Credit risk | Standardized approach | 102,399,255 | 103,195,398 |
| | | Internal-rating-based approach | - | - |
| | | Secularization | 657,622 | 671,320 |
| | Operational risk | Basic indicator approach | 5,333,786 | 5,217,355 |
| | | Standardized approach / Alternative standardized approach | - | - |
| | | Advanced measurement approach | - | - |
| | Market risk | Standardized approach | 3,574,406 | 3,604,702 |
| | | Internal model approach | - | - |
| | Total Risk-weighted assets | | 111,965,069 | 112,688,775 |
| | Capital adequacy ratio | | | 13.19% |
| Ratio of common stock equity to risk-weighted assets (%) | | | 9.94% | 9.36% |
| Ratio of tier 1 capital to risk-weighted assets (%) | | | 10.45% | 9.86% |
| Leverage Ratio% | | | 6.20% | 6.00% |

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

Note 2: Formulas used were as follows:

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

(7) Related-party transactions:

(a) Relations parties of Name and Relationship

| Relations parties of Name | Relationship |
|---|---|
| Third Credit Cooperative Educational Foundation | Same director with the Company. |
| Other | Director, supervisors, managers of the Company and their relatives. |

(b) Significant transactions with related parties

(i) Loans

(Continued)



Financial Status

| December 31, 2019 | | | | | | | |
|-------------------------------|-------------------------------------|-----------------|----------------|---------------------|----------------------|-----------------------|---|
| Type | Account Volume (Number of Names) | Highest Balance | Ending Balance | Loan classification | | Collateral (note2) | Differences in Transaction Terms from Those for Unrelated Parties |
| | | | | Normal Loans | Non-performing loans | | |
| Private housing mortgage loan | 4 | \$ 10,948 | 9,986 | 9,986 | - | Real estate | None |
| Other loans | 17 | 120,546 | 72,531 | 72,531 | - | Real estate/cars | None |

| December 31, 2018 | | | | | | | |
|-------------------------------|-------------------------------------|-----------------|----------------|---------------------|----------------------|-----------------------|---|
| Type | Account Volume (Number of Names) | Highest Balance | Ending Balance | Loan classification | | Collateral (note2) | Differences in Transaction Terms from Those for Unrelated Parties |
| | | | | Normal Loans | Non-performing loans | | |
| Consumer loans for employees | 2 | \$ 848 | - | - | - | None | None |
| Private housing mortgage loan | 3 | 13,066 | 8,510 | 8,510 | - | Real estate | None |
| Other loans | 17 | 119,889 | 81,990 | 81,990 | - | Real estate/cars | None |

Loans for related parties are 82,517 thousand and 90,500 thousand on December 31, 2019 and 2018, and the ratio of it to total loan is 0.07% and 0.08%, respectively. Interest income from related parties is 1,542 thousand and 1,159 thousand for 2019 and 2018, and the ratio of it to total interest income is the same as 0.04% and 0.03%, respectively. The range for related parties' loan interest rate is 1.60%~3.02% and 1.60%~2.98% for 2019 and 2018, respectively.

Loans for main management are 458 thousand and 1,350 thousand on December 31, 2019 and 2018, and the ratio of it to total loan is 0.0004% and 0.0012%, respectively. Interest income from main management is 18 thousand and 32 thousand for 2019 and 2018 respectively, and the ratio of it to total interest income is the same as 0.001%. The range for related parties' loan interest rate is 1.60%~2.15% and 1.60%.

(ii) Deposits

| December 31, 2019 | | | |
|--|-------------------|-------------|----------------------------|
| Name of related parties | Ending Balance | % | The range of interest rate |
| The sum of separate accounts balances related parties' is lower than 1% of total deposits. | \$ <u>287,819</u> | <u>0.09</u> | 0.09%~1.10% |

| December 31, 2018 | | | |
|--|-------------------|-------------|----------------------------|
| Name of related parties | Ending Balance | % | The range of interest rate |
| The sum of separate accounts balances related parties' is lower than 1% of total deposits. | \$ <u>266,127</u> | <u>0.18</u> | 0.09%~1.14% |

Interest resulting from such deposits was \$4,107 thousand and \$3,961 thousand for 2019 and 2018. The range for employee demand savings deposits interest rate was approximately the same as 8.87%.

(iii) Leases

In July 2017, the Company rented out an office building to Third Credit Cooperation Educational Foundation. A three-year lease contract was signed, in which the rental fee is determined based on nearby office rental rates. Rental income for the year ended December 31, 2019 and 2018 both amounted to \$120 thousand.

(Continued)

(c) Compensation information for main management

| | 2019 | 2018 |
|---|------------------|---------------|
| Salary and other short-term employee benefits | \$ 48,613 | 49,194 |
| Post-employment benefits | 478 | 489 |
| Termination benefits | - | - |
| Other long-term employee benefits | - | - |
| Share-based payment | - | - |
| | <u>\$ 49,091</u> | <u>49,683</u> |

(8) Pledged assets:

Government bonds provided and deposited as trust compensation and placed as deposits in courts please refer to note 6(e).

(9) Significant commitments and contingencies:

(a)

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Collections received | \$ 7,640,323 | 9,432,756 |
| Handled several guarantees | 2,135,580 | 2,046,806 |
| Entrusted with the sale of traveler's checks | 3,059 | 3,150 |
| Letter of credit | 89,579 | 133,500 |
| Undrawn loan commitments | 15,317,510 | 16,684,446 |
| Unused cycle quota of credit cards | 1,503,856 | 1,485,183 |

(b)

The plaintiff Xiandeng International Co., Ltd. re-elected the directors of the eighth. Session of the Board of Directors of the company in the first shareholders' meeting in the Republic of China in 2017, arguing that the Company will handle the cash increase, because the original shareholders and employees waived the shares of the shares, and the Board of Directors authorized the regular board to meet the specific person. (Including the directors and their interested parties), according to the issue price, they filed a lawsuit with the Taiwan Taichung District Court requesting the cancellation of the resolution of the shareholders' meeting. On May 24th, 2019, the results of the first trial of the Taiwan Taichung District Court is win, therefore, plaintiff filed an appeal on June 18th. The Company received the notice of civil court No. 2019 v.3148 of the Taiwan Taichung District Court, which requests for confirmation that the standing board resolution is invalid on October 17th. The Company has commissioned a lawyer to handle the case and the case is still being tried by the court. The Company assesses that the operations are all normal and do not cause major changes to the Company's business policies and decisions.

The plaintiff Mr. Xie re-elected the the directors of the eighth. Session of the Board of Directors of the company in the first shareholders' meeting in the Republic of China in 2017, seeking to revoke the resolution of the shareholders' meeting about the Company and Charter Leisure Co., Ltd. The lawsuit had been dismissed by the Taiwan Taichung District Court on May 27, 2019, with the Su Zi Judgment No. 2018 v.371, and commanded Mr. Xie to bear the fees of civil actions. In addition, when received the appeal expenses of the civil rulings and the written copy of the reason for appeal about Mr. Xie on July 19, 2019, the Civil Judgement 108 Shag-Tzu 440 had been trialed by Taiwan High Court Taichung Branch Court. After that, the agent ad litem of the Company received the civil judgment which is the lawsuit dismissed of Mr. Xie. Because the plaintiff did not appeal within the legal period, this judgement had been confirmed.

(Continued)

Financial Status

Mr. Lin et al. six people incidental civil lawsuit requesting damage compensation of Mr. Chen violation of the Futures Trading Act. At 2013, the results of the first trial of the Taiwan Taichung District Court is Mr. Chen should give compensation \$38,712 thousand to Mr. Lin et al. six people. The Company has commissioned a lawyer to handle the case and already estimated loss and provisions, please refer to Note 6(r). The Company assesses that the operations are all normal and do not cause major changes to the Company's business policies and decisions.

(10) Significant Disaster Loss: None

(11) Significant Subsequent Events: None

(12) Other:

(a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

| Function | 2019 | | | 2018 | | |
|----------------------------|-----------------|--------------------|-----------|-----------------|--------------------|-----------|
| | Operating Costs | Operating Expenses | Total | Operating Costs | Operating Expenses | Total |
| Personnel Expenses: | | | | | | |
| Salaries | - | 1,068,890 | 1,068,890 | - | 1,062,047 | 1,062,047 |
| Labor and health insurance | - | 83,167 | 83,167 | - | 80,519 | 80,519 |
| Pension | - | 48,561 | 48,561 | - | 48,337 | 48,337 |
| Remuneration of directors | - | 34,993 | 34,993 | - | 35,527 | 35,527 |
| Others | - | 98,269 | 98,269 | - | 95,556 | 95,556 |
| Depreciation expenses | - | 101,722 | 101,722 | - | 48,628 | 48,628 |
| Amortization expenses | - | 2,999 | 2,999 | - | 2,712 | 2,712 |

The additional information about the number of employees and personnel expenses as of 2019 and 2018 are as below:

| | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Number of employees | <u>1,120</u> | <u>1,124</u> |
| Number of directors who are not employees | <u>14</u> | <u>14</u> |
| Average employee benefits | <u>\$ 1,174</u> | <u>1,159</u> |
| Average salary expense | <u>\$ 966</u> | <u>957</u> |
| The percentage of change between two years | <u>0.94%</u> | <u>-</u> |

(Continued)

(b) Balance sheet and trust property under the Company's trust accounts are disclosed as follows:

Trust Balance Sheets
December 31, 2019

| Trust Assets | | Trust Liabilities | |
|---------------------------|----------------------------|---|----------------------------|
| Cash in bank | \$ 622,194 | Trust capital - money | \$ 4,772,071 |
| Investment in mutual fund | 4,233,723 | Trust capital - PP&E | 721,760 |
| Land | <u>637,804</u> | Provisions and accumulated profit or loss | <u>(110)</u> |
| Total trust assets | <u>\$ 5,493,721</u> | Total trust liabilities | <u>\$ 5,493,721</u> |

December 31, 2018

| Trust Assets | | Trust Liabilities | |
|---------------------------|----------------------------|--------------------------|----------------------------|
| Cash in bank | \$ 264,042 | Trust capital - money | \$ 4,783,638 |
| Investment in mutual fund | 4,540,292 | Trust capital - PP&E | 397,801 |
| Land | <u>377,105</u> | | |
| Total trust assets | <u>\$ 5,181,439</u> | Total trust liabilities | <u>\$ 5,181,439</u> |

Trust Property list of trust account
December 31, 2019

| Trust Assets | Trust Liabilities |
|---------------------------|----------------------------|
| Cash in bank | \$ 622,194 |
| Investment in mutual fund | 4,233,723 |
| Land | <u>637,804</u> |
| | <u>\$ 5,493,721</u> |

December 31, 2018

| Trust Assets | Trust Liabilities |
|---------------------------|----------------------------|
| Cash in bank | \$ 264,042 |
| Investment in mutual fund | 4,540,292 |
| Land | <u>377,105</u> |
| | <u>\$ 5,181,439</u> |

(Continued)



Financial Status

Trust Income Statement December 31, 2019

| Trust Assets | Trust Liabilities |
|---------------------------------|-------------------|
| Trust income | |
| Interest income | \$ 183,799 |
| Gains on trust investments | 79,880 |
| Total trust income | 263,679 |
| Trust expense | |
| Management fees | 7,612 |
| Losses on trust investments | 165,557 |
| Total trust expense | 173,169 |
| Income loss before income taxes | 90,510 |
| Income tax expense | - |
| Net profit | \$ 90,510 |

December 31, 2018

| Trust Assets | Trust Liabilities |
|---------------------------------|-------------------|
| Trust Income | |
| Interest income | \$ 168 |
| Trust Expense | |
| Management fees | 635 |
| Income loss before income taxes | (467) |
| Income tax expense | - |
| Net loss | \$ (467) |

(c) Profitability:

Unit: %

| Items | December 31, 2019 | December 31, 2018 |
|------------------------|-------------------|-------------------|
| Return on assets ratio | Before income tax | 0.53 |
| | After income tax | 0.45 |
| Return on equity ratio | Before income tax | 7.97 |
| | After income tax | 6.71 |
| Net Income ratio | 25.21 | 26.05 |

Note 1: Return on assets ratio = Net income before/after income tax ÷ average total assets.

Note 2: Return on equity ratio = Net income before/after income tax ÷ average total stockholders' equity.

Note 3: Net income ratio = Net income after income tax ÷ Net revenue.

(d) Seasonality of operations

The Company is not affected by seasonal or cyclical factors

(Continued)

(13) Other disclosures:

(a) Information on significant transactions: None

(i) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 10% of the capital stock: None

(ii) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock: None

(iii) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock: None

(iv) Service charge discounts on transactions with related parties in an aggregate amount of NT\$5 million or more: None

(v) Receivables from related parties with amounts exceeding the lower of NT\$300 million or 10% of the capital stock: None

(vi) Information on NPL disposal transaction: None

(vii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None

(viii) Business relationships and significant intercompany transaction: None.

(ix) Other significant transactions that may have substantial influence upon the decisions made by financial report users: None

(b) Information on investees: None

(c) Information on investment in mainland China: None

(14) Segment information:

(a) The Company has three segments need to be disclosed (consumers' financing, branches, and others). Each department provides different services and products and managed separately based on their diverse techniques and marketing tactic. The higher level managements of the Company review each department's internal management report every quarter. The information of asset and income disclose by segments all follow the significant accounting policies stated above.

(b) The operation businesses of the segments which need to be disclosed were as follow:

| 2019 | Consumers' financing | Branches | Others | Subtotal | Elimination | Total |
|--------------------------|-------------------------|------------|------------|-------------|-------------|-------------|
| Revenue | | | | | | |
| Net interest income | \$ 1,085,090 | 989,318 | 464,288 | 2,538,696 | - | 2,538,696 |
| Net service income | 10,605 | 51,434 | 211,545 | 273,584 | - | 273,584 |
| Other income-net | - | 167 | 157,173 | 157,340 | - | 157,340 |
| Income between segments | (372,557) | 621,821 | (249,264) | - | - | - |
| Total | 723,138 | 1,662,740 | 583,742 | 2,969,620 | - | 2,969,620 |
| Expenses | | | | | | |
| Bad debt | 74,602 | 114,146 | (35,067) | 153,681 | - | 153,681 |
| Provision for guarantees | - | - | 6,000 | 6,000 | - | 6,000 |
| Operating expenses | 304,791 | 754,444 | 861,672 | 1,920,907 | - | 1,920,907 |
| Total | 379,393 | 868,590 | 832,605 | 2,080,588 | - | 2,080,588 |
| Income before tax | \$ 343,745 | 794,150 | (248,863) | 889,032 | - | 889,032 |
| December 31, 2019 | | | | | | |
| Assets | \$ 33,509,864 | 78,128,272 | 58,226,947 | 169,865,083 | - | 169,865,083 |
| Liabilities | \$ 33,166,119 | 77,334,122 | 47,905,073 | 158,405,314 | - | 158,405,314 |

(Continued)

6 Financial Status

| 2018 | Consumers' financing | Branches | Others | Subtotal | Elimination | Total |
|--------------------------|-------------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| Revenue | | | | | | |
| Net interest income | \$ 1,138,931 | 986,183 | 450,494 | 2,575,608 | (673) | 2,574,935 |
| Net service income | 10,503 | 54,902 | 183,415 | 248,820 | (1) | 248,819 |
| Other income-net | - | 117 | 69,536 | 69,653 | (218) | 69,435 |
| Income between segments | (381,524) | 579,687 | (198,163) | - | - | - |
| Total | 767,910 | 1,620,889 | 505,282 | 2,894,081 | (892) | 2,893,189 |
| Expenses | | | | | | |
| Bad debt | 79,791 | 113,313 | (104,962) | 88,142 | - | 88,142 |
| Operating expenses | 302,184 | 788,898 | 814,517 | 1,905,599 | (89) | 1,905,510 |
| Total | 381,975 | 902,211 | 709,555 | 1,993,741 | (89) | 1,993,652 |
| Income before tax | <u>\$ 385,935</u> | <u>718,678</u> | <u>(204,273)</u> | <u>900,340</u> | <u>(803)</u> | <u>899,537</u> |
| December 31, 2018 | | | | | | |
| Assets | <u>\$ 33,833,377</u> | <u>80,987,684</u> | <u>51,500,165</u> | <u>166,321,226</u> | <u>(1,273,032)</u> | <u>165,048,194</u> |
| Liabilities | <u>\$ 33,447,442</u> | <u>80,268,007</u> | <u>41,762,644</u> | <u>155,478,093</u> | <u>(1,272,956)</u> | <u>154,205,137</u> |

(c) Geographic segment information:

The Company's interest income and service fee income are both from the customers in Taiwan. The Company's non-current assets are all located in Taiwan.

(d) Information on major customers:

For the years ended December 31, 2019 and 2018, no individual customer of the Company accounted for 10% or more of the Bank and its subsidiaries' revenue in the statements of income





7

Financial Status Analysis, Operation Performance Analysis and Risk Management



Financial Status Analysis, Operation Performance Analysis and Risk Management

7-1. Financial Status

Unit: TWD thousand

| Item \ Year | Year | 2019 | 2018 | Difference | |
|-----------------|------|-------------|-------------|------------|------|
| | | | | Amount | % |
| Total Asset | | 169,865,083 | 165,048,194 | 4,816,889 | 2.92 |
| Total Liability | | 158,405,314 | 154,205,137 | 4,200,177 | 2.72 |
| Total Equity | | 11,459,769 | 10,843,057 | 616,712 | 5.69 |

Remarks: Equity increased was due to Capital Increased by earnings and retained earnings.

7-2. Operation Performance

Unit: TWD thousand

| Item \ Year | Year | 2019 | 2018 | Increase/Decrease Amount | Increase/Decrease Ratio (%) |
|--------------------------|------|-----------|-----------|--------------------------|-----------------------------|
| | | | | | |
| Interest income | | 3,605,294 | 3,578,908 | 26,386 | 0.74 |
| Interest expense | | 1,066,598 | 1,003,973 | 62,625 | 6.24 |
| Non-interest income, net | | 430,924 | 318,254 | 112,670 | 35.40 |
| Net revenue | | 2,969,620 | 2,893,189 | 76,431 | 2.64 |
| Bad debt expense | | 159,681 | 88,142 | 71,539 | 81.16 |
| Operating expense | | 1,920,907 | 1,905,510 | 15,397 | 0.81 |
| Income before income tax | | 889,032 | 899,537 | (10,505) | (1.17) |
| Net income | | 748,626 | 753,611 | (4,985) | (0.66) |

Remarks of Ratio Changes analysis:

1. Net non-interest income increased by TWD112,670 thousand was due to gain on asset reversal of impairment loss in 2019 TWD127,092 thousand ,FVPL increased by TWD51,539 thousand, exchange gains and losses decreased by TWD53,419 thousand.
2. Bad debt expense increased was due to the quality decrease on loan.

7-3. Cash Flow

7-3-1. Cash Flow Analysis for the Past Year and Remedy for Shortage of Liquidity:

Unit: TWD thousand

| Initial Cash Residual (1) | Yearly Operating Cash Flow (2) | Yearly Cash Inflow (3) | Residual Cash Amount (deficiency) (1)+(2)+(3) | Cash Deficiency Contingency Plan | |
|------------------------------|-----------------------------------|---------------------------|--|----------------------------------|----------------|
| | | | | Investment Plan | Financial Plan |
| 5,477,841 | 1,330,130 | (268,579) | 6,539,392 | - | - |

Remarks:

1. Cash Flow Analysis
 - (1) Operating activities: The net cash inflow from operating activities due primarily to loans, deposits remittances and investment in financial products
 - (2) Investing activities: The net cash inflow from investing activities due primarily to purchase or sell property or equipment.
 - (3) Financial activities: The net cash outflow from financial activities due issuing and repaying financial bonds or cash dividend distribution.
2. Improvement plan on shortage of liquidity: Not applicable as an occurrence of shortage.

7-3-2. Cash Flow Analysis for Coming Year

Unit: TWD thousand

| Initial Cash Residual (1) | Estimated Yearly Operating Cash Flow (2) | Estimated Yearly Cash Inflow (3) | Estimated Residual Cash Amount (deficiency) (1)+(2)+(3) | Cash Deficiency Contingency Plan | |
|-------------------------------------|--|--|--|-------------------------------------|-------------------|
| | | | | Investment plan | Financial Plan |
| 6,539,392 | (27,060) | 208,894 | 6,721,226 | - | - |

Remarks:

The Bank predicts that the net cash outflow from operating activities will be TWD 27,060 thousand in 2020. In addition, the Bank estimates the cash inflow from investment and financial activities will be TWD208,894 thousand due to property and equipment purchase, issuance of common stock for cash, and cash dividend distribution.

7-4. Impact of Major Capital Expenditures in Recent Year

7-4-1. Utilization of major capital expenditures and sources of Funds: None

7-4-2. Expected potential benefit: None

7-5. Reinvestment Policy, Improvement Plan and Investment Plan in Next Year

7-5-1. Reinvestment Policy

The reinvestment items major in financial business of COTA Bank and the goal of holding long-term earned dividends. Regarding new reinvestment, the authorized unit shall submit proposal to "Asset, Liability and Risk Management Committee" for discussion and then get approval from standing committee of board. The authorized unit shall closely monitor operation and financial condition of invested companies and report to "Asset, Liability and Risk Management Committee" in timely basis to ensure investment performance.

7-5-2. Source of Profit

The cash dividend from reinvest companies:

Taiwan depository and clearing corporation; Taiwan Financial Asset Service Corp.; Taiwan Asset Management Corp.; Sunny Asset Management Corp.

7-5-3. Improvement Plan

Establishment Insurance Agency Department in 2017.5.1, the Bank will merge COTA Bank Insurance Broker Co., Ltd. to the Bank's Insurance Agency Department. The Bank will actively cooperate with major insurance companies to introduce appropriate products to meet customers' needs. The Bank will provide proper training to employees that may help customers to realize their actual demands, to perform the function of the insurance, to bring safety feeling to customers, and to increase the Bank's insurance premium income.

7-5-4. Investment Plan in Next Year

The Bank sets its main operation target in banking business, therefore no new reinvestment plan undertaking for coming year.



Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6. Risk Management

7-6-1. Financial Risk Information

7-6-1-1. Credit Risk

Credit Risk Management System

Year 2019

| Items | Contents |
|---|---|
| 1. Strategies, Objectives, Policies, and Processes | <p>The Bank's credit risk policies and processes comply with Basel II and supervisory regulations. The Bank also created credit risk guidelines in written form such as the code of credit, the bylaws of credit information, the law of the credit responsibility and accountability, the bylaws of handle collateral, the business strategy and law of financial derivatives and all kinds of operation handbooks. They provide strict standard on loans, monitor credit risk, and manage non-performing loans. At the same time, since the change in economic cycle will affect the quality of the loan portfolio, the Bank will execute credit policies to ensure credit exposures under control.</p> <p>The Bank will consider developing the internal credit scoring system. The system will identify and estimate risks from all credit exposures.</p> <p>The Bank established a framework for managing credit risk. The framework may execute risk analysis and monitor risk process. It also may discover potential risks that the Bank may response adequately. In addition, it may assess the relation between risk and return to ensure the goal of the Bank's business.</p> |
| 2. The Structure, and Organization of the Risk Relevant Management Function | <p>(1) The Board of Directors: The Bank's board of directors is the supervisor of credit risk management. The board is responsible for the Bank's business strategies and operation guidelines, and is responsible for reviewing credit risk framework and policies. It also authorizes management to execute credit risk management.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee executes the board's risk policies and reports risk profile to the board.</p> <p>(3) Credit Reviewing Committee: The committee reviews the large amount of loans, specific non-performing loans, and the appointed loans.</p> <p>(4) Risk Management Center: The subcommittee integrates credit risk strategies, designs processes, and introduces credit identification, measurement, monitor, and reporting systems.</p> <p>(5) Other Bank's Units: They should understand credit risks under any circumstances, should deal with the assignment of risk management, and should assist risk management subcommittee in risk monitor.</p> <p>(6) Audit Office: The office should establish audit plan and process, and should review the Bank's credit and investment risks at least once a year.</p> |
| 3. The Scope and Nature of the Risk Reporting and/or Measurement Systems | <p>The Bank adjusts credit risk system to produce enough information according as the change of loan portfolio. The information includes: statistics of pass due loans, evaluation of non-performing loans, and statistics of large amount credit exposure. The board and senior management will receive the information periodically, and will make appropriate business and credit risk decision. In addition, the credit risk measurement to the Bank considers the following factors:</p> <ol style="list-style-type: none"> (1) Loan characteristics, contract contents, and customers' financial conditions (2) The possible effect of the exposures from market change (3) Collateral and guarantee (4) The possible future risk change of the customers or counterparties (5) Besides specific trading risks, measuring loan portfolio risks <p>The Bank gradually establishes internal rating framework and measures and analyzes loan risks through quantitative indexes and qualitative methods.</p> |

| Items | Contents |
|--|---|
| 4. Policies for Hedging and/ or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations | <p>The Bank follows the diversified principal on loans and complies with loan limit regulations such as the same person, the same party, relative corporation, stakeholder, and stocks as collateral for the loan. To avoid credit concentration risk, the Bank reviews and adjusts credit exposures regularly. For controlling the quality of the loan assets and mitigating credit risks, the Bank depends on the credit condition of the borrowers and uses a number of techniques to mitigate the credit risks. For example, the Bank demands collateral and guarantee...etc.</p> <p>The Bank had formulated "The Directions of lending rate pricing". The standard of lending rate considered the market rate, capital cost, operating cost, risk expected loss cost, reasonable profit. For market competition, the customer integral contribution will be the factor of lending pricing.</p> <p>The Bank had formulated "The Directions of the Loan Reviewing Operation" which reviews and follows the cases of the loan and strengthens after-loan management. If the Bank discovers the doubtful loans in the process, it should take necessary measures to protect debt obligations. In order to maintain an effectively monitors hip over credit risk, the Bank had established the indexes of the risk evaluation that regularly monitor the change of them and help to estimate the potential reasons of the future risk occurrence.</p> |
| 5. Approach for calculating the Bank's capital requirement | Standardized approach |

Exposure amount after risk mitigation and capital requirement of the standard approach

Dec. 31, 2019

Unit: TWD thousand

| Category | Exposure amount after risk mitigation | Capital Requirement |
|---|---------------------------------------|---------------------|
| Sovereigns | 25,291,749 | 17,628 |
| Non central government public sector entities | 38,975 | 770 |
| Banks (multilateral development banks) | 3,280,476 | 85,563 |
| Corporate (Securities firm and insurance companies) | 27,222,761 | 2,556,652 |
| Regulatory retail portfolios | 79,205,435 | 6,274,295 |
| Secured by residential property | 15,103,181 | 877,505 |
| Equities investment | 0 | 0 |
| Other assets | 4,410,837 | 299,239 |
| Total | 154,553,414 | 10,111,652 |

Note: Accrued capital is multiplied by risk allowances and statutory minimum capital adequacy ratios for risk offsets.





Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6-1-2. Assets Securitization Risk

Assets Securitization Risk Management System

Year 2019

| Items | Contents |
|---|---|
| 1. Strategies and Processes | <p>The Bank does not play the role such originator, service, credit enhance agency, or financial liquidity provider and expects to be an investor. The internal regulations for securitizations concentrate on the investor field. If there is necessary on originator field, it will be created in the future.</p> <p>Not only the Bank obeys article 74-1 of the Banking Act, but also it had formulated some investment limits such as total position limit, underlying instrument limit, and internal authorized limit.</p> |
| 2. The Structure, and Organization of the Risk Relevant Management Function | <p>(1) The Board of Directors: The Bank's board of directors is the supervisor for securitization risk management. The board is responsible for the Bank's business strategies, and is responsible for reviewing securitization decisions. It also monitors effective operation for managing framework.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee reviews the guidelines and policies of the securitization, controls indicators, and coordinates assignments relative to risk management.</p> <p>(3) Investment Subcommittee: For strengthening portfolio management and trading quality of the securitization, the subcommittee depends on the market condition to plan investment strategies.</p> <p>(4) Risk Management Center: The subcommittee draws strategies and processes of the securitization, designs and introduces risk identification, measurement, monitor, and reporting system.</p> <p>(5) Audit Office: The office should establish audit plan and process, and should review the Bank's risk management at least once a year.</p> |
| 3. The Scope and Nature of the Risk Reporting and/or Measurement Systems | <p>The Bank reports the periodic information of the securitization exposures to the senior management. It also disclosures in the annual report and on the website. The principal of the valuation should confirm the criteria of methodology and the fairness of the data. Furthermore, the managing reports should effectively control exposure positions and should provide appropriate measurement results to assist risk management processes.</p> |
| 4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations | <p>The Bank regularly accesses the effectiveness of the strategies of the hedge positions and reviews the limits of the securitizations investment according to the volatility of the market prices.</p> <p>Both of the strategies and limits will report to Investment Subcommittee and make decision. Mitigations such as collaterals, guarantee, and credit derivatives apply to the standardized approach of the credit risk.</p> |
| 5. Approach for calculating the Bank's capital requirement | Standardized approach |

| Items | Contents |
|--|----------------|
| 6. General periodic disclosures including : (1) The purpose of securitization and the types of risks borne and retained by the Bank for re-securitization (2) Other risks associated with securitized assets(e.g. liquidity risk) (3) The different roles played by the Bank Asset securitization and the level of participation in every stage (4) Describe the monitoring procedures adopted for credit risk and market risk exposures associated with asset securitization (5) Risk management policies adopted by the Bank to mitigate credit risks associated with securitization and re-securitization | Not applicable |
| 7. Provide an overall description of the Bank's accounting policies on securitization | Not applicable |
| 8. The name of the external Credit Assessment Institution(ECAI) engaged for asset securitization within the Banking book and the ECAI's involvement in every type of securitized asset | Not applicable |
| 9. Describe any material changes of quantitative information since the last reporting period (e.g. shift of asset balances between the Banking book and the trading book) | Not applicable |

Remarks:

Item6-9 only applicable to Originating Banks which there is flow in the external position

The undertaking of securitization: None

The original cost of the investing securitization product over TWD300 million in single deal: None

The holding positions due to credit enhancement purpose as an originator: None

As a credit enhancement agency or liquidating assets agency: None

As a guarantee agency or financial liquidity provider: None



Financial Status Analysis, Operation Performance Analysis and Risk Management

Assets securitization exposures and capital requirements

Dec. 31, 2019

Unit: TWD thousand

| Type of Exposures | | Type of Assets | Traditional | | | | | Synthetic | | TOTAL | | |
|----------------------|-----------|------------------------|-----------------------|----------------------------|----------------------------|---------------|--------------------------|---------------------------|--------------------------|----------------------------|----------------------------------|--|
| | | | Risk Exposures | | | | Capital Requirements (2) | Risk Exposures | Capital Requirements (4) | Risk Exposures (5)=(1)+(3) | Capital Requirements (6)=(2)+(4) | prior to Securitization Capital Requirements |
| | | | Purchasing or Holding | Provide Liquidity Facility | Provide credit enhancement | Sub-Total (1) | | Purchasing or Holding (3) | | | | |
| Non-Originating Bank | Banking | Asset-based securities | Purchasing | - | - | 52,610 | 52,610 | - | - | 52,610 | 52,610 | - |
| | Book | | | | | | | | | | | |
| | Trading | - | - | - | - | | | - | - | - | - | - |
| | Book | | | | | | | | | | | |
| | Sub-Total | - | - | - | - | | | - | - | - | - | - |
| Originating Bank | Banking | - | - | - | - | | | - | - | - | - | - |
| | Book | | | | | | | | | | | |
| | Trading | - | - | - | - | | | - | - | - | - | - |
| | Book | | | | | | | | | | | |
| | Sub-Total | - | - | - | - | | | - | - | - | - | - |
| TOTAL | | - | - | - | - | 52,610 | 52,610 | - | - | 52,610 | 52,610 | 0 |

Filling out forms to help:

1. The "Asset Class" column, depending on the type of asset issued securitized (e.g. credit card, home equity loan, auto loan) or the type of securities invested (e.g. Subdivision of mortgage basic securities, commercial real estate basic securities, asset-based securities and secured creditor's rights certificates).
2. The amount of the excess risk in the bank book shall be filled with the amount of the risk insurance after the risk is offset.
3. The column "Providing liquidity financing limits" should include the amount of insured and unmoved.

7-6-1-3. Operational Risk

Operational Risk Management System

Year 2019

| Items | Contents |
|--|--|
| 1. Strategies and Processes | The Bank's operational strategies and processes are restrained the division of labor, employees training, effective control framework, and internal control procedure of each level. In aspect of internal control, the Bank had fully formulated the system of the internal audit, self-audit, law obedience, and business operational rules that may to search on the internal website for employees' real time operation. The Bank reduces operational loss by internal and external audit to monitor and trace the risks. In order to assist all employees executing the processes of the operational risk, Risk Management Center is developing applied implements for managing operational. |
| 2. The Structure and Organization of the Relevant Risk Management Function | <p>(1) The Board of Directors: The Bank's board of directors is the supervisor for risk management. The board is responsible for the Bank's business strategies, and is responsible for reviewing significant decisions.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee follows risk management policies and procedures that the board of directors had approved. In addition, the committee is responsible to review the guidelines and policies of the operational risk, controls indicators, and coordinates assignments relative to risk management.</p> <p>(3) Risk Management Center: The subcommittee draws strategies and processes of the operational risk, designs and introduces risk identification, measurement, monitor, and reporting system. Moreover, the</p> |

| Items | Contents |
|---|---|
| | <p>subcommittee develops the loss event databases of operational risk, gathers risk information from all Banks' units, and reports to ALM committee and the board of the directors regularly.</p> <p>(4) Headquarters' Units They should totally understand the risk that they are facing. When they codify operational regulations, they should consider operational risk management. They also should assist risk management subcommittee to accomplish all kinds of risk monitor.</p> <p>(5) Other Bank's Units: Everyone should comply with the Bank's regulations and should control operational risk. If risk event occurs, everyone should deal with the event immediately and should report to management.</p> <p>(6) Audit Office: The office should execute auditing processes independently and should provide improvement suggestion timely.</p> |
| 3. The Scope and Nature of the Risk Reporting and/or Measurement Systems | The Bank had established the operational processes for business practices. The processes have been executed on daily operation management and to reduce the occurrence of the operational risk. The executive circumstance of the internal and external audit, self-audit, and the system of law obedience regularly reports to the board. The Bank adopts Supervisory regulation to classify loss event types and executes reporting system of the loss data of the operational risk and establishes whole bank's loss database of the operational risk. The Bank reports the periodic information of the operational risk to the Asset and Liability Management Committee and The Board of Directors. The Bank conducts the self-assessment of the operational events before the end of May every year, compliance system, internal audit system, and self-inspection system to manage and reduce operational risk. |
| 4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations | The Bank hedges and mitigates risks through strengthening internal control system, implementing operational risk monitor, training employees, insurance, and outsourcing. The Bank's emergency center and crisis subcommittee had formulated the strategic manual of the disasters and the contingency measures of the operating crisis to ensure every business that may continue to operate normally when the crisis occurs and to protect significant loss of the Bank. |
| 5. Approach for calculating the Bank's capital requirement | Basic indicator approach |

The Operational Risk Capital Charge

Dec. 31, 2019

Unit: TWD thousand

| Year | Annual Gross Income | Capital Charge |
|-------|---------------------|----------------|
| 2017 | 2,759,163 | |
| 2018 | 2,893,939 | |
| 2019 | 2,880,956 | |
| Total | 8,534,058 | 426,703 |



Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6-1-4. Market Risk

Market Risk Management System

Year 2019

| Items | Contents |
|---|--|
| 1. Strategies and Processes | <p>In order to establish effective market risk management system, the Bank formulated market risk managing standard and other related regulations for the benchmark of the market risk management. To ensure the Bank's market risk under control, the functional responsibility divides into trading and settlement, and will involve in risk control system. The system is responsible for the risk identification, measurement, monitor, and reporting procedure.</p> <p>The strategies of the Bank's market risk are as follows: considering the characteristic of each instrument and market condition, regularly measuring endurable risks, expecting balance of returns and risks, optimizing investment allocation. The purpose of all strategies is to improve performance. On the other hand, the Bank formulated a limit system to effectively control risks and reduce exposures.</p> |
| 2. The Structure and Organization of the Relevant Risk Management Function | <p>(1) The Board of Directors: The Bank's board of directors is the supervisor for risk management. The board is responsible to review market risk management system and market risk strategies, and to ensure the system reflects the Bank's business strategies.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee executes risk management strategies and frameworks that the board of directors had approved. In addition, the committee is responsible to review the principals, strategies, and monitoring indexes of the risk managing system and to coordinate and monitor each risk management relative to matters.</p> <p>(3) Investment Subcommittee: The subcommittee plans investment strategies and makes decision what the positions should be sold or hold.</p> <p>(4) Risk Management Center: The subcommittee draws strategies and processes of the market risk management, designs and introduces risk identification, measurement, monitor, and reporting system.</p> <p>(5) Related Units: They execute necessary duties of the risk management such monitoring traders and cooperate with Risk Management Center to finish each item of the risk monitor.</p> <p>(6) Audit Office: The office should establish audit plan and process, and should review the Bank's risk management at least once a year.</p> |
| 3. The Scope and Nature of the Risk Reporting and/or Measurement Systems | <p>Market risk information system should be able to control exposures and provide appropriate risk measurement results. For the purpose of the evaluation, the positions divide into trading book and banking book. The banking book positions evaluate once a month, the trading book positions evaluate on a daily basis. The information about gain/loss and exposures will deliver to management which includes market risk management reporting, derivative financial instruments gain/loss assessment. As close to gain/loss the stop-loss warning of pointers would keep attention to the market changes and take measure to avoid over-limit. Related Units monitor the position of TWD and foreign currency assets, gain/loss and stop-loss alert system for keep the market risk within the limits of the bank strength. In 2015, the Bank will use the PIRS system established by TEJ to pricing Bonds, CBAS, Option to reflect the real market price and compliance with regulations.</p> |
| 4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations | <p>The Bank's hedging strategy of the financial products include to use spots or derivatives to evade market price risks and to review each risk limit regularly such as trading position limits, traders' position limits, and stop loss limits. If the assessment indicates the risk overloaded, the Bank will transfer risks and reduce exposures. If dealers exceed their position limits, Risk Management Center should inform the facts and procedures to management and report daily until under limits. If dealers exceed their stop loss limits, they are required to execute positions.</p> |
| 5. Approach for calculating the Bank's capital requirement | <p>Standardized approach</p> |

The Market Risk Capital Charge

Dec. 31, 2019

Unit: TWD thousand

| Risk Category | Capital Charge |
|-----------------------|----------------|
| Interest Rate Risk | 208,700 |
| Equity Position Risk | 17,856 |
| Foreign Exchange Risk | 59,396 |
| Option Position | 0 |
| Total | 285,952 |

7-6-1-5. Liquidity Risk

According to operating cash flow, market movement, and minimum requirement of the liquidity reserves ratio, the Bank diversifies funding resources and maintains funding stability. Short-term investment considers the safety of the underlying assets, marketable on the secondary market, and lower liquidity risk such as NCDs, treasury bonds, corporate bonds, and bank debentures. The Bank takes some steps to manage liquidity, for example, monitoring the structural change of assets and liabilities in each period, editing "The Gapping Report of the TWD Cash Flow" weekly, making the reporting sheets of the risk management every month and reporting to Asset and Liability Management Committee, and transferring and operating funds effectively.

According to "Standards Implementing the Liquidity Coverage Ratio of Banks" promulgated by FSC and the Central Bank on Dec. 29, 2014, our bank Liquidity Coverage Ratio (LCR) was 462.44% which meets the minimum required 100% set by the competent authority.

The Bank's Net Stable Funding Ratio (NSFR) for the fourth quarter of 2019 was 141.54%, which meets the requirement of a ratio of no less than 100%.

Analysis for Time-to-Maturity of the Bank's TWD Assets and Liabilities

as of Dec. 31, 2019

Unit: TWD thousand

| | Total | Volumes during the period prior to the due date | | | | | |
|---------------------------------|--------------|---|------------|--------------|--------------|------------------|-------------|
| | | 0~10 Days | 11~30 days | 31~90 days | 91~180 days | 181 days~ 1 year | Over 1 year |
| Major inflows of matured funds | 167,769,932 | 21,261,019 | 13,207,713 | 5,256,598 | 6,883,404 | 15,372,751 | 105,788,447 |
| Major outflows of Matured funds | 182,435,903 | 4,565,186 | 9,529,829 | 23,400,188 | 32,551,298 | 47,577,834 | 64,811,568 |
| Maturity Gap | (14,665,971) | 16,695,833 | 3,677,884 | (18,143,590) | (25,667,894) | (32,205,083) | 40,976,879 |

Note: The bank portion refers to the amount of TWD in the whole bank.

Analysis for Time-to-Maturity of the Bank's USD Assets and Liabilities

as of Dec. 31, 2019

Unit: USD thousand

| | Total | Volumes during the period prior to the due date | | | | |
|---------------------------------|---------|---|-----------|------------|-------------------|-------------|
| | | 0~30days | 31~90days | 91~180days | 181 days - 1 year | Over 1 year |
| Major inflows of matured funds | 102,965 | 35,350 | 33,652 | 5,225 | 2,437 | 26,301 |
| Major outflows of Matured funds | 102,965 | 43,077 | 7,911 | 4,861 | 7,389 | 39,727 |
| Maturity Gap | 0 | (7,727) | 25,741 | 364 | (4,952) | (13,426) |

Note: The bank portion refers to the amount of USD in the whole bank.



Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6-2. Impact of Alterations in Domestic and Foreign Major Policies and Laws on the Bank's Financial Operations and Adopting Measures

7-6-2-1 Compliance with the “Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions”

- Change in Regulations

In response to the international trend of automatic exchange of financial account information, the Treasury issued the “Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions” (CRS) on November 16, 2017, which has been in effect since its release.

- Impact and Response Measures

In order to comply with the Code of Practice, the Bank has established relevant practices, set up computer programs, and conducted staff education and training to comply with the Code of Practice. To establish rules for handling internal reporting cases, and deal with them quickly before the degree of the case is too big to avoid damage to goodwill.

7-6-2-2 Compliance with “Guidelines Governing Anti-Money Laundering and Combating the Financing of Terrorism by the Banking Sector”

- Change in Regulations

Because the Money Laundering Prevention Act, the Terrorism Prevention Act, the Financial Supervisory Commission and financial-related associations have added or amended regulations for the promulgation of anti-money laundering and anti-terrorism related acts, on January 1, 2017, the Bank established an independent and specialized unit for Anti Money Laundering and Combating the Financing of Terrorism under the Compliance and Legal Affairs Department and amended the Bank's guideline for Anti Money Laundering and Combating the Financing of Terrorism in accordance with the Law. The Company conducts ongoing training for directors, senior management and staff on the topic of Anti Money Laundering and Combating the Financing of Terrorism, and builds information systems to strengthen internal control practices and implement the requirements of the law.

- Impact and Adopting Measures

The Bank has been required by regulations to verify customer identification and to maintain evidence of transactions with customers, and to monitor accounts and transactions on an ongoing basis: this includes ongoing reviews of customers' business relationships and detailed reviews of their trading processes to ensure that transactions are consistent with the business and risks of the customers and, where necessary, their sources of funding; regular reviews of the adequacy of information obtained to identify customers and actual beneficiaries, and to ensure that such information is updated, particularly for high-risk customers.

7-6-2-3 The impact of the General Data Protection Regulation (hereinafter referred to as GDPR)

- Change in Regulations

With the development of digital economy technology and the impact of globalization, the issue of personal data protection has brought many new challenges. On May 24, 2016 The EU passed The General Data Protection Regulation (GDPR) to upgrade the thickness of regulations on protecting personal data and establish an applicable management standard in the EU. GDPR, which was implemented on May 25, 2018, replaces the European Union's 1995 Data Protection Directive.

- Impact and Adopting Measures

The bank has not established branches or subsidiaries in the EU. After reviewing the Bank's business development policies and actual business conditions, the Bank has revised the Bank's guideline for personal data maintenance and management.

7-6-2-4 Impact on Procedures for reporting the scope of major contingencies by financial institutions and other matters to be observed

- Change in Regulations

Financial Supervisory Commission announced Procedures for reporting the scope of major contingencies by financial institutions and other matters to be observed on Mar. 22, 2017. It includes the major contingencies reporting institution, scope, procedure, addition the check account occurred per bounce check amount exceeding TWD100 million, Financial Holding company or the head office of domestic bank get the information of foreign subsidiaries or branches that descended rating by the local authorities or the audit report mentioned about “not rule out taking counter measures” or “will retain the power of administrative sanctions”, and subsumed the reporting mechanism under the financial institution internal control and check system.

- Impact and Adopting Measures

The bank had subsumed the above compliance matters under the financial institution internal control and check system.

7-6-2-5 Financial Supervisory Commission encourages FinTech and other innovations

- Change in Regulations

In recent years, financial technology such as block-chain, artificial intelligence and big data and other related technologies and business models have developed rapidly. Innovative applications have become popular with mobile devices such as mobile phones, prompting financial institutions to substantially increase their investment in financial technology. Through the development of financial technology to enhance competitiveness, the FSC has successively promoted the establishment of a digital financial environment 3.0, relaxed regulations governing financial institutions investing in financial technology industry, established financial technology development funds, promoted the development of electronic payment, and promoted the experimental mechanism of Fintech innovation. To setup financial technology innovation parks, lifted the ban on Direct Banking. The FSC will promote various incentive and innovation measures, and continue to guide the industry to actively invest in scientific and technological innovation to achieve inclusive financial goals.

- Impact and Adopting Measures

The digitalization of finance has become the future of the financial industry. Cota bank continued to strengthen and carry out the education and training for employees to enhance their skills in financial technology and make employees a boost to the development of financial technology.

7-6-2-6 Impact on Basel III

- Change in Regulations

Financial Supervisory Commission and Central Bank of the Republic of China promulgated “Standards Implementing the Liquidity Coverage Ratio of Banks” on Dec. 29, 2014.

- Impact and Adopting Measures

The Basel III made a great impact on Asian banks is the strict regulations on liquidity assets. The reason is parts of banks to lack of the high-quality current assets, the operator must also adopt new science and technology or upgrade the internal system to manage the mobility risk and obey the mobility new standard. The Basel III and before inspect institutional of the main difference is a banking to want with the Liquidity Coverage Ratio (LCR) and the net stable funding ratio (NSFR) quantification mobility risk. (LCR) requires the banks should own high-quality liquidity assets to meet net cash outflow under severe situation within 30 days. The (NSFR) encouragement bank uses more stable funds source and strengthens the tenacity for banking to face long-term pressure and make use of medium and long-term margin strategy, rather than use more short-term assets. Cota bank LCR is 462.44% based on December 2019 data which meets the minimum requirement of the 100%. The NSFR was formally implemented in 2018, the Bank's NSFR for the fourth quarter of 2019 was 141.54%, which meets the requirement of a ratio of no less than 100%.



Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6-3. Impact of Technological and Industrial Changes on the Bank's Financial Operations and Adopting Measures

The Bank had provided e-bank service to reduce cost and enhance business efficiency. Although it brings convenience and cost-down, it still had some risks of the information safety such as program errors, system crashes, or hacker attacks. They will therefore create unpredictable losses and operational risks. To avoid the occurrence of the loss events, the Bank will train employees to recognize the information safety and to deal with emergent events. This will reduce the probability of the risk occurrence. In order to enhance the Bank's assets quality and reduce loan risks, the related loan departments provide industrial research reports without a fix schedule and observe the industrial changes at any time.

7-6-4. Impact on the Bank of Changes in the Bank's Image and Adopting Measures

The Bank holds the spirit of "take resource from society and contribute to community" to take the responsibility of the enterprise citizen. Participating active social welfare activities through founded "COTA Culture and Education Foundation". Facing keen competition, the Bank still maintains the spirit of "being respectful to customers" to provide the professional financial services to customers. The Bank hopes to maintain long-term stable relationship with customers by clear and professional image and to create a win-win situation between enterprise and clients.

7-6-5. Expected Benefits and Potential Risks of Mergers and Acquisitions and Adopting Measures

Currently, no merger or acquisition plan.

7-6-6. Expected Benefits and Potential Risks of Branches Location Expansion and Adopting Measures

To expand the scale of customer service, increase business efficiency, and create brand awareness and market share, the Bank cautiously evaluates to expand business location every year cause of the business unit might create operating risk and credit risk.

7-6-7. Risk Arising from the Concentration of Business and Adopting Measures

The Bank had formulated risk limit regulations such as the same person, the same party, affiliates and all kind of industries on loan and investment businesses. In addition, the Bank controls concentration of all bank's business lines through information management system. This can diversify risk, keep assets' quality and assured operating moderate.

7-6-8. The Influence and Risk Posed by Changes in Operating Control Rights and Adopting Measures

There have been no changes in operating control.

7-6-9. The Influence and Risk Posed by Mass Shares Transfer of Directors, Supervisors or Major Shareholders with Shares holding over 1% and Adopting Measures: None

7-6-10. Lawsuits:

1. Xie O O filed a lawsuit requesting the revocation of the Company's 2017 provisional resolution of shareholders' meeting held on December 22, 2017, as Xie O O filed an appeal against the first trial civil judgment in the previous case, which was heard by the Taichung Division of the Taiwan High Court and decided in favor of the Company.
2. Hsian O International Ltd. (hereinafter called "the Company") filed a case against the Bank and others to rescind the provisional resolution of shareholders. On May 24, 2018, the Taichung District Court ruled in favor of the Bank. However, the Company did not accept the ruling and filed an appeal, which is currently being heard by the Taichung Division of the Taiwan High Court. On October 17, 2011, The Bank also received the Su Zi Judgment No. 3148, rendered by the Taichung District Court in 2018 at October 17 of the same year and the transcript of the Plaintiff's Complaint, requesting to confirm the invalidity of the resolution of the board of Managing Directors. The Bank has appointed lawyers to litigate the matter, which is still under trial in the court.
3. The plaintiff, Lin O O et al, filed an incidental civil action for damages against the defendant, Chen O O et al, for violation of the Futures Trading Act. The Taichung District Court of Taiwan has ruled that the Chen O O should compensate the plaintiff, Lin O O et al for their losses. The total translated amount was approximately \$27,292,810 and the interest rate was 5% per annum on average from August 19, 2011 to the date of repayment. The Bank filed an appeal in accordance with the law and was heard by the Taiwan High Court Taichung Branch.

The Company assesses that the above litigation events have not yet had a material impact on its financial operations and that there will be no material changes in its operating policies and decisions.

7-6-11. Other Significant Risks and Adopting Measures

Other risks such as strategically risk, goodwill risk, and the risk of the obedience of laws, the Bank will adjust the business policy in accordance with the change of the market condition and the modification of the laws to enhance business flexibility and competition.





7-7. Crisis Handling System:

- 7-7-1. In order to manage crisis handling system, the Bank formulated some related rules, taking measures, and adopting manual of disasters to effectively reduce damage and protect customers' rights. The Bank also established contingent task team to execute contingency solving measures.
- 7-7-2. In order to rapidly deal with disasters, the Bank established the emergency call and reporting system in the ordinary time. The managers of each unit charges with contact assignment.
- 7-7-3. In the event of significant and unforeseeable contingencies, the Bank will report the event to competent authority in addition to inform police department or related institution to take emergency remedy approaches.
- 7-7-4. In the event of natural disasters, the Bank will obey "The operating directions of the averting disasters for financial institutions" and "The operating directions of closed business as disasters occurring for financial institutions" formulated by competent authority. For check cleaning and dishonored check information filing, the Bank will obey "The operating directions of check cleaning and dishonored check information filing for partly office terminate area" formulated by the Taiwan Cleaning House.

7-8. Other Significant Matters: None



Special Notes



Special Notes

8-1. Data of Affiliated Company

8-1-1. Organization Chart of Affiliated Company: None

8-1-2. Profile of Affiliated Company: None

8-1-3. Infer Controller and Subsidiary Own the Same Shareholders' Data: None

8-1-4. Data of Affiliated Company's Director and Supervisor: None

8-1-5. Business Operation of Affiliated Company: None

8-1-6. Consolidated Financial Statement of Affiliated Company Details: N/A

8-1-7. Affiliated Statement: N/A

8-2. Private Placement of Securities: None

8-3. Holdings or Disposal the Stock of COTA Bank by Subsidiaries: None

8-4. Other Matters for Supplementary Explanation: None

8-5. Pursuant to Item2, Paragraph 3, Article 36 of Security and Exchange Act, the Incidence Exerting Material Influence on Shareholders' Rights or Security Prices: As of press time, none



Chronological Highlights

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| 2015.01.08 | Mr. Liao Song-Yie and Chuan Cheng Hat Co., Ltd. were elected as managing directors in board of directors of the 7th Session of 1st extraordinary meeting. |
| 2015.01.23 | Mr. Kun-Hsien Lin, Mr. Kuo-Chao Hsiao and Ying-Che Chang-Corporation Representative of Deng Heng Enterprise Co., Ltd. were elected as managing directors in board of directors, Mr. Liao Sung-Yie was elected as Chairman in board of directors of the 7th Session of 3rd extraordinary meeting. |
| 2015.02.07 | Legal & Compliance Department founded |
| 2015.04.01 | Obtained approval of foreign exchange licenses for branches of Guoguang, Linsen, Nanmen, Jinhua and Beitun. |
| 2015.04.20 | Qiaotou Branch opened |
| 2015.04.29 | Received 'The best performance of creative industries loan' recognized by FSC |
| 2015.05.06 | Gift cards advance payment trust and dealing trust launched |
| 2015.06.10 | Held 2015 shareholder's regular meeting. |
| 2015.06.13 | For celebrating COTA Bank 100 years of history, 'Living in affluence forever - COTA 100' a hiking event held |
| 2015.07.01 | Mobile banking foreign exchange business approved by CBC Foreign Bureaus |
| 2015.07.21 | Fengdong Mini-Branch upgraded to Fengdong Branch at the same address as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10400174980. |
| 2015.08.27 | Publically announced cash capital increase issuance of new shares in 2015. |
| 2015.09.01 | Trust business online account opened for common customer / wealth management customer launched |
| 2015.10.01 | Fengdong Mini-Branch upgraded to Fengdong Branch |
| 2015.10.24 | For celebrating COTA Bank 100 years of history, 'Love connection Hot blood - COTA 100' a blood donation charitable event held at SKM Hui-An Parking lot |
| 2015.10.27 | Dadu Branch opened |
| 2015.11.27 | Fengdong Branch moved to Taiping Dist., Taichung and renamed Taiping Branch as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10400282100, which self-executing from 2015.11.27 |
| 2015.12.01 | Electronic Banking Department founded |
| 2016.03.29 | New revision website launched. |
| 2016.04.15 | A new function added about applying for credit card on line. |
| 2016.04.18 | A new function added about account closing with limited amount on line. |
| 2016.06.07 | Held 2016 shareholder's regular meeting. |
| 2016.06.08 | The Book Donation Project be initiated from TCCE Foundation and COTA donated TWD 0.5 million. |
| 2016.07.27 | Publically announced capital increase by earnings in 2016 and cash dividend in 2015. |
| 2016.09.08 | Longjing Branch opened |
| 2016.09.26 | Fongdong Branch moved and renamed Taiping Branch and reopened for business. |
| 2016.10.28 | Provided new currency service that A UD added for FISC domestic clearing platform. |
| 2016.11.08 | Tianzhong Branch opened |
| 2016.12.17 | Held blood donation charitable event. |
| 2016.12.27 | Chairman attended "Golden Security Award" held from JCIC. Provided foreign currency ACH. |

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| 2017.01.09 | New revision mobile banking launched. |
| 2017.03.15 | Fengyuan Branch moved to 330 Xiangyang Rd., Fengyuan Dist., Taichung as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10600057500, which self-executing from 2017.03.15. |
| 2017.04.20 | Received Performance rank A of 'Domestic Banks strengthen SME loan'. |
| 2017.05.01 | Mr. Jung-Hsien Chiu as President. Insurance Agent Department founded and merged with COTA Bank Insurance Broker Co Ltd. |
| 2017.05.10 | B2b banking launched. |
| 2017.05.19 | Fengyuan Branch new building started using. |
| 2017.06.16 | Held 2017 shareholder's regular meeting. |
| 2017.09.01 | IC ATM Card cross border withdrawal/debit launched. |
| 2017.09.15 | Publically announced capital increase issuance of new shares in 2017. |
| 2017.09.21 | Fengyuan Branch provide Number Taking online service. |
| 2017.09.23 | A sponsor of EDEN Social Welfare Foundation '2017 Touching Life'. |
| 2017.10.10 | A sponsor of '106 th National Day Celebration Taichung Float Festivals'. |
| 2017.11.09 | Publically announced capital increase issuance of new shares by cash in 2017. |
| 2017.11.20 | A sponsor of Credit Union League of the Republic of China 'Flying dreams for driving bicycles'. |
| 2017.12.16 | A sponsor of GLSF'10 th Bicycles sending Love' |
| 2017.12.22 | Held 2017 shareholder's 1 st extraordinary meeting for voting 8 th directors. |
| 2017.12.23 | Held blood donation charitable event. |
| 2017.12.26 | According to Taiwan Ratings Corp, COTA Bank Debt Rating Data: Long-term: twBBB+, Short-term: twA-2, Outlook: Stable. |
| 2018.01.12 | Mr. Ying-Che Chang, Mr. Xian-De Lai, Mr. Min-Chang Lin-Corporation Representative of Chuan Cheng Hat Co., Ltd. and Mr. Kun-Hsien Lin were elected as managing directors in board of directors, Mr. Liao Sung-Yie was elected as Chairman in board of directors of the 8th Session of 2nd extraordinary meeting. |
| 2018.03.12 | Issued commemoration passbook of Taichung World Flora EXPO 2018 |
| 2018.04.13 | Received Performance rank A of 'Starup key industry loan'. |
| 2018.05.02 | Lunched accessible interface web ATM and get version 2.0 conformance level A |
| 2018.05.22 | Issued commemoration debit card of Taichung World Flora EXPO 2018 |
| 2018.05.30 | Lunched mobile banking cardless withdrawal |
| 2018.06.22 | Held 2018 shareholder's regular meeting. |
| 2018.07.03 | Obtained approval of foreign exchange licenses for branches of Fengxin, Zhongshan, Daya, Qiaotou and Taiping. |
| 2018.09.13 | Publically announced capital increase issuance of new shares by cash in 2018. |
| 2018.10.01 | Obtained approval of foreign exchange licenses for branches of Dadu, Longjing and Tianzhong. |
| 2018.10.04 | A sponsor of Asialink Sketchwalk Taichung 2018 |
| 2018.10.12 | Held Leopard cat for one day of clerk at Taichung branch |
| 2018.10.13 | A sponsor of EDEN Social Welfare Foundation '2018 Touching Life'. |

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| 2018.11.03 | A sponsor of Credit Union League of the Republic of China '3 on 3 basketball game'. |
| 2018.11.19 | Be honored of FISC E-Cash Flow Services Innovation Awards |
| 2018.12.15 | A sponsor of GLSF '11 th Bicycles sending Love' |
| 2018.12.15 | Held blood donation charitable event. |
| 2018.12.20 | The MOU Signing Ceremony on Financial Supply Chain Blockchain with Tradevan |
| 2018.12.26 | According to Taiwan Ratings Corp, COTA Bank Debt Rating Data: Long-term: twBBB+, Short-term: twA-2, Outlook: Stable. |
| 2019.02.24 | A sponsor of Association for Victims Support (AVS) 20 th anniversary event – Thanksgiving Concert |
| 2019.04.29 | Received Performance rank A of 'Starup key industry loan'. |
| 2019.05.22 | Certification to ISO 27001 Information Security Management System (ISMS) |
| 2019.06.14 | Held 2019 shareholder's regular meeting and amendment approved "Procedures for Acquisition or Disposal of Assets" |
| 2019.06.21 | Lunched barrier free mobile banking |
| 2019.07.26 | Publically announced capital increase issuance of new shares in 2019. |
| 2019.09.12 | Lunched foreign exchange non-discretionary individually managed money trust |
| 2019.10.01 | Lunched EASYCARD/ATM CARD |
| 2019.10.19 | A sponsor of EDEN Social Welfare Foundation '6 th Touching Life Festival'. |
| 2019.10.21 | Lunched apply online for personal micro credit loans |
| 2019.11.02 | A sponsor of Credit Union League of the Republic of China '3 on 3 basketball game'. |
| 2019.11.10 | A sponsor of "Taiwan's Rice Heaven - Tianzhong Marathon" |
| 2019.11.19 | Be honored of MOC "14 th Arts & Business Awards" Silver Winner |
| 2019.12.14 | Held blood donation charitable event |
| 2019.12.23 | According to Taiwan Ratings Corp, COTA Bank Debt Rating Data: Long-term: twBBB+, Short-term: twA-2, Outlook: Stable. |
| 2019.12.25 | Be honored of "The 13 th Golden Security Award" from JCIC |



Head Office and Branches

| Unit | Address | Tel | Fax |
|--|--|----------------|----------------|
| Head Office | 59 Shihfu Road, Central District, Taichung City 400, Taiwan | 886-4-22245171 | 886-4-22275237 |
| Trusts Dept. | 2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan | 886-4-22807366 | 886-4-22809021 |
| Insurance Agent Dept. | 3F., .339, Dazhi Road, East District, Taichung City 401, Taiwan | 886-4-22800126 | 886-4-22801527 |
| International Banking Dept. Offshore Banking Branch | 2F., 246 Yangguang Street, Neihu District, Taipei City 114, Taiwan | 886-2-87533599 | 886-2-87533573 |
| Consumer Banking Center | 10F, 580 Jinhua Road, North District, Taichung City 404, Taiwan | 886-4-22384596 | 886-4-22378150 |
| SME Banking Center | 11F, 580 Jinhua Road, North District, Taichung City 404, Taiwan | 886-4-22370028 | 886-4-22372595 |
| Wealth Management Center | 2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan | 886-4-22800361 | 886-4-22809747 |
| Credit Card Center | 2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan | 886-4-22805288 | 886-4-22807688 |
| Taichung Branch | 59 Shihfu Road, Central District, Taichung City 400, Taiwan | 886-4-22245161 | 886-4-22234491 |
| Banking Dept. | 32-1 Gongyuan Road, Central District, Taichung City 400, Taiwan | 886-4-22211186 | 886-4-22229536 |
| Chenggong Branch | 580 Jinhua Road, North District, Taichung City 404, Taiwan | 886-4-22304100 | 886-4-22304701 |
| Xitun Branch | 458 Sec. 2, Henan Road, Xitun District, Taichung City 407, Taiwan | 886-4-27062968 | 886-4-27063816 |
| Guoguang Branch | 333 Sec. 3, Fusing Road, South District, Taichung City 402, Taiwan | 886-4-22245111 | 886-4-22229281 |
| Dazhi Branch | 339 Dazhi Road, East District, Taichung City 401, Taiwan | 886-4-22815998 | 886-4-22815977 |
| Linsen Branch | 99 Linsen Road, West District, Taichung City 403, Taiwan | 886-4-23725151 | 886-4-23723024 |
| Nanmen Branch | 75 Nanmen Road, South District, Taichung City 402, Taiwan | 886-4-22871146 | 886-4-22862412 |
| Jinhua Branch | 255 Jinhua North Road, North District, Taichung City 404, Taiwan | 886-4-22333550 | 886-4-22335164 |
| Nantun Branch | 410 Nantun Road, Nantun District, Taichung City 408, Taiwan | 886-4-24718500 | 886-4-24758522 |
| Beitun Branch | 751 Sec. 4, Wunsin Road, Beitun District, Taichung City 406, Taiwan | 886-4-22426565 | 886-4-22417153 |
| Fengyuan Branch | 330 Xiangyang Road, Fengyuan District, Taichung City 420, Taiwan | 886-4-25151788 | 886-4-25151895 |
| Zhanghua Branch | 181 Sec. 2, Zhongzheng Road, Zhanghua City, Zhanghua County 520, Taiwan | 886-4-7298686 | 886-4-7298585 |
| Yuanlin Branch | 189 Sec. 1, Datong Road, Yuanlin Town, Zhanghua County 510, Taiwan | 886-4-8383888 | 886-4-8383666 |
| Taipei Branch | 246 Yangguang Street, Neihu District, Taipei City 114, Taiwan | 886-2-87512588 | 886-2-87512788 |
| Taoyuan Branch | 9 Sec. 2, Chenggong Road, Taoyuan City, Taoyuan County 330, Taiwan | 886-3-3470505 | 886-3-3357373 |
| Panchiao Branch | 260 Minzu Road, Panchiao City, New Taipei City 220, Taiwan | 886-2-89536001 | 886-2-89536011 |
| Fengxin Branch | 353, Zhongshan Road, Fengyuan District, Taichung City 420, Taiwan | 886-4-25261181 | 886-4-25269540 |
| Zhongshan Branch | 36, Daming Road, Fengyuan District, Taichung City 420, Taiwan | 886-4-25277155 | 886-4-25269553 |
| Kaohsiung Branch | 1, Wenfu Road, Zuoying District, Kaohsiung City 813, Taiwan | 886-7-3505685 | 886-7-3506711 |
| Tainan Branch | 438, Sec 2, Datung Road, South District, Tainan City 702, Taiwan | 886-6-2130966 | 886-6-2149088 |
| Xinzhuang Branch | 287, Chung Ping Road, Xinzhuang District, New Taipei City 242, Taiwan | 886-2-22768887 | 886-2-22768611 |
| Xinzhu Branch | 196, Minsheng Road, East District, Hsinchu City 300, Taiwan | 886-3-5313225 | 886-3-5323611 |
| Fengshan Branch | 478, Wenheng Road, Fengshan District, Kaohsiung City 830, Taiwan | 886-7-7676772 | 886-7-7678719 |
| Daya Branch | 336, Yahuan Road, Daya District, Taichung City 428, Taiwan | 886-4-25692549 | 886-4-25693431 |
| Qiaotou Branch | 55, Chenggong Road, Qiaotou District, Kaohsiung City 825, Taiwan | 886-7-6116860 | 886-7-6112208 |
| Dadu Branch | 426-7, Sec.1, Shatian Road, Dadu District, Taichung City 432, Taiwan | 886-4-26930289 | 886-4-26930293 |
| Longjing Branch | 196, Sec. 1, Zhongyang Rd., Longjing Dist., Taichung City 434, Taiwan | 886-4-26397699 | 886-4-26397106 |
| Tianzhong Branch | 136, Sec. 2, Yuanji Rd., Tianzhong Township, Changhua County 520, Taiwan | 886-4-8750886 | 886-4-8751268 |
| Taiping Branch | 233, Huantai E. Rd., Taiping Dist., Taichung City 411, Taiwan | 886-4-23915189 | 886-4-23915255 |

COTA Commercial Bank Code of Ethical Conduct

Article 1

The Code of Ethics of COTA Commercial Bank (the "COTA") was established for the directors and managers of the COTA, as well as persons with the power of signature and managing matters for the COTA, so that they can comply with ethical standards.

Article 2

Directors, managers and persons with the power of signature and managing matters for the COTA must be objective and effective in handling COTA business and must not use their role in the COTA to allow themselves, their spouses, parents, children or close second-level relatives to obtain inappropriate benefits. The COTA must avoid any conflict of interest when providing capital loans or guarantees, or conducting major asset trading or buying (selling) transactions for enterprises related to the aforementioned personnel. These persons must voluntarily explain if there is any potential conflict of interest between themselves and the COTA.

Article 3

Directors, managers and persons with the power of signature and managing matters for the COTA must not:

- (1) plan to obtain personal gains by using COTA assets, COTA information, or their role in the COTA;
- (2) compete with the COTA. When opportunities for the COTA to obtain profits arise, directors, managers and persons with the power of signature and managing matters for the COTA have the responsibility to increase the legitimate and legal benefits the COTA may possibly gain.

Article 4

Directors, managers and persons with the power of signature and managing matters for the COTA must uphold the principles of fairness, integrity and transparency in the commercial process and shall not offer, promise, demand or receive any improper benefits directly or indirectly, nor commit unethical acts that violate the ethics, laws or their duties to obtain or maintain the benefit.

Article 5

Directors, managers and persons with the power of signature and managing matters for the COTA are obligated to not divulge information of the COTA or its buying (selling) clients unless otherwise authorized or required by law. Information to be concealed includes all unpublished information that, if leaked, may be used by competitors or cause damage to the COTA or its clients.

Article 6

Directors, managers and persons with the power of signature and managing matters for the COTA must treat buying (selling) clients, competitors and staff fairly, and must not gain benefits inappropriately by manipulating, concealing or abusing information obtained as part of their role in the COTA; or by misrepresenting important facts or employing other unfair trading practices.

Article 7

Directors, managers and persons with the power of signature and managing matters for the COTA have the responsibility to protect the assets of the COTA and ensure their effective and legal use in the business.

Article 8

Directors, managers and persons with the power of signature and managing matters for the COTA must comply with the Financial Holding COTA Act and the Securities and Exchange Act, follow other rules and regulations, and enforce the publicity of ethical values.

Article 9

The COTA encourages staff to report to the board of directors, managers, Chief of Internal Audit or other appropriate personnel in the event that they suspect or discover behavior contrary to the laws and regulations or the Code of Ethics, and to provide sufficient information for the COTA to take appropriate follow-up action.

To encourage employees to report violations, the COTA should set up a specific report system and let employees know that the COTA will make every effort to protect the safety of the reporter from suffering retaliation.

Article 10

If there is a situation where a director, manager or a person with the power of signature and managing matters for the COTA breaches the Code of Ethics, the COTA shall take disciplinary action in accordance with the COTA Act, the Articles of Incorporation, international regulations or other related laws and regulations, and the COTA shall immediately disclose the information regarding the violation on the Market Observation Post System, including the title and name of the offender, violation date and reason, code of violation, processing status, etc. The COTA should also establish a corresponding appeals system to provide assistance for personnel accused of breaching the Code of Ethics.

Article 11

The approval of the board of directors is required if an exemption to follow the Code of Ethics by directors, managers or persons with the power of signature and managing matters for the COTA is necessary. Details of the exemption, including exempt person, title, date approved by the board, independent directors' opposing or reserved opinions, period of the exemption, reason for the exemption and the code applicable, must be posted on MOPs in a timely manner. This allows shareholders to assess if the decision of the board was appropriate and should suppress suspicious exemptions or exemptions requested at will from happening. It also ensures that a proper control and management system exists for any exemption in order to protect the interests of the COTA.

Article 12

Code of the chairman and general manager of a bank hold a concurrent post of non-financial enterprise:

- (1) Internal management of representative holds a concurrent
The chairman, general manager or as well as persons with the power of non-financial enterprise whom must not hold a concurrent head post of COTA.
- (2) As chairman and general manager hold a concurrent post of non-financial enterprises who must sign a letter of undertaking including:
 - (2-1) Must not hold a chairman, general manager or as well as persons with the power.
 - (2-2) Must comply with interested party control of COTA
 - (2-3) Must comply with the duty of loyalty of COTA

Article 13

The COTA should publish its Code of Ethics on annual report, public information booklet and the Open Information observatory; it should do so whenever the Code of Ethics is revised.

Article 14

The Code of Ethics of the COTA will be implemented after being approved by the board of directors, audit committee and will be presented in shareholders' meetings; and the same shall apply whenever it is revised.



COTA Commercial Bank

2019