

KING'S TOWN BANK

ANNUAL REPORT 2019



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I. Letter to Shareholders

In 2019, as a result of the international economic situation affected by the on-going US-China trade dispute, rising geopolitical risks, and the sluggish performance of emerging market economies, the momentum of global economic growth had weakened, international raw materials prices had generally declined, added with the relatively high comparison base, causing foreign trade data of major countries weaken in 2019 and the investment and operation of manufacturers tended to be more conservative. However, trade disputes had accelerated the reorganization of the global supply chain, prompted manufacturers to return to Taiwan to increase production capacity, and offset some of the negative effects; therefore, domestic investment, exports and private consumption were better than expected. With the support of customers and shareholders and the joint efforts of all employees, the Bank will continue to improve its financial structure and provide more diversified and innovative businesses. A summary of the Bank's 2019 business results and 2020 business plan is illustrated as follows:

A. The 2019 Business Result

(I) Financial environment of Taiwan and abroad in 2019 and changes in the Bank's organization

1. Financial environment of Taiwan and abroad in 2019

In 2019, the global economic growth rate was repeatedly revised downward due to the impact of the unclear prospect of US-China trade negotiation, the slowdown of China's economy, the weak growth of Europe, and the resurgence of the dispute over Brexit. The International Monetary Fund (IMF) once said that if the US-China trade war could not be resolved, the economic outlook might continue to be bleak. The International Monetary Fund (IMF) stated that the on-going US-China trade war could have jeopardized the economic outlook.

However, Taiwan's economic performance is relatively resilient, with an estimated growth rate of 2.64% in 2019. International institutions such as IMF and IHS Markit all predicted that Taiwan's economic growth rate would be the first among the four little tigers. Being the last in the row of the four little tigers in 2015, the progress of Taiwan is quite obvious. The "Action Plan to Welcome Taiwanese Businessmen to Come Home for Investment" is expected to achieve an investment amount of more than NT\$200 billion. The return of Taiwanese businessmen will promote the joint development of local industries, form a complete supply chain of upstream, midstream and downstream industries, accelerate the development of important industrial policies such as the 5 + 2 industry innovation, and enhance the momentum of economic growth.

In terms of the domestic financial market, the demand for bank funds increased at the end of 2019 and the continued remittance inward of foreign capital caused the supply of money eased. The 12-month inter-bank offered rate was at the highest of 0.183% and the lowest of 0.168%. In terms of the stock market, benefited from the excellent sales performance of electronics industry, the boost of industry bullish news, and the preliminary trade agreement reached between the US and China, market uncertainties were alleviated. In terms of exchange rates, the tension between US-China was eased and Taiwan's economic performance was relatively stable; therefore, foreign investors continued to have funds remitted inward, causing New Taiwan Dollar appreciated against the US dollar.

Looking forward to 2020, although the US-China trade war is beginning to dawn, the uncertainties in the future are becoming more and more precipitous. By resorting to the most commonly used "monetary policy", all countries are cutting interest rates one after another; the EU interest rate has dropped to a new low, even negative after inflation. In order to stimulate the economy, all countries continue to adopt "fiscal policies" to issue bonds, resulting in the continuous expansion of the balance sheet, and the maturity of bonds in the future will further put pressure on debt repayment, causing the U.S. dollar to show a possible trend of appreciation. On the macro economy in 2020, the Taiwan Institute of Economic Research forecasts a domestic economic growth rate of 2.67%, which is 0.22% higher than the forecast made in November 2019. However, the outbreak of the new coronavirus pandemic may cause the global economy to slow down in the short term, and the World Bank said it would revise downward the global economic growth forecast to 2.50%.

2. Changes in the Bank's organization

In order to integrate resources and improve operational efficiency, the Bank merged the two subsidiaries "Tainan Insurance Agent Co., Ltd." and "Fucheng Property Insurance Agent Co., Ltd." on June 3, 2019. Their business is continued by the newly established "Bancassurance Department" of the Bank, responsible for the planning, promotion and implementation of the insurance agency business of the Bank.

(II) Business plan and operation strategy implementation achievements

Item	2019	2018
Average deposit balance on NT Dollar Accounts	NT\$172.503 billion	167.577 billion
Average deposit balance on foreign currency Accounts	14.153 billion	14.563 billion
Average loans balance	153.293 billion	154.795 billion
Financial Management Fee Income	0.405 billion	0.366 billion
NPL ratio	0.01%	0.02%
Coverage ratio	9917.55%	6863.31%
BIS ratio (consolidated)	15.04%	14.21%
Tier-1 ratio (consolidated)	14.56%	13.94%

(III) Budget implementation

Item	Actual amount	Budget amount	Achievement rate
Average deposit balance on NT Dollar Accounts	NT\$172.503 billion	175.540 billion	98.27%
Average deposit balance on foreign currency Accounts	14.153 billion	14.648 billion	96.62%
Average deposit balance on foreign currency Accounts	153.293 billion	160.943 billion	95.25%

(IV) Financial income and expenditure, and profitability analysis

Net profit before tax	Net income	Earnings per share after tax	Net profit rate (after tax)	Return on assets (after tax)	Return on equity (after tax)
3.904 billion	3.4 billion	NT\$ 2.99	40.03%	1.21%	8.93%

(V) Research and development review

In response to the daily changes in the macro economy, financial situations and laws and regulations, the Bank has set up a designated department responsible for data collection and market analysis to understand the impact on the business and development of the Bank, and the research results are sent to all staff for sharing and reference. In addition, the Bank encourages the staff to strengthen business innovation and research, and take the initiative to propose various improvement plans to meet market development and customer needs.

B. The 2020 business plan outline

(I) Business policy and important operation policies

1. Local operation and talents heritage
2. Improve quality and value risk control
3. Digitalize finance and create business opportunities
4. Adjust the structure and strengthen profitability
5. Improve information safety and defense ability

(II) Expected business objectives

The Bank's 2020 expected business objectives are as follows:

Annual average deposits in New Taiwan Dollar (NTD)	Annual average deposits in foreign currency	Annual average loans in New Taiwan Dollar and foreign currency
181.875 billion	16.319 billion	157.863 billion

C. Future development strategies

- (I) Enrich working capital, optimize asset quality, maintain low non-performing loan ratio, and improve operating efficiency.
- (II) Grasp social trends to develop business, exercise customer-oriented operation, provide characteristic financial products and financial services, and enhance customer trust.
- (III) Diversify business development, strengthen collective marketing with affiliated enterprises, exercise the spirit of collective marketing, and expand business operation scale.
- (IV) Strengthen corporate governance, enhance the positive image of the company, implement social care, cultivate local communities in-depth and fulfill social responsibility.
- (V) Train various talents, activate organizational energy, enhance employee welfare and optimize human resources.

D. Impacts of the external competitive environment, regulatory environment, and the overall business environment

(I) External competitive environment

In 2019, the competent authority approved the license applications of three pure internet banks. Pure internet banks are no longer limited by the "bank" framework but can fully operate online to save labor, hardware and software costs, enabling them to provide customers with more preferential interest rates, and the collection and analysis capabilities of big data technology enable pure internet banks to provide

customers with better financial-technology based services. The new business model of pure internet banking is bound to make an impact on the business model of traditional banks.

(II) Laws & regulations

In recent years, the anti-money laundering, the counter-terrorism financing, and preventing security risks have been listed as the focus of financial supervision. In order to maintain the trustworthiness of our financial system and ensure the security and order of our financial market, the Financial Supervisory Commission requests the financial industry to comply with law and regulations, anti-money laundering, and counter-terrorism financing, strengthen the competence and qualification, professional training and role function of regulatory compliance personnel and officer; also, strengthen the notification mechanism. With the development of information technology and the continuous promotion of the digital financial environment by the banks, the Financial Supervisory Commission also asks banks to strengthen the information security culture, comply with relevant information security regulations, and implement an information security contingency plan and notification mechanism. The Bank will cooperate with the requirements of the competent authority to establish relevant management measures, implement anti-money laundering and counter-terrorism financing operation, and strengthen information security risk control.

(III) Macro economy

In the second half of 2018, affected by the expansion of the US China trade war, manufacturers stayed on the sideline and the global economic demand was weak, thus resulting in a decline in the export of most major countries, and Taiwan's economy was also affected. However, the transfer of orders and production bases brought about by the trade war made Taiwan's export of audio-visual products grow by more than 20% in 2019, and private-sector investment also performed well, making the overall economy rise quarter by quarter in 2019. Looking forward to 2020, the United States and China have officially signed the first-phase agreement, which will help ease the trade tensions between the two countries. However, the trade conflict is showing a long-term trend, which may continue to interfere with the prospect of global economic growth. Domestically, thanks to the increase of the basic wage, the continuous effect of Taiwanese businessmen coming back to Taiwan for investment, and the rising consumption of the private sector, Taiwan's overall employment environment is becoming more stable. The transfer of the production base of information and communication industries to Taiwan is expected to improve domestic investment, employment and trade. Recently, the number of confirmed cases of new coronavirus infection has increased dramatically; if the pandemic cannot be effectively controlled, there is a fear that the nightmare of SARS (Severe Acute Respiratory Syndrome) in 1992 may come back and become an important uncertainty affecting the economy in 2020.

E. The latest credit rating results

Date of rating	Rating agency	Domestic			International		
		Long-term Ratings	Short-term Ratings	Outlook	Long-term Ratings	Short-term Ratings	Outlook
2019.05.24	Fitch Ratings Co., Ltd.	A+ (twn)	F1 (twn)	Stable	BBB	F3	Stable

F. Conclusion

In the face of changes in the financial environment at home and abroad in recent years, the Bank has been fortunate to obtain the support of many loyal customers and shareholders. With its concerted efforts, the Bank has demonstrated its business results, and would like to thank you all for your support. Trust and support from clients are the driving force for the ongoing pursuit of better performance of the Bank. In the future, clients will continue to be our utmost primary and that we will offer the best products and services in pursuit of the maximum profit for the shareholders.

Sincerely yours, Chairman Tai, Chen-Chih



II. Bank introduction

1、 Establishment date of the Bank
November 1, 1948.

2、 Bank history

Date	Chronicles of the Bank
November 1, 1948	Tainan Union Savings Company with a capital of \$20 million in Old Taiwan Dollar.
January 1, 1978	Authorized to be reorganized as “Tainan SME Bank”
July 20, 1983	Listed on the Taiwan Stock Exchange with a stock code “2809.”
March 14, 2000	The International Department was established.
May 17, 2002	Invested in and organized the subsidiaries “Tainan Life Insurance Agent Co., Ltd.” and “Fucheng Property Insurance Agent Co., Ltd.”
July 24, 2002	Established the Offshore Business Unit (OBU).
August 15, 2005	Processed capital increase of NT\$3.6 billion in cash.
May 3, 2006	Renamed as “King’s Town Bank.”
March 28, 2011	In order to refine the corporate governance and strengthen the professional functions of the board of directors, an “audit Committee” was set up with the participation of all the independent directors of the Company; also, the supervisor system was abolished thereafter.
September 26, 2011	In order to refine the salary and remuneration system of the directors and managers of the Company, a “Compensation Committee” was set up.
January 22, 2015	Invested in and established the subsidiary “King’s Town International Leasing Co., Ltd.”
December 7, 2016	King’s Town International Leasing Co., Ltd., the subsidiary, invested in and established the sub-sub-subsidiary “King’s Town International Construction Management Co., Ltd.” with 100% shareholdings acquired.
November 13, 2017	In order to refine the nomination system for members of the board of directors and senior managers of the Company, a “Corporate Governance and Nomination Committee” was established.
June 3, 2019	In order to integrate resources and improve operating efficiency, “Tainan Life Insurance Agent Co., Ltd.” and “Fucheng Property Insurance Agent Co., Ltd.” were merged into the Bank on June 3, 2019 with the business handled by the Bank’s “Banking and Insurance Department” continuously.

3、 The bank mergers and acquisitions, reinvested affiliated companies, and reorganizations in 2019 and as of the end of February 2020 are as follows:

There were no mergers, acquisitions, or reorganizations of the Bank in 2019. In order to integrate resources and improve operating efficiency, “Tainan Life Insurance Agent Co., Ltd.” and “Fucheng Property Insurance Agent Co., Ltd.” were merged into the Bank on June 3, 2019 with the business handled by the Bank’s “Banking and Insurance Department” continuously. The Bank has two invested companies currently, including the subsidiary “King’s Town International Leasing Co., Ltd.” with 100% shareholding acquired and the sub-subsidiary “King’s Town International Construction Management Co., Ltd.” that was invested by King’s Town International Leasing Co., Ltd. with 100% shareholdings acquired.

4、 Form an affiliation with a particular financial holding company and the time starts forming an affiliation with the holding company: None.

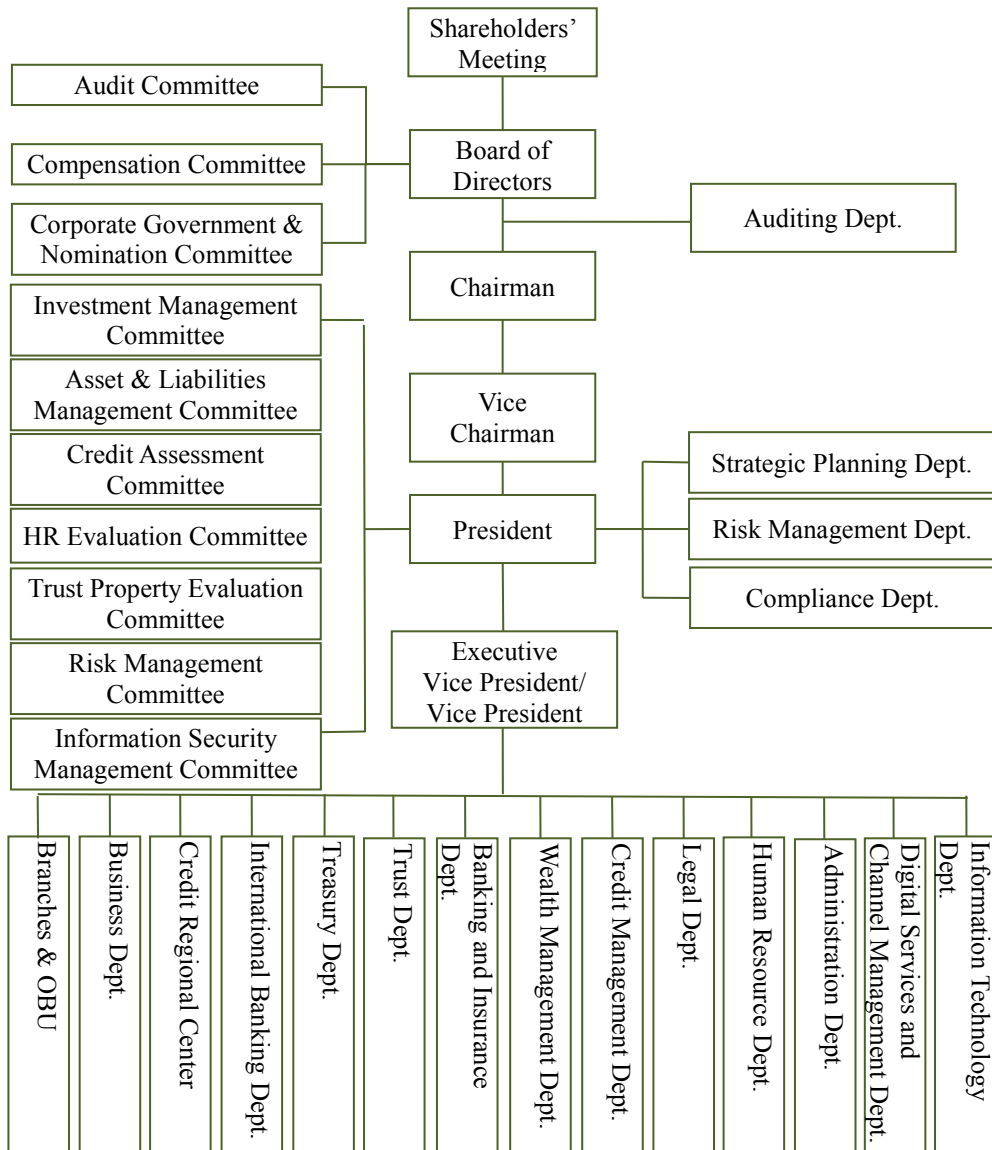
5、 A substantial transfer or replacement of the equity by directors, supervisors, and those who are required to declare equity in accordance with Article 25, Paragraph 3 of the Banking Act in 2019 and as of the end of February 2020: None.

6、 Changes in operating rights, major changes in operating methods or business operation, and other important matters sufficient to affect shareholders’ equity that also impact on banks consequently: None.

III. Corporate Governance Report

A. Organization

(I) Organization chart (baseline date: 2020.02.29)



III. Corporate Governance Report

(II) Major Departments and business they handle

1. Auditing Department: Responsible for the planning, supervision, implementation, follow-up and review of the audit business and internal audit work of the Bank.
2. Strategic Planning Department: Based on the development vision and goals of the management to review and improve the organization, system, and process and formulate an action plan.
3. Digital Services and Channel Management Department: Coordinate the planning and enactment of the Bank's deposit, remittances, channels, operation manuals and bank-wide digital financial policy; also, coordinate the planning and counseling of product design, programming and marketing.
4. Wealth Management Department: Coordinate the planning and implementation of the Bank's wealth management business; enact the management, training and performance evaluation system of the wealth management personnel.
5. Trust Department: Coordinate the planning and enactment of the operation procedures, management methods and operation manuals for the Bank's trust business, as well as trust product planning, education and training and promotion.
6. Treasury Department: Manage the Bank's fund planning and investment related work.
7. International Business Department and OBU branch: Coordinate the planning and enactment of the Bank's education and training, foreign exchange operation procedures, management methods and operation manuals.
8. Risk Management Department: Coordinate the draft and implementation of the Bank's risk management and information security policy, and reporting to the competent authorities, as well as the control of various investment positions and transaction amounts.
9. Credit Management Department: Coordinate the Bank's credit review, credit check, appraisal, loan appropriation and matter related to the enactment of rules and regulations and credit deeds.
10. Legal Department: Coordinate the Bank's legal affairs and debt management of non-performing loans.
11. Compliance Department: Coordinate the planning, management and implementation of the regulatory compliance system; supervise the identification and evaluation of money laundering and terrorism financing, as well as the planning and implementation of policies and procedures.
12. Administration Department: Coordinate the matters related to the Bank's board of directors, stock affairs administration, public relations advertising, accounting, procurement and property management.
13. Human Resource Department: Coordinate the Bank's personnel-related administrative operation and the planning and implementation of employee development and human resources related systems.
14. Banking and Insurance Department: Responsible for the planning, promotion and implementation of the Bank's insurance agency business.
15. Information Technology Department: Coordinate the planning, development and management of the Bank's various information systems, as well as the deployment, installation and troubleshooting of computer-related software and hardware.
16. Credit Regional Center: Coordinate the credit promotion, credit check, confirmation and collection of non-performing loans.
17. Business Department: Manage the deposits, loans, exchanges, collection and advance and various clearing businesses of the branches.

B. Directors, supervisors, Presidents, vice president, directors, heads of departments and branches and retired chairman and President acting as the Bank's consultants

(I) Profiles of Directors

1. Director's profile

Basis date: 2020.2.29

Title	Nationality/ Country of Origin	Name	Gender	Election (Appointment) Date	Duration	Inauguration date	Shares at Election		Current shareholding		Current Shares Held by Spouse & Dependents		Shareholding under the title of a third party		Major (academic degree) experience	Current Bank & Other positions	Other Chief, Supervisors or Directors with a Spousal or Other Immediate Relative			Remarks
							Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding			Title	Name	Relation	
Director	R.O.C.	Tiangang Investment Co., Ltd.	-	2017.05.17	3 years	2005.06.23	39,399,025	3.42%	39,399,025	3.48%	-	-	-	-	-	-	-	-	-	-
Chairman	R.O.C.	Representative of Tiangang Investment Co., Ltd. – Tai, Chen-Chih	Male	2017.05.17	3 years	2005.06.23	77,824,000	6.76%	78,209,000	6.91%	5,890,000	0.52%	-	-	Education: Department of Business Management of National Chung Hsing University Experience: Executive Director of Makoto Bank and Vice Chairman of King's Town Bank	Director of King's Town International Leasing Co., Ltd., Director of King's Town International Real Estate Management Co., Ltd., Director of Payeasay Digital Integration Co., Ltd., Director of Mentex Glass INV DEV, Inc.; Director of Taijia Industrial Co., Ltd. and Director of Taiwan Pulp and Paper Corporation.	Manager	Tai, Sung-Chi	Father and daughter	None
Vice Chairman	R.O.C.	Representative of Tiangang Investment Co., Ltd. – Tsai, Chiung-Ting	Male	2017.05.17	3 years	2005.06.23	-	-	-	-	23,756,000	2.10%	-	-	Education: Master of Engineering Economics of Stanford University Experience: Director of Vincera Capital Group	Director of King's Town International Real Estate Management Co., Ltd., Director of King's Town International Leasing Co., Ltd., Director of Hotel H2O, Director of Jingzhan Hotel Co., Ltd., Director of Jingyue Hotel Co., Ltd. and Director of Kangdi Lehua Co., Ltd.	None	None	None	None
Director	R.O.C.	Representative of Tiangang Investment Co., Ltd. – Wang, Hsien-Tsung	Male	2017.05.17	3 years	2013.06.19	29,277,882	2.54%	29,277,882	2.59%	12,432,667	1.10%	-	-	Education: Master degree in Business Administration of Chaminade University of Honolulu. Experience: Executive Supervisor of King's Bank, Manager of Hua Nan Investment Trust Kaohsiung Branch, Assistant Manager of Fidelity Investment Advisory, and Credit Check Officer of Bangkok Bank Public Company Limited	Chairman of Huangyi Construction Co., Ltd., Chairman of Chieh Chih Construction Co., Ltd., Director of Jingzhan Hotel Co., Ltd., Director of Jingyue Hotel Co., Ltd., Director of Baihong Construction Co., Ltd., Supervisor of Nanjing Construction Co., Ltd., Supervisor of King's Town Hotel Co., Ltd., Supervisor of Jincheng Construction Co., Ltd. and President of Huangyu Construction Co., Ltd.	None	None	None	None

III. Corporate Governance Report

Title	Nationality/ Country of Origin	Name	Gender	Election (Appointment) Date	Duration	Inauguration date	Shares at Election		Current shareholding		Current Shares Held by Spouse & Dependents		Shareholding under the title of a third party		Major (academic degree) experience	Current Bank & Other positions	Other Chief, Supervisors or Directors with a Spousal or Other Immediate Relative			Remarks
							Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding			Title	Name	Relation	
Director	R.O.C.	Representative of Tiangang Investment Co., Ltd. – Chuang, Chin-Chung	Male	2017.05.17	3 years	2017.05.17	-	-	-	-	-	-	-	-	Education: National Kaohsiung Institute of Technology Experience: Vice president of King's Town Construction Co., Ltd.	Vice President of King's Town Construction Co., Ltd.	None	None	None	None
Independent director	R.O.C.	Chen, Ming-Tai	Male	2017.05.17	3 years	2011.06.09	-	-	-	-	-	-	-	-	Education: Department of Hydraulic Engineering, Tamkang College of Arts and Sciences Experience: President of King's Town Bank, Director and Vice President of Fubon Bank, and Vice President of Citibank	None	None	None	None	None
Independent director	R.O.C.	Chen, Chao-Lung	Male	2017.05.17	3 years	2017.05.17	-	-	-	-	-	-	-	-	Education: Bachelor of Medicine of Kaohsiung Medical University, Honorary Doctor of Engineering of Cheng Shiu University Experience: Professor of Chang Gung University, fellow of Chinese Academy of Engineering, and Dean of Kaohsiung Chang Gung Memorial Hospital of C.G.M.F.	Chairman of CHO Pharma, Inc., Honorary Dean of Kaohsiung Chang Gung Memorial Hospital of C.G.M.F., Director of Fulin Plastic Industry (Cayman) Holding Co., Ltd., Chairman of Chao-Long Chen Foundation, Chairman of Liver Transplantation Foundation, Director of Taiwan Bio-Development Foundation, Director of Fooyin University and Director of Taipei Medical University.	None	None	None	None
Independent director	R.O.C.	Chiang, Hung-Liang	Male	2018.11.02	1.54 years	2018.11.02	-	-	-	-	-	-	-	-	Education: Master degree of Graduate Institute of Finance of Fu Jen Catholic University Experience: Director of King's Town Bank Operation Management Department, Regional Manager of Shin Kong Bank's Corporate Finance Business, Professional auditor of Industrial Development Bureau and Chairman of Yongjiu Biotechnology Co.	Chairman of Excellent Water Appraisal & Co., Director of Excellent Water Capital & Co., Director of Hosun International Co., Ltd., Director of Tung Kuan System Co., Ltd. and Director of Fu Jen Co., Ltd.	None	None	None	None

Note: When the chairman and the President or their equivalent (the top manager) are the same person, spouse or a relative within the first degree of kinship, the reasons, rationality, necessity, and responsive measures should be detailed.

2. Major Shareholders of Corporate Shareholders

Base date: 2020.02.29

Corporate shareholder Name	Major shareholders of corporate shareholders (shareholding ratio)
Tiangang Investment Co., Ltd.	Baihong Construction Co., Ltd., (90.91%), Tsai, Tien-Tsan (2.82%), Meiyun S. Tsai (1.73%), Chieh Chih Construction Co., Ltd. (1.71%), British Virgin Islands Bertmei Investment Group Co., Ltd. (2.73 %), and Tsai, Chiung-Ting (0.11%)

3. The major shareholders of the corporate shareholders that are listed as major shareholders in the preceding paragraph

Base date: 2020.02.29

Name of corporate shareholder	Major Shareholders of corporate shareholders (shareholding ratio)
Baihong Construction Co., Ltd.	Tsai, Tien-Tsan (30.35%); Chen, Yi-Ying (34.83%); Tsai, Chia-Ling (34.83%)
Chieh Chih Construction Co., Ltd.	Tsai, Tien-Tsan (5.30%); Wang, Hsien-Tsung (61.21%); King's Town Construction Co., Ltd. (33.48%)
British Virgin Islands Bertmei Investment Group Co., Ltd.	Atherton Investment Group Ltd (100%)

4. The professional knowledge and independence of directors and supervisors

Base date: 2020.02.29

Name	Condition	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience (Note 1)			Independence Criteria (Note 2)												Number of other public companies in which the individual is concurrently serving as an independent director
		1	2	3	1	2	3	4	5	6	7	8	9	10	11	12	
Tai, Chen-Chih				✓	✓			✓		✓	✓	✓	✓	✓	✓	✓	None
Tsai, Chiung-Ting				✓	✓				✓	✓	✓	✓	✓	✓	✓	✓	None
Wang, Hsien-Tsung				✓	✓				✓	✓	✓	✓	✓	✓	✓	✓	None
Chuang, Chin-Chung				✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Chen, Ming-Tai				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Chen, Chao-Lung				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Chiang, Hung-Liang				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None

Note 1: Shall be with at least 5-year work experience and meet one of the following professional qualification requirements:

- (1) An instructor or higher in a department of commerce, law, finance, accounting or other academic department related to the business needs of the company in a public or private junior college, college, or university;
- (2) A judge, public prosecutor, attorney, certified public accountant or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company;
- (3) Have work experience in the area of commerce, law, finance, or accounting or otherwise necessary for the business of the company.

Note 2: Respective director and supervisor who meet the following qualifications 2 years before assumption of office and at the time of assumption of office shall put a "✓" in the appropriate space.

- (1) Not an employee of the Bank or its affiliates.
- (2) Not a director or supervisor of the Bank or any of its affiliates (the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under any other's name, in an aggregate amount of 1% or more of the total number of issued shares of the Bank or ranking in the top 10 in shareholdings.
- (4) Not a spouse, relative within the second degree of kinship or lineal relative within the third degree of kinship, of any of the managers stated in preceding paragraph (1) or the persons in preceding Paragraph (2) and (3).
- (5) Not a director, supervisor, or employee (the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary) of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Bank, is ranked in the top 5 in shareholding, or designates its representative to serve as a director or supervisor of the Bank under Article 27, Paragraph 1 or 2 of the Company Act.
- (6) Not a director, supervisor or employee of other companies that are controlled by the person who also controls the majority of the Bank's director seats or voting shares (the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary).
- (7) Not a director (or governor), supervisor or person holding an equivalent position of the Bank and that person in any of those positions at another company or institution are the same person or are spouses (the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary).
- (8) Not a director (or governor), supervisor, managerial officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Bank (if the specified company or institution holds 20% or more and no more than 50% of the total number of issued shares of the company, the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary).
- (9) Not a professional individual or an owner, partner, director (or governor), supervisor, or managerial officer of a sole proprietorship, partnership, company or institution that, provides auditing services to the Bank or its affiliates, or that provides commercial, legal, financial, accounting or related services to the Bank or its affiliates for which the provider in the last 2 years has received accumulative compensation less than NTS500,000 or a spouse thereof; Provided that this restriction does not apply to a member of the Compensation Committee, public tender offer review Committee or special Committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchanges Act, the Business Mergers and Acquisitions Act, or related law and regulations.
- (10) Not a spouse to or kin at the second pillar under the Civil Code to any other director.
- (11) Not under any of the categories stated in Article 30 of the Company Act.
- (12) No Government Apparatus agency, juristic person or its representative is elected under Article 27 of the Company Act.

5. Continuing education of directors

Title	Name	Training date	Organizer	Course name	Training hours
Chairman	Tai, Chen-Chih	2019.11.05	Securities and Futures Institute	Study on the “International and Taiwan Anti-Tax-Avoidance Development and the Correspondence of Enterprises”	3
		2019.12.17	Taiwan, Taiwan Academy of Banking and Finance (TABF)	Enterprise sustainable business strategy and talent development	3
Vice Chairman	Tsai, Chiung-Ting	2019.11.25	Securities and Futures Institute	Fintech and regulatory compliance risks	3
		2019.11.25	Securities and Futures Institute	Digital Bank and Ease of Bank Regulations	3
Director	Wang, Hsien-Tsung	2019.11.25	Securities and Futures Institute	Fintech and regulatory compliance risks	3
		2019.11.25	Securities and Futures Institute	Digital Bank and Ease of Bank Regulations	3
Director	Chuang, Chin-Chung	2019.11.25	Securities and Futures Institute	Fintech and regulatory compliance risks	3
		2019.11.25	Securities and Futures Institute	Digital Bank and Ease of Bank Regulations	3
Independent director	Chen, Ming-Tai	2019.12.20	Taiwan, Taiwan Academy of Banking and Finance (TABF)	New Corporate Governance Blueprint and Evaluation Workshop	6
Independent director	Chen, Chao-Lung	2019.11.19	Taiwan Corporate Governance Association	Corporate Governance and Criminal Risk Management	3
		2019.11.19	Taiwan Corporate Governance Association	The Latest Development of Insider Trading in Taiwan and the Preventive Action of Enterprise	3
		2019.11.21	Taiwan Corporate Governance Association	The board of directors shall understand the following legal matters related to supervising enterprises: Beware of the red line of misconduct	3
		2019.11.21	Taiwan Corporate Governance Association	Patents offensive and defensive strategy	3
Independent director	Chiang, Hung-Liang	2019.11.25	Securities and Futures Institute	Fintech and regulatory compliance risks	3
		2019.11.25	Securities and Futures Institute	Digital Bank and Ease of Bank Regulations	3

(II) Background information of the President, Vice Presidents, Assistant Vice Presidents and heads of various departments and branches

Base date: 2020.02.29

Title	Nationality	Name	Election (Appointment) Date	Gender	Status of shareholding		Shares Held by Spouse & Dependents		Shareholding under the title of a third party		Major Education Background	Positions with other companies	Spouse or kin within the second pillar under the Civil Code and who is a manager			Remarks	
					Quantity	Ratio of Shareholding (%)	Quantity	Ratio of Shareholding (%)	Quantity	Ratio of Shareholding (%)			Title	Name	Relation		
President	R.O.C.	Chang, Jih-Cheng	2017.12.26	Male	78,000	0.007	-	-	-	-	National Taiwan University Graduate Institute of Industrial Engineering	None	None	None	None	None	
Senior Vice President	R.O.C.	Pan, Chien-Wei	2020.01.30	Male	-	-	-	-	-	-	California State University Graduate Institute of Business Administration	None	None	None	None	None	
Chief Auditor	R.O.C.	Pai, Ching-Chu	2018.11.06	Male	11,022	0.001	-	-	-	-	National Cheng Kung University Graduate Institute of Finance	None	None	None	None	None	
Vice President, Compliance Dept.	R.O.C.	Yu, Chi-Wei	2018.03.15	Male	41,000	0.004	-	-	-	-	Fudan University Graduate Institute of Law	Supervisor of Mintzi Co., Ltd., Supervisor of Hanyun Co., Ltd., Supervisor of Jiawang Investment Co., Ltd., Supervisor of Anwang Investment Co., Ltd., Supervisor of Thaiwang Investment Co., Ltd., and supervisor of Daxin Marketing Co., Ltd.	None	None	None	None	None
Assistant VP, Treasury Dept.	R.O.C.	Wu, Chih-Jin	2011.03.01	Male	74,000	0.007	-	-	-	-	Chinese Culture University Department of Economics	None	None	None	None	None	
Assistant VP, Wealth Management Dept.	R.O.C.	Chen, Hsueh-Ling	2010.03.01	Female	165,000	0.015	107,000	0.009	-	-	National Chengchi University Graduate Institute of Diplomacy	None	None	None	None	None	
Director of the Head Office	R.O.C.	Yu, Chih-Cheng	2014.04.28	Male	171,444	0.015	-	-	-	-	Hsingwu Junior College of Commerce Department of Business Administration	None	None	None	None	None	
Director of the Head Office	R.O.C.	Ou, Yu-Yin	2019.11.01	Male	136,130	0.012	-	-	-	-	Department of Accounting, Feng Chia University	None	None	None	None	None	
Director of Tainan Credit Regional Center	R.O.C.	Su, Fan-Chen	2018.12.25	Female	23,350	0.002	-	-	-	-	National Kaohsiung First University of Science and Technology Finance Operation Office	None	None	None	None	None	
Director of the Head Office	R.O.C.	Su, Fan-Chen	2019.02.26	Female	23,350	0.002	-	-	-	-	National Kaohsiung First University of Science and Technology Finance Operation Office	None	None	None	None	None	
Director of the Administration Department	R.O.C.	Yang, Chien-Ko	2018.10.02	Male	85,444	0.008	-	-	-	-	National Chung Cheng University Graduate Institute of Finance	Supervisor of King's Town International Leasing Co., Ltd. and Supervisor of King's Town International Real Estate Management Co., Ltd.	None	None	None	None	None
Assistant VP, Risk Management Dept.	R.O.C.	Shen, Hung-Sung	2014.05.27	Male	1,000	0.000	-	-	-	-	National Chiao Tung University Department of Information Engineering	None	None	None	None	None	
Director of Information Office	R.O.C.	Shen, Hung-Sung	2019.11.01	Male	1,000	0.000	-	-	-	-	National Chiao Tung University Department of Information Engineering	None	None	None	None	None	
Director of Human Resources and Operation Management Department	R.O.C.	Tsai, Shu-Chen	2020.02.10	Female	73,380	0.006	-	-	-	-	National Taiwan University Department of Finance	None	None	None	None	None	
Senior Manager of the Head Office	R.O.C.	Lu, Ying-Shuo	2019.01.23	Male	-	-	-	-	-	-	Department of Finance of China Institute of Science and Technology	None	None	None	None	None	
Manager of Credit Department	R.O.C.	Chang, Chi-Chia	2018.12.25	Male	10,000	0.001	-	-	-	-	Soochow University Department of Commercial Mathematics	None	None	None	None	None	
Manager of Legal Affairs Department	R.O.C.	Huang, Shui-Shan	2018.12.25	Male	23,000	0.002	-	-	-	-	Shih Chien University Department of Banking and Insurance	None	None	None	None	None	
Manager, Trust Dept.	R.O.C.	Lin, Chih-Hung	2019.04.01	Male	8,574	0.001	-	-	-	-	National Taiwan University Graduate Institute of Business	None	None	None	None	None	
Manager of International Department and OBU	R.O.C.	Tai, Sung-Chi	2019.11.26	Female	1,022,000	0.090	-	-	-	-	London School of Economics Financial Risk Management Office	None	None	None	None	None	
Manager of Digital Services & Business Department	R.O.C.	Peng, Yun-Chia	2020.02.10	Female	-	-	-	-	-	-	National Chengchi University Graduate Institute of International Trade	None	None	None	None	None	
Acting Manager of the Banking and Insurance Department	R.O.C.	Hsien, Hung-Pei	2020.01.07	Female	-	-	-	-	-	-	Kun Shan University Department of International Trade	None	None	None	None	None	
Manager of Yulin and Chiayi Credit Regional Center	R.O.C.	Chen, Chun Ching	2017.06.13	Male	10,000	0.001	7,000	0.001	-	-	National Chung Cheng University Senior Management Office	None	None	None	None	None	
Corporate Governance Officer	R.O.C.	Yang, Chien-Ko	2019.02.25	Male	85,444	0.008	-	-	-	-	National Chung Cheng University Graduate Institute of Finance	Supervisor of King's Town International Leasing Co., Ltd. and Supervisor of King's Town International Real Estate Management Co., Ltd.	None	None	None	None	None

III. Corporate Governance Report

Title	Nationality	Name	Election (Appointment) Date	Gender	Status of shareholding		Shares Held by Spouse & Dependents		Shareholding under the title of a third party		Major Education Background	Positions with other companies	Spouse or kin within the second pillar under the Civil Code and who is a manager			Remarks
					Quantity	Ratio of Shareholding (%)	Quantity	Ratio of Shareholding (%)	Quantity	Ratio of Shareholding (%)			Title	Name	Relation	
Chief accountant	R.O.C.	Chen, Yu-Hsuan	2018.08.07	Female	9,000	0.001	-	-	-	-	Providence University Department of Accounting	None	None	None	None	None
Director of Dali Branch	R.O.C.	Ou, Yu-Yin	2020.02.25	Male	136,130	0.012	-	-	-	-	Department of Accounting, Feng Chia University	None	None	None	None	None
Manager of Business Department of the Head Office	R.O.C.	Wu, Ming-Jen	2018.12.25	Male	10,244	0.001	-	-	-	-	Ming Chuan University Department of International Trade	None	None	None	None	None
Senior Manager of Nanxun Branch	R.O.C.	Liu, Kai-Ming	2016.12.13	Male	36,000	0.003	-	-	-	-	Department of Economics of National Chung Hsing University	None	None	None	None	None
Senior Manager of Kaohsiung Branch	R.O.C.	Chiang, Sui-Kuang	2018.10.01	Male	-	-	-	-	-	-	National Taichung University of Science and Technology Department of Applied Business	None	None	None	None	None
Senior Manager of Rende Branch	R.O.C.	Huang, Chih-Fu	2018.12.25	Male	5,180	0.000	-	-	-	-	National Chengchi University Department of Economics	None	None	None	None	None
Senior Manager of Chung Hsiao Branch	R.O.C.	Fan-Chiang, Shun-Ming	2020.02.17	Male	-	-	-	-	-	-	Soochow University Department of Economics	None	None	None	None	None
Manager, Baihe Branch	R.O.C.	Hsu, Min-O	2014.01.14	Female	-	-	-	-	-	-	National Tainan Commercial Vocational Senior High School Department of Accounting and Statistics	None	None	None	None	None
Manager, Min Hsiung Branch	R.O.C.	Hsu, Ting-Ming	2015.01.20	Female	5,706	0.001	-	-	-	-	Nanhua University Graduate Institute of Finance	None	None	None	None	None
Manager, Ban Chiao Branch	R.O.C.	Hsu, Tim-Ming	2015.01.20	Male	6,000	0.001	-	-	-	-	Chinese Culture University Department of International Trade	None	None	None	None	None
Manager, Jhongli Branch	R.O.C.	Lo, Sheng-Yuan	2015.01.20	Male	6,000	0.001	-	-	-	-	Shih Chien Home Economics and Commerce College Department of Statistics	None	None	None	None	None
Manager, Chiayi Branch	R.O.C.	Tsai, Ping-Hsun	2015.06.01	Male	16,310	0.001	-	-	-	-	Tatung College of Commerce Department of Accounting and Statistics	None	None	None	None	None
Manager, Wenxin Branch	R.O.C.	Li, Chung-Cheng	2016.03.02	Male	310	0.000	-	-	-	-	National Chung Hsing University Department of Business Administration	None	None	None	None	None
Manager, Xiluo Branch	R.O.C.	Liao, Wen-He	2016.03.15	Male	17,748	0.002	-	-	-	-	Department of Finance, National Yunlin University of Science and Technology	None	None	None	None	None
Manager, Huwei Branch	R.O.C.	Chen, Chih-Chieh	2016.03.15	Male	20,568	0.002	-	-	-	-	National Chung Cheng University Business Management Office	None	None	None	None	None
Manager, Guiren Branch	R.O.C.	Wei, Ming-Hsien	2016.05.24	Male	-	-	-	-	-	-	Tamkang University Department of Economics	None	None	None	None	None
Manager, Zhong Zheng Branch	R.O.C.	Lai, Chen-Ling	2016.12.13	Female	3,000	0.000	-	-	-	-	Soochow University Department of Business Administration	None	None	None	None	None
Manager, Meishan Branch	R.O.C.	Tsai, Ying-Feng	2016.12.13	Male	8,073	0.001	-	-	-	-	Fu Jen Catholic University Department of Economics	None	None	None	None	None
Manager, Yung Kung Branch	R.O.C.	Chou, Chao-Hsien	2016.12.13	Male	-	-	-	-	-	-	Feng Chia University Department of Accounting	None	None	None	None	None
Manager, Xinxing Branch	R.O.C.	Kuo, Chiu-Chin	2016.12.13	Female	13,000	0.001	-	-	-	-	Tainan University of Technology Department of Accounting and Statistics	None	None	None	None	None
Manager, Shanhu Branch	R.O.C.	Ko, Hui-Ling	2016.12.13	Female	8,000	0.001	-	-	-	-	National Chiayi University Management Science Office	None	None	None	None	None
Manager, Yujing Branch	R.O.C.	Tseng, Chien-Hsun	2016.12.13	Male	-	-	-	-	-	-	Kun Shan University Department of Information Management	None	None	None	None	None
Manager, Zhongpu Branch	R.O.C.	Lin, Chang-Yao	2017.01.10	Male	96,425	0.009	50	0.000	-	-	Tatung College of Commerce Department of Accounting and Statistics	None	None	None	None	None
Manager, Changhua Branch	R.O.C.	Kuo, Ming-Chou	2017.03.28	Male	1,000	0.000	-	-	-	-	Providence University Department of International Trade	None	None	None	None	None

III. Corporate Governance Report

Title	Nationality	Name	Election (Appointment) Date	Gender	Status of shareholding		Shares Held by Spouse & Dependents		Shareholding under the title of a third party		Major Education Background	Positions with other companies	Spouse or kin within the second pillar under the Civil Code and who is a manager			Remarks
					Quantity	Ratio of Shareholding (%)	Quantity	Ratio of Shareholding (%)	Quantity	Ratio of Shareholding (%)			Title	Name	Relation	
Manager, Tainan Branch	R.O.C.	Wang, Mei-Wen	2017.04.11	Female	1,513	0.000	-	-	-	-	International College of Commerce Department of International Trade	None	None	None	None	None
Manager, Taibao Branch	R.O.C.	Chang, Chin-Shan	2017.06.13	Male	1,113	0.000	-	-	-	-	Tunghai University Department of Statistics	None	None	None	None	None
Manager, Shuanghe Branch	R.O.C.	Mo, Wen-Peng	2017.07.03	Male	-	-	-	-	-	-	Fu Jen Catholic University Institute of Banking	None	None	None	None	None
Manager, Xindian Branch	R.O.C.	Chen, Chien-Chen	2017.07.18	Male	3,000	0.000	-	-	-	-	National Taiwan University Department of Agricultural Economics	None	None	None	None	None
Manager, Fucheng Branch	R.O.C.	Tsai Yuan-Ping	2017.12.26	Male	60,000	0.005	7,000	0.001	-	-	Southern Taiwan University of Science and Technology Department of Business Administration	None	None	None	None	None
Manager, Xigang Branch	R.O.C.	Hsu, Li-Hsueh	2017.12.26	Female	-	-	-	-	-	-	Tainan University of Technology Department of Fashion Design	None	None	None	None	None
Manager, Dalin Branch	R.O.C.	Wu, Ching-Mei	2017.12.26	Female	4,000	0.000	-	-	-	-	National Chiayi Senior commercial Vocation School Department of Business Management	None	None	None	None	None
Manager, Madou Branch	R.O.C.	Kang, Chan-Chih	2017.12.26	Male	2,000	0.000	-	-	-	-	Soochow University Department of Economics	None	None	None	None	None
Manager, Kaiyuan Branch	R.O.C.	Chiu, Yu-Chin	2018.03.13	Male	-	-	-	-	-	-	Tamkang College of Technology and Commerce Department of Bank Management	None	None	None	None	None
Manager, Xinying Branch	R.O.C.	Kuo, Kuo-Sung	2018.03.13	Male	5,001	0.000	-	-	-	-	Feng Chia University Department of Economics	None	None	None	None	None
Manager of Yanxing Branch	R.O.C.	Chang, Chin-Chuan	2018.04.01	Male	-	-	-	-	-	-	Tamkang College of Technology and Commerce Department of International Trade	None	None	None	None	None
Manager, Zhonghua Branch	R.O.C.	Lin, Kao-Hui	2018.04.01	Male	-	-	-	-	-	-	The World College of Journalism Department of Library Information	None	None	None	None	None
Manager, Neihu Branch	R.O.C.	Ho, Ping-Chao	2018.12.25	Male	30,000	0.003	-	-	-	-	Takming University of Science and Technology Department of Insurance and Banking Management	None	None	None	None	None
Manager, Taipei Branch	R.O.C.	Yang, Kuang-Ti	2018.12.25	Male	1,000	0.000	-	-	-	-	Chung Yuan Christian University Department of Business Administration	None	None	None	None	None
Manager, Xuejia Branch	R.O.C.	Wu, Li-Ling	2018.12.25	Female	19,884	0.002	-	-	-	-	Chinese Culture University Department of Business Administration	None	None	None	None	None
Manager of Yenshay Branch	R.O.C.	Mao, Tsan-Chin	2018.12.25	Male	3,171	0.000	3,056	0.000	-	-	Chung Yuan Christian University Department of Applied Mathematics	None	None	None	None	None
Manager, Xinhua Branch	R.O.C.	Hsu, Ching-Chung	2018.12.25	Male	-	-	-	-	-	-	Tunghai University Department of Economics	None	None	None	None	None
Manager of East Tainan Branch	R.O.C.	Wu, Mei-Lien	2018.12.25	Female	32,784	0.003	10,000	0.001	-	-	National Tainan Commercial Vocational Senior High School Department of Accounting and Statistics	None	None	None	None	None
Manager, Xingye Branch	R.O.C.	Liao, Chih-Jen	2019.01.23	Male	1,444	0.000	-	-	-	-	National Chiayi University Department of Biological Business Management	None	None	None	None	None
Manager, Shuishang Branch	R.O.C.	Chu, Man-Chun	2019.01.23	Female	-	-	-	-	-	-	Tatung Institute of Commerce and Technology Department of Finance	None	None	None	None	None
Manager, Zhuqi Branch	R.O.C.	Tsai, Li-Wen	2019.01.23	Female	3,199	0.000	-	-	-	-	Tatung College of Commerce Department of Accounting and Statistics	None	None	None	None	None
Manager of North Kaohsiung Branch	R.O.C.	Wang, Ying-Hsiang	2019.01.23	Male	26,000	0.002	4,000	0.000	-	-	Department of Business Management of Tung Hai University	None	None	None	None	None
Manager, Songsan Branch	R.O.C.	Feng, Chih-Hao	2019.02.26	Male	-	-	-	-	-	-	Department of Economics of Soochow University	None	None	None	None	None

III. Corporate Governance Report

Title	Nationality	Name	Election (Appointment) Date	Gender	Status of shareholding		Shares Held by Spouse & Dependents		Shareholding under the title of a third party		Major Education Background	Positions with other companies	Spouse or kin within the second pillar under the Civil Code and who is a manager			Remarks
					Quantity	Ratio of Shareholding (%)	Quantity	Ratio of Shareholding (%)	Quantity	Ratio of Shareholding (%)			Title	Name	Relation	
Manager, Taoyuan Branch	R.O.C.	Hsieh, Wen-Ching	2019.02.26	Male	-	-	-	-	-	-	Chinese Culture University Department of International Trade	None	None	None	None	None
Manager of East Hsinchu Branch	R.O.C.	Chang, Shu-Ling	2019.02.26	Female	-	-	-	-	-	-	National Sun Yat-sen University Human Resources Management Office	None	None	None	None	None
Manager, Jiali Branch	R.O.C.	Chiang, Tien-Yu	2019.04.01	Male	7,000	0.001	15,866	0.001	-	-	Tamkang University Department of Economics	None	None	None	None	None
Manager of Hsinchu City Branch	R.O.C.	Tsai, Chia-Jung	2019.10.08	Female	41,086	0.004	-	-	-	-	Feng Chia University Department of Banking and Insurance	None	None	None	None	None
Manager, Taichung Branch	R.O.C.	Chiang, Ming-Chou	2019.11.01	Male	-	-	-	-	-	-	Chung Yuan Christian University Department of International Trade	None	None	None	None	None
Manager, Douliu Branch	R.O.C.	Chen, Shu-Chueh	2019.12.30	Female	47,000	0.004	-	-	-	-	National Tuku Vocational High School of Commerce and Industry Department of Business Management	None	None	None	None	None
Manager, Beigang Branch	R.O.C.	Tu, Li-Fen	2019.12.30	Female	-	-	-	-	-	-	Tatung Institute of Commerce and Technology Department of Business Management and Design	None	None	None	None	None
Manager, Puzi Branch	R.O.C.	Huang, Ying-Shu	2019.12.30	Female	19,006	0.002	-	-	-	-	Sansin High School of Commerce And Home Economics Kaohsiung Department of Accounting and Statistics	None	None	None	None	None
Manager, Dounan Branch	R.O.C.	Liao, Li-Yu	2019.12.30	Female	9,000	0.001	-	-	-	-	Tatung College of Commerce Department of Accounting and Statistics	None	None	None	None	None
Manager, Liujia Branch	R.O.C.	Wu, Chun-Mi	2019.12.30	Female	17,041	0.002	-	-	-	-	National Open Commercial School Department of Accounting	None	None	None	None	None
Manager, Annan Branch	R.O.C.	Tien, Chia-Hao	2019.12.30	Male	8,000	0.001	34,000	0.003	-	-	Feng Chia University Department of Economics	None	None	None	None	None
Manager, Lunbei Branch	R.O.C.	Lin, Mei-Ling	2019.12.30	Female	6,000	0.001	-	-	-	-	Ling Tung University Department of International Trade	None	None	None	None	None
Manager, Anhe Branch	R.O.C.	Chen, Po-Heng	2019.12.30	Male	-	-	-	-	-	-	Hsing Kuo University of Management Department of Finance and Banking	None	None	None	None	None
Manager, Guanmiao Branch	R.O.C.	Lin, Chien-Jung	2019.12.30	Female	3,000	0.000	-	-	-	-	Tainan University of Technology Department of Accounting and Statistics	None	None	None	None	None
Manager, Luzhou Branch	R.O.C.	Chen, Ssu-Hao	2019.12.30	Male	-	-	-	-	-	-	Fu Jen Catholic University Department of Economics	None	None	None	None	None
Manager, Gangshan Branch	R.O.C.	Lin, Ta Cheng	2019.12.30	Male	2,000	0.000	-	-	-	-	Chang Jung Christian University Department of Land Management and Development	None	None	None	None	None
Manager, Xinzhuang Branch	R.O.C.	Chou, Shih-Hsun	2019.12.30	Male	15,000	0.001	-	-	-	-	Graduate Institute of International Business Administration of Sheffield Hallam University	None	None	None	None	None
Manager, Hsinchu Branch	R.O.C.	Hsu, Yu-Jui	2019.12.30	Male	10,000	0.001	-	-	-	-	National Kaohsiung First University of Science and Technology Finance Operation Office	None	None	None	None	None
Manager of Nanzi Branch	R.O.C.	Wen, Mei-Yu	2019.12.30	Female	2,000	0.000	-	-	-	-	Tatung College of Commerce Department Public Finance Taxation	None	None	None	None	None
Manager of Yu Nong Branch	R.O.C.	Hsu, Meng-Ya	2019.12.30	Female	9,002	0.001	-	-	-	-	Hsing Kuo University of Management Department of Finance	None	None	None	None	None

Note: When the chairman and the President or their equivalent (the top manager) are the same person, spouse or a relative within the first degree of kinship, the reasons, rationality, necessity, and responsive measures should be detailed.

(III) Repatriation as consultants/advisors of retired chairpersons and presidents.

Title	Nationality	Name	Gender	Pre-retirement position		Date of serving as a consultant	Purpose of employment	Areas of responsibility	Remuneration	Ratio of remuneration to net income
				Institutions and job title	Retirement date					
-	-	-	-	-	-	-	-	-	-	-

Note: Net income refers to the net income amount on the parent company only or individual financial reports in the most recent year.

C. Remuneration of directors, independent directors, supervisors, Presidents, vice president and employees

(I) Remuneration of directors and independent directors

2019

Unit: NTD

Title	Name	Remuneration of Directors								The sum of A, B, C and D in proportion to Earnings		Remuneration in the capacity as employees								The sum of A, B, C, D, E, F and G in proportion to Earnings		Remuneration received from the invested companies other than the subsidiaries and the parent company		
		Director fees (A)		Retirement Pension (B)		Remuneration (C)		For services (D)				Salaries, bonus and special subsidies (E)		Pension (F)		Remuneration to employees (G)								
		The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank		All companies mentioned in the financial statements			The Bank	All companies mentioned in the financial statements
																		Cash	Stock	Cash	Stock			
Chairman	Tai, Chen-Chih	4,680,000	4,680,000	0	0	0	0	240,000	240,000	0.14%	0.14%	0	0	0	0	0	0	0	0	0	0	0.14%	0.14%	None
Vice Chairman	Tsai, Chiung-Ting	3,480,000	3,480,000	0	0	0	0	240,000	240,000	0.11%	0.11%	0	0	0	0	0	0	0	0	0	0	0.11%	0.11%	None
Director	Wang, Hsien-Tsung	480,000	480,000	0	0	0	0	280,000	280,000	0.02%	0.02%	0	0	0	0	0	0	0	0	0	0	0.02%	0.02%	None
Director	Chuang, Chin-Chung	480,000	480,000	0	0	0	0	282,000	282,000	0.02%	0.02%	0	0	0	0	0	0	0	0	0	0	0.02%	0.02%	None
Independent director	Chen, Ming-Tai	960,000	960,000	0	0	0	0	276,000	276,000	0.04%	0.04%	0	0	0	0	0	0	0	0	0	0	0.04%	0.04%	None
Independent director	Chen, Chao-Lung	960,000	960,000	0	0	0	0	284,000	284,000	0.04%	0.04%	0	0	0	0	0	0	0	0	0	0	0.04%	0.04%	None
Independent director	Chiang, Hung-Liang	960,000	960,000	0	0	0	0	286,000	286,000	0.04%	0.04%	0	0	0	0	0	0	0	0	0	0	0.04%	0.04%	None

1. Please describe the policy, systems, standards and structure of remuneration of independent directors; also, describe the relationship with the amount of remuneration according to the responsibilities, risks and invested time:
The policy of remuneration of independent directors: The remuneration of independent directors of the Company shall be set in the articles of incorporation of the Company or in accordance with the resolution of the shareholders meeting and may be determined at a reasonable remuneration different from ordinary directors. Responsibility of independent directors: At least one independent director shall attend board meeting in person. For the following matters that should be resolved by the board of directors, all independent directors shall attend such board meeting. If an independent director is unable to attend the board meeting in person, he/she shall appoint another independent director to attend the meeting in his or her place. When an independent director objects to or expresses reservations about any of the matters, it shall be recorded in the board meeting minutes. If an independent director intends to express an objection or reservations but is unable to attend the board meeting in person, then unless there is a legitimate reason to do otherwise, the independent director shall issue a written opinion in advance, which shall be recorded in the board meeting minutes: I. The Company's operating plan. II. Annual financial reports and semi-annual financial reports; III. The institution or amendment to the internal control system pursuant to Article 14-1 of the Securities and Exchanges Act, and the evaluation of the effectiveness of the system. IV. Enact or amend the Procedures for the financial or operational actions of material significance pursuant to Article 36-1 of the Securities and Exchange Act, such as, acquisition or disposal of assets, derivatives trading, etc. V. Matters that involve the best interests of the directors. VI. Material assets or derivative transactions. VII. Public offering, issuance, or private placement of equity-type securities. VIII. The appointment, dismissal, or compensation of the CPAs. IX. The appointment and dismissal of the Finance Officer, Accounting Officer, or Internal Chief Auditor. X. A donation to a related party or a major donation to a non-related part. However, the charitable donation for an emergency relief of major natural disasters may be submitted in the next Board meeting for ratification. XI. Matters required by the resolutions of the Shareholders' Meeting under law or the Articles of Incorporation of the Company, or presented to the Board, or materiality required by the competent authority. All the independent directors of Bank, in addition to the responsibilities of the board of directors, also serve as members of the functional Committees, such as, the audit Committee, remuneration Committee, and corporate governance and nomination Committee. Their responsibilities and invested time are different from the ordinary directors; therefore, a reasonable level of remuneration different from that of the ordinary directors is resolved.
2. In addition to the disclosure in the aforementioned table, the remuneration received by the directors of the Company for all the companies in the financial report (such as, serving as consultants not employees) in the most recent year: None

Note: 1. The Bank's 2019 net income was NT\$3,399,687 thousand.
2. The content of the remuneration disclosed is different from the concept of income defined by the income tax law, and it is for the purpose of information disclosure not for taxation.

(II) Remuneration to President and Executive Vice Presidents

2019

Unit: NTD

Title	Name	Salary (A)		Pension (B)		Bonuses and allowances etc. (C)		Remuneration to the employees (D)				The sum of A, B, C and D in proportion to Earnings (%)		Remuneration received from the invested companies other than the subsidiaries and the parent company
		The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank	All companies mentioned in the financial statements	The Bank		All companies mentioned in the financial statements		The Bank	All companies mentioned in the financial statements	
								Cash	Stock	Cash	Stock			
President	Chang, Jih-Cheng	5,102,400	5,102,400	0	0	3,311,900	3,311,900	383	0	383	0	0.25%	0.25%	None
Chief Auditor	Pai, Ching-Chu	1,200,000	1,200,000	0	0	675,000	675,000	383	0	383	0	0.06%	0.06%	None
Executive Vice President	Yu, Chi-Wei	1,476,000	1,476,000	0	0	901,250	901,250	383	0	383	0	0.07%	0.07%	None

(III) Name of the managers received remuneration and the distribution of remuneration:

2019

Title	Name	Stock	Cash	Total	As a percentage of net profit after tax (%)
President	Chang, Jih-Cheng	0	4,213	4,213	0.000123923%
Chief Auditor	Pai, Ching-Chu				
Executive Vice President	Yu, Chi-Wei				
Assistant VP	Chen, Hsueh-Ling				
Assistant VP	Yu, Chih-Cheng				
Assistant VP	Su, Fan-Chen				
Assistant VP	Ou, Yu-Yin				
Finance Officer (Director)	Wu, Chih-Jin				
Assistant VP	Yang, Chien-Ko				
Assistant VP	Shen, Hung-Sung				
Chief accountant	Chen, Yu-Hsuan				
Total		0	4,213	4,213	0.000123923%

(IV) Analysis of the ratio of total remuneration paid to directors, supervisors, Presidents, and vice president in the last two years to the net income on the parent company only financial report, remuneration policies, standards, and combinations, procedures for setting remuneration, and operating performance and future risks relevance:

1. Analysis of the ratio to the net income on the parent company only financial report

Unit: NTD

Title	2018		2019	
	The Bank	All companies included in the consolidated statements	The Bank	All companies included in the consolidated statements
Director	27,596,668	27,596,668	13,888,000	13,888,000
President/Executive Vice Presidents	14,862,192	14,862,192	12,667,699	12,667,699
Total	42,458,860	42,458,860	26,555,699	26,555,699
Ratio to the net income on the parent company only financial report	1.48%	1.48%	0.78%	0.78%

2. Remuneration policies, standards, and combinations, procedures for setting remuneration, and operating performance and future risks relevance

(1) Director

According to Article 33 of the Articles of Incorporation of the Company, the Company shall provide no more than 2% of the net income, if any, as directors' remuneration. However, when the company still has accumulated losses, an amount equivalent to the loss should be reserved for making up the loss. No remuneration has been paid to the directors in the last two years. In addition, according to Article 25-1 of the Articles of Incorporation of the Company: "The remuneration of directors shall be determined by the board of directors with reference to the standards of the relevant industry and the listed companies." Since July 1, 2006, the remuneration to directors of the Bank as business practice fee has been NT\$20,000 per person per month.

(2) Independent director

The procedures for determining the remuneration of independent directors of the Bank are enacted in accordance with Article 25-1 of the Articles of Incorporation of the Company. The Board of Directors has agreed with reference to the standards of relevant industries and listed companies to pay a fixed monthly remuneration of NT\$80,000 and a business practice fee same as the payment standards for ordinary directors. Independent directors will receive a fixed monthly remuneration, but will not receive the director remuneration that is paid in accordance with the Company's Articles of Incorporation. In addition, according to Article 5 of the "Rules Governing the Scope of Powers of Independent Directors" of the Company, a reasonable level of remuneration different from that of the ordinary directors is resolved.

(3) President, Vice President, Chief Auditor and Manager

The performance evaluation and remuneration system of the Bank's President, vice president, chief auditor and manager are handled in accordance with the "Employee Annual Evaluation Measures," "Employee Benefit Payment Methods" and "Annual Bonus Payment Methods" approved by the Board of Directors. Proposal is proposed at the Compensation Committee meeting held every year to discuss the performance evaluation of the manager's remuneration and benefit package and is submitted to the board of directors for review and approval. With regard to the bonus, it is to be linked to the Bank's departmental performance evaluation results, including operating performance (net income achievement rate), internal control and regulatory compliance; also, personal performance, responsibilities and personal contributions with reasonable compensation granted; therefore, salary and compensation are highly related to the Company's operating performance. However, if major risk events involving malpractices are sufficient to cause financial losses to the Company or damage its goodwill, in addition to taking the necessary disciplinary action according to the law and regulations, the board of directors shall take measures, such as, dismissal, reassignment, termination, or reduction of remuneration, as necessary.

D. Status of Corporate Governance

(I) The function of the Board

A total of 23 board meetings were held in 2019 with the attendance of directors as follows:

Title	Name	Attendance (attend as observer)	Attend through proxy	Attendance rate (%)	Remarks
Chairman	Tiangang Investment Co., Ltd Representative: Tai, Chen-Chih	21	2	91.30%	Re-elected on 2017.05.17
Vice Chairman	Tiangang Investment Co., Ltd Representative: Tsai, Chiung-Ting	23	0	100.00%	Re-elected on 2017.05.17
Director	Tiangang Investment Co., Ltd Representative: Wang, Hsien-Tsung	20	3	86.96%	Re-elected on 2017.05.17
Director	Tiangang Investment Co., Ltd Representative: Chuang, Chin-Chung	19	4	82.61%	Elected for the first time on 2017.05.17
Independent director	Chen, Ming-Tai	18	5	78.26%	Re-elected on 2017.05.17
Independent director	Chen, Chao-Lung	22	1	95.65%	Elected for the first time on 2017.05.17
Independent director	Chiang, Hung-Liang	23	0	100.00%	Elected for the first time on 2018.11.02

Other notes:

1. For the operation of the Board of Directors in any of the following circumstances, please specify the date, term, the contents of the proposals, the opinions of all independent directors, and the process of the opinions proposed by the independent directors:

(1) The content of the particulars inscribed in Article 14-3 of the Securities and Exchange Act:

Board of Directors	Details of the relevant agendas and the subsequent	The particulars inscribed in Article 14-3 of the Securities and Exchange Act.	Independent directors opposed or reserved their opinion
2019.05.20 The 48 th meeting of the 14 th term	Amendments made to the "Rules Governing the Implementation of Internal Control and Audit System of King's Town Bank"	✓	
	Independent directors' opinions: Nil.		
	Acts taken by the Company in response to Independent directors' opinions: Nil.		
	Resolution: Passed unanimously by all directors present.		
2019.09.09 The 56 th meeting of the 14 th term	1. Report the independence and competence evaluation of the Bank's certified public accountant (CPA).	✓	
	2. Report the attestation service provided by the Company's CPA.	✓	
	Independent directors' opinions: Nil.		
	Acts taken by the Company in response to Independent directors' opinions: Nil.		
Resolution: Passed unanimously by all directors present.			
2020.01.06 The 64 th meeting of the 14 th term	Report the appointment of the CPA for attestation service by the Company's Banking and Insurance Department.	✓	
	Independent directors' opinions: Nil.		
	Acts taken by the Company in response to Independent directors' opinions: Nil.		
	Resolution: Passed unanimously by all directors present.		
2020.02.24 The 67 th meeting of the 14 th term	The 2019 Parent Company Only Financial Statements and Consolidated Financial Statements and Business Reports	✓	
	Independent directors' opinions: Nil.		
	Acts taken by the Company in response to Independent directors' opinions: Nil.		
	Resolution: Passed unanimously by all directors present.		

(2) Except for the aforementioned matters, the resolutions reached by the Board of Directors with the objections or reservations of the independent directors documented or declared in writing: None.

2. The avoidance of the conflict of interest by the Directors on related motions, specify the names of the Directors, the content of the motions, the principle of the avoidance of the conflict of interest, and the

participation in casting the ballots:

The conditions and standards for the distribution of bonus to the chairman and vice chairman of 2018 were passed in the 42nd meeting of the 14th Board of Directors on January 21, 2019. The chairman, Tai, Chen-Chih, and vice chairman, Tsai, Chiung-Ting, had themselves enter recusal during discussion and voting on the matters concerned and had not acted as another director's proxy to exercise voting rights on that matter in accordance with Article 16 of the "Rules of Procedure for Board of Directors Meetings."

3. Evaluation of the board of directors:

Evaluation cycle	Evaluation period	Evaluation scope	Evaluation method	Evaluation content
Evaluation performed once a year	The performance of the Board of Directors and functional Committees from January 1, 2019 to December 31, 2019 was evaluated.	Board of Directors and functional Committees.	Internal self-evaluation of the Board of Directors and functional Committees.	The performance evaluation of the Board of Directors and functional Committee of the Bank includes: 1. Participation in the Bank's operations. 2. Improve the quality of decision-making of the Board of Directors and functional Committees. 3. The composition and structure of the Board of Directors and functional Committees 4. Election and continuing education of board directors / Committee members 5. Internal control.
Implemented once in every three-year.	The performance of the Board of Directors from January 1, 2018 to December 31, 2018 was evaluated.	Board of Directors	Contract an external professional organization (Ernst and Young Enterprise Management Consulting Services Co., Ltd.) to conduct the performance evaluation.	The performance evaluation of the board of directors includes three major aspects: 1. Board structure (Board structure and processes, Board members). 2. Members (legal person and organizational structure, roles and responsibilities, behavior and culture). 3. Process and information (director training and development, supervision of risk control, reporting/disclosure and performance monitoring).

4. The objective of fortifying the functions of the Board in current year and the most recent year (e.g., the establishment of the Auditing Committee, and enhancement of the transparency of information) and the assessment of the result of execution:

- (1) In 2019, the Company was valued and selected as the "top 5% of listed companies" by the 5th (2018) corporate governance evaluation of the Securities and Futures Institute.
- (2) All the board directors should attend 161 meetings in 2019 and they actually attended 146 meetings, representing an actual attendance rate of 90.68%.
- (3) The continuing education hours of each director in 2019 were in compliance with the provision of the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies."
- (4) In 2019, Chiang, Hung-Liang, independent director, had a perfect attendance rate (100%), which complies with the requirement that at least one independent director should attend in person at each board meeting.

(II) The operation of the Auditing Committee

The Audit Committee had 6 meetings held in 2019. The attendance of the independent directors is as follows:

Title	Name	Actual number of attendance	Attend through proxy	Attendance rate (%)	Remarks
Independent director	Chen, Ming-Tai	6	0	100%	Re-elected on 2017.05.17
Independent director	Chen, Chao-Lung	6	0	100%	Elected for the first time on 2017.05.17
Independent director	Chiang, Hung-Liang	6	0	100%	Elected for the first time on 2018.11.02

Other notes:

1. For the operation of the Audit Committee in any of the following circumstances, please specify the date, term, the contents of the proposals, the resolution of the Audit Committee, and the process of the opinions proposed by the Audit Committee:

(1) The content of the particulars inscribed in Article 14-5 of the Securities and Exchange Act:

Board of Directors	Details of the relevant agendas and the subsequent	The particulars inscribed in Article 14-5 of the Securities and Exchange Act.	Independent directors opposed or reserved their opinion
2019.05.20 The 48 th meeting of the 14 th term	Amendments made to the “Rules Governing the Implementation of Internal Control and Audit System of King’s Town Bank”	✓	
	Resolution of the Audit Committee (August 20, 2018): All members of the Audit Committee agreed to pass.		
	Measure by the Company in response to the opinions of the Audit Committee: The issue was duly resolved by all present directors in full amidst the unanimous accord.		
2019.09.09 The 56 th meeting of the 14 th term	1. Report the independence and competence evaluation of the Bank’s certified public accountant (CPA).	✓	
	2. Report the attestation service provided by the Company’s CPA.	✓	
	Resolution of the Audit Committee (November 12, 2018): All members of the Audit Committee agreed to pass.		
	Measure by the Company in response to the opinions of the Audit Committee: The issue was duly resolved by all present directors in full amidst the unanimous accord.		
2020.01.06 The 64 th meeting of the 14 th term	Report the appointment of the CPA for attestation service by the Company’s Banking and Insurance Department.	✓	
	Resolution of the Audit Committee (January 21, 2019): All members of the Audit Committee agreed to pass.		
	Measure by the Company in response to the opinions of the Audit Committee: The issue was duly resolved by all present directors in full amidst the unanimous accord.		
2020.02.24 The 67 th meeting of the 14 th term	The 2019 Parent Company Only Financial Statements and Consolidated Financial Statements and Business Reports	✓	
	Resolution of the Audit Committee (February 25, 2019): All members of the Audit Committee agreed to pass.		
	Measure by the Company in response to the opinions of the Audit Committee: The issue was duly resolved by all present directors in full amidst the unanimous accord.		

(2) In addition to the aforementioned motions, other motions without approval by the Auditing Committee but passed by the Board with 2/3 of the Directors: none.

2. With respect to the avoidance of conflicting interest agendas, describe the names of independent directors, details of the relevant agendas, reasons for avoiding conflicting interest, and the voting decisions: none.
3. Communication among the independent director and the internal auditing officer and certified public accountant (should include major matters, methods and results of communication on the Bank’s financial and business conditions): For the communication among the independent directors and the internal auditing officer, the directors and the internal auditing officer should hold a meeting at least once a year to fully communicate internal control and internal audit issues with a meeting minutes prepared and report it to the board of directors. In addition, the internal auditing officer shall report the implementation of the audit operations to the audit Committee at least every six-month.

Date	Main points of communication	Suggestions and results
Audit Committee held on 2019.02.25	Audit operation report for the second half of 2018	Submitted to the board of directors after deliberations
Audit Forum held on 2019.03.25	The 2018 internal control system non-conformities review	No objection
Audit Committee held on 2019.09.09	Audit operations report for the first half of 2019	Submitted to the board of directors after deliberations
Audit Committee held on 2020.02.24	Audit operations report for the second half of 2019	Submitted to the board of directors after deliberations
Audit Forum to be held on 2020.04.06	The 2019 internal control system non-conformities review	--

Communication between independent directors and accountants: The Bank’s CPA communicated with the independent directors on key audit matters at least semi-annually; and also reported to the audit Committee the results of the quarterly financial statement audit or review.

Date	Main points of communication	Suggestions and results
Communication meeting held on 2019.02.25	The CPA communicated on key audit matters of 2018	No objection
Audit Committee held on 2019.02.25	The CPA reported on matters related to the audit of the 2018 financial statements.	Submitted to the board of directors after deliberations
Communication meeting on 2019.07.29	The CPA communicated on key audit matters of the financial statements of the first half of 2019.	No objection
Audit Committee on 2019.07.29	The CPA reported on key audit matters of the financial statements of the first half of 2019.	Submitted to the board of directors after deliberations
Communication meeting on 2020.02.24	The CPA communicated on key audit matters of 2019.	No objection
Audit Committee on 2020.02.24	The CPA reported on matters related to the audit of the 2019 financial statements.	Submitted to the board of directors after deliberations

4. The responsibilities of the Audit Committee are as follows:

- (1) Establish or amend the internal control system in accordance with the provision of Article 14-1 of the Securities and Exchange Act.
- (2) Evaluate the effectiveness of the internal control system.
- (3) Enact or amend the Procedures for the financial or operational actions of material significance pursuant to Article 36-1 of the Securities and Exchange Act, such as, acquisition or disposal of assets, derivatives trading, disclosure of financial forecast, etc.
- (4) A matter bearing on the personal interest of a director or supervisor;
- (5) A material asset or derivatives transaction;
- (6) The offering, issuance, or private placement of any equity-type securities;
- (7) The appointment, dismissal, or compensation of the CPAs.
- (8) The appointment and dismissal of the Finance Officer, Accounting Officer, or Internal Chief Auditor.
- (9) Annual financial reports and semi-annual financial reports.
- (10) Other significant matters required by the Company or the competent authorities

(III) Board diversity policy and specific management objectives and implementation

1. The Bank has the “Corporate Governance Best-Practice Principles” enacted; also, the board diversity policy is stipulated in “Chapter IV Strengthening the Powers of the Board of Directors.” The nomination and election of the Bank’s board directors are in accordance with the provisions of the Articles of Incorporation with a candidate nomination system adopted. In addition to assessing the academic qualifications of each candidate, the Bank also complies with the “Director Selection Procedures” and “Corporate Governance Best-Practice Principles” to ensure director diversity and independence.
2. The Bank’s current board of directors is composed of 7 directors who are without an employee status. There are 3 independent directors accounting for 43%, of which, 2 independent directors have taken the office for less than 3 years and one has taken the office for 7-9 years. The directors are classified into the age group of 45~50 years old with 1 person, 51~60 years old with 2 persons, and 61~70 years old with 4 persons. Directors possess ample experience in financial accounting, industrial knowledge, and business management. In terms of professional capabilities and industrial experience, Directors Tai, Chen-Chih and Tsai, Chiung-Ting specialize in banking management, financial analysis, and macro economy analysis; Director Chuang, Chin-Chung specializes in construction and land development; Director Wang, Hsien-Tsung and Independent Directors Chen, Ming-Tai and Chiang, Hung-Liang specialize in risk management, marketing, and financial affairs; Independent and Director Chen, Chao-Lung specializes in medical research and international development cooperation. The board directors are diverse and complementary that has helped the Bank develop deposits and foreign exchange business, corporate financing, and investment business.

3. According to Article 29 of the Bank’s “Corporate Governance Best-Practice Principles,” directors should generally have the knowledge, skills, and literacy necessary to perform their duties. In order to achieve the ideal objective of corporate governance, the Bank’s board directors have substantiated diversification as follows:

Core diversity aspects Director Name	Basic composition						Capabilities									
	Nationality	Gender	Age			Term of independent directors		Operating judgment	Accounting and Financial Analysis Ability	Operational and Management Ability	Risk Management Ability	Crisis Response Ability	Knowledge of Industry	Understanding of International Markets	Leadership	Decision Making
			45 to 50	51 to 60	61 to 70	Under 3 years	3 to 9 years									
Tai, Chen-Chih	R.O.C.	Male			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tsai, Chiung-Ting	R.O.C.	Male	✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Wang, Hsien-Tsung	R.O.C.	Male		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Chuang, Chin-Chung	R.O.C.	Male			✓		✓		✓	✓	✓	✓	✓	✓	✓	✓
Chen, Ming-Tai	R.O.C.	Male			✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Chen, Chao-Lung	R.O.C.	Male			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Chiang, Hung-Liang	R.O.C.	Male	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

4. Specific management objectives of the diversification policy and the current implementation:
 Specific management objectives: At least three directors out of all board directors have any of the capabilities listed above.
 Individual director has at least the five capabilities listed above.
 Current implementation: Currently, all board directors have fulfilled the objective of the diversity policy.
5. For other corporate governance related information, please refer to the website of the Bank: About the operation of King’s Town Bank / Corporate Governance and Nomination Committee(<https://customer.ktb.com.tw/new/about/85d553f6>)

(IV) Operation of the Corporate Governance and Nomination Committee

1. Corporate Governance and Nominating Committee Member Information

In order to refine the nomination system for the board directors and senior managers of the Company, the board of directors resolved on November 13, 2017 to establish the “Corporate Governance and Nomination Committee.” According to the Company’s corporate governance and nomination Committee charter, the Committee shall be composed of at least three directors selected by the board of directors from among themselves, and a majority of the Committee members shall be independent directors. Currently, the corporate governance and nomination Committee of the Company consists of three independent directors and one director as follows:

Title	By identity	Name	Relevant professions
Convener	Independent director	Chen, Ming-Tai	Risk management, leadership decisions
Committee	Vice Chairman	Tsai, Chiung-Ting	Investment decision, financial analysis, product positioning
Committee	Independent director	Chen, Chao-Lung	International development, technology development
Committee	Independent director	Chiang, Hung-Liang	Financial innovation, marketing strategy, asset management

2. Responsibilities of the “Corporate Governance and Nomination Committee”

With authorization from the board of directors, the Committee shall exercise the due care of a good administrator to faithfully perform the following duties and shall submit its proposals to the board for discussion.

- (1) Laying down the standards of and a diversified background and independence covering the expertise, skills, experience, gender, etc. of members of the board and senior executives, and finding, reviewing, and nominating candidates for directors and senior executives based on such standards.
- (2) Establish and develop the organizational structure of the board and each Committee, and evaluate the performance of the board and each Committee and the independence of the independent directors.
- (3) Establish and review on a regular basis programs for director’s continuing education and the succession plans of directors and senior executives.

- (4) Analyze, implement, plan and suggest the corporate governance system of the Company, and periodically review the corporate governance of the company and related regulations.
 - (5) Corporate governance system effectiveness review
 - (6) Formulate and supervise the implementation of ethical corporate management policies and plans to prevent unethical conducts.
 - (7) Discussion and agreement on corporate social responsibility policies, systems, or related management policies.
 - (8) Supervise the substantiation and implementation of corporate social responsibilities and report it regularly to the board of directors by the management.
3. Operation of the Corporate Governance and Nomination Committee: 5 meetings were held in 2019, with an average attendance rate of 100%. The detailed implementation is as follows:
- (1) Amended the Bank's "Rules of Procedure for Board of Directors Meetings" to include standard operating procedures required by directors.
 - (2) Amended the Bank's "Corporate Governance Best-Practice Principles" to clarify the term of independent directors and appoint corporate governance officers.
 - (3) Amended the Bank's "Ethical Corporate Management Best-Practice Principles" to promote anti-bribery management mechanisms and implement ethical corporate management policies.
 - (4) Amended the Bank's "Procedures for Election of Directors" to clarify the by-election methods for directors and independent directors.
 - (5) Conduct performance evaluation of the board of directors and functional Committees.
 - (6) Review the effectiveness of the corporate governance system and the implementation of ethical corporate management.
 - (7) Review director continuing education programs and succession plans for directors and senior managers.
 - (8) Review the results of corporate social responsibility implementation and communication with the stakeholders.

III. Corporate Governance Report

(V) The Bank’s corporate governance operation and its difference from the “Corporate Governance Best-Practices Principles for Banking Industry” and the root causes

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the Banking Industry and reasons
	Yes	No	Summary	
<p>1. Equity structure and shareholders’ equity</p> <p>(1) Has the bank formulated internal operating procedures to deal with shareholders’ proposals, inquiries, disputes, and lawsuits, and implement them in accordance with the procedures?</p> <p>(2) Has the bank had a register of major shareholders who have controlling power over the company with ultimate control over those major shareholders?</p> <p>(3) Has the bank established, implemented, and managed risk control and firewall mechanisms with affiliated companies?</p>	V		<p>(1) The Bank has stipulated the “Regulations Governing the Process of Customer Complaint” and a dedicated window. After understanding the proposals, inquiries, disputes of customers or shareholders upon notice, it will be handed over to the responsible unit for process and the customer complaint will be processed within the prescribed time.</p> <p>(2) The Bank keeps track of directors, corporate shareholders represented by directors, managers, and shareholders holding more than 10% of the issued shares at any time; also, has the changes and pledges of theirs disclosed on the Market Observation Post System on a monthly basis.</p> <p>(3) The Bank has stipulated the “Enforcement Rules for Reporting Stakeholders’ Information” to establish a stakeholders’ database with affiliated companies in compliance with Articles 32 and Article 33 of the Banking Act and relevant law and regulations. In addition, the operation, financial business information, and audit management of the invested subsidiaries are handled in accordance with the “Regulations Governing the Supervision and Management of Subsidiaries by King’s Town Bank.”</p>	<p>(1) No difference.</p> <p>(2) No difference.</p> <p>(3) No difference.</p>
<p>2. The organization of the Board and their duties</p> <p>(1) Has the bank, in addition to establishing the Compensation Committee and audit Committee, voluntarily set up other functional Committees?</p>	V		<p>(1) The Bank has established the Compensation Committee and the audit Committee. Also, the “Corporate Governance and Nomination Committee” was organized in November 2017 to be responsible for formulating standards for the diversity and independence of board directors, conducting performance evaluation of the board of directors and Committees, and initiating corporate governance system research and analysis, implementation, and review of effectiveness.</p>	<p>(1) No difference.</p>

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the Banking Industry and reasons
	Yes	No	Summary	
(2) Has the bank had the rules governing the performance evaluation of the board of directors and evaluation methods stipulated, the performance evaluation performed annually and regularly, the results of the performance evaluations reported to the board of directors, and the evaluation result applied as a reference for individual director's remuneration and nomination for re-election?	V		(2) The Bank has established the "Regulations Governing the Performance Evaluation of the Board of Directors and Functional Committees" which perform the internal performance evaluation of the board of directors and functional Committees at least once a year in accordance with the evaluation procedures and evaluation indicators, and reports the evaluation results to the board of directors as a reference for individual director's remuneration and nomination for re-election.	(2) No difference.
(3) Has the bank regularly assessed the independence of the certified public accountant?	V		(3) The Bank's Administration Department evaluates the independence and competence of the certified public accountant according to the "CPA's Accountability, Independence and Competence Assessment Form" each year. The CPA or the CPA's spouse is confirmed not a relative within the second degree of kinship of the employees, directors, supervisors, or managers of the Bank or its affiliates; also, he/she does not hold the Bank's shares in excess of the standard and has no other financial interests and business relationship with the Bank; therefore, not any violation of independence is found.	(3) No difference.
3. Has the bank had an adequate number of corporate governance personnel with appropriate qualifications, and appointed a chief corporate governance officer to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors and supervisors, assisting directors and supervisors with legal compliance, handling matters relating to board meetings and shareholders meetings according to law, producing minutes of board meetings	V		The Bank has appointed an adequate number of corporate governance personnel with appropriate qualifications to be responsible for corporate governance related matters. On February 25, 2019, the Board of Directors appointed Jiange Yang, associate manager, who has more than three years of management work experience in finance, stock affairs, and meeting affairs, as the corporate governance director to handle matters related to board of directors and shareholders meetings in accordance with law. The business performance in 2019 is as follows: 1. Handle the matters of the board meetings and the audit Committee meeting in accordance with the law. All board directors shall be informed at least 7 days before the meeting with sufficient	No difference.

III. Corporate Governance Report

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the Banking Industry and reasons
	Yes	No	Summary	
and shareholders meetings, etc.)?			<p>meeting information provided to help the directors understand the content of relevant issues. If the issues are relevant to stakeholders and he/she should enter recusal appropriately, the counterparty will be given a reminder beforehand with the minutes of meeting issued within 15 days after the meeting.</p> <p>2. Assist the board of directors and shareholders with the meeting procedures and the resolved legal compliance matters.</p> <p>3. If the independent directors in accordance with the “Corporate Governance Best-Practice Principles” need to meet with the internal audit officer or the certified public accountant individually to understand the Company’s financial business, assist in arranging relevant meetings.</p> <p>4. Register in advance the date of the shareholders meeting in accordance with the law, and prepare meeting notices, agenda handbooks, and minutes of meeting within the legal time limit.</p> <p>5. Assist directors and independent directors in performing their duties, provide required information and arrange continuing education for directors.</p> <p>6. Status of continuing education: Yang, Chien-Ko, director, participated in the “Important Issues in Industrial and Commercial Regulations and Practical Analysis Annual Forum” organized by Ernst & Young LLP for 3 hours on 02.22.2019, the “2019 Informative briefing on the legal compliance of insider equity transactions of listed companies” organized by the Securities and Futures Institute for 3 hours on 07.19.2019, the “Accountant Continuing Education Course” organized by National Cheng Kung University for 12 hours on 07.25.2019-07.26.2019, the “Functions and tasks of corporate governance staff under the corporate governance blueprint” organized by The Institute of Internal Auditors-Chinese Taiwan for 6 hours on 10.21.2019, the “Propaganda for Effective Performance of Directors” organized by Taiwan Stock Exchange Corporation for 3 hours on 11.11.2019 and the “Fintech and Law</p>	

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the Banking Industry and reasons
	Yes	No	Summary	
			Compliance Risk” and “The relevant regulations of Digital Banks and Open Banks” organized by Securities and Futures Institute for 6 hours on 11.25.2019. The total hours of continuing education during the year: 33 hours.	
4. Has the bank established communication channels with stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.), set up an investor zone on the Company’s website, and properly responded to the concern of stakeholders regarding important corporate social responsibility issues?	V		The Bank has had a stakeholder contact window on the King’s Town / Stakeholders Zone of the website. Stakeholders can fully express opinions through the business units or the service channels disclosed on the Bank’s website; therefore, a smooth communication channel is made available for access.	No difference.
5. Information disclosure				
(1) Has the Bank established a website for the disclosure of financial position, operation, and corporate governance?	V		(1) The Bank has disclosed financial and business related information and corporate governance and other related information in the “About Us” on the company website.	(1) No difference.
(2) Has the bank adopted other methods of information disclosure (such as, setting up an English website, designating a person to be responsible for the collection and disclosure of company information, implementing the spokesperson system, and placing the institutional investor conference on the company’s website)?	V		(2) The Bank has disclosed Chinese and English financial information and institutional investor conference information and process in the “Investor Relations” on the company’s website, as well as the spokesperson system and procedures for handling material inside information; also, set up an English version of “Investor Relations” for foreign investors to understand relevant messages.	(2) No difference.
(3) Has the bank published and reported the annual financial reports before the deadline after the end of the fiscal year in accordance with the Banking Act and the Securities and Exchange Act, and announced and reported the first, second, and third quarter financial reports and operating conditions of each month before the prescribed deadline?	V		(3) The Bank announces and reports the financial report and operating conditions of each month before the prescribed deadline.	(3) No difference.

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the Banking Industry and reasons
	Yes	No	Summary	
6. Has the bank had other important information to help understand the operation of corporate governance (including but not limited to the employee rights, employee care, investor relations, stakeholder rights, continuing education of directors and supervisors, implementation of risk management policies and risk measurement standards, implementation of customer policies, liability insurance acquired by the Bank for directors and supervisors, donation made to political parties, stakeholders, and public charity groups, etc.)?	V		<p>(1) The Bank considers basic human rights and avoids sex discrimination for the recruitment of employees, and also hires persons with disabilities and indigenous peoples. In addition, the head office has labor-management meetings held and an employee welfare Committee organized to appropriately reflect the issues regarding employees' rights and interests and to have them resolved accordingly.</p> <p>(2) In order to stimulate employees' loyalty to the company and encourage employees to save money, the board of directors resolved on 12.2.2009 to establish an employee welfare savings trust system with a fixed amount appropriated correspondently as a reward to employees.</p> <p>(3) The Bank has established an email address for the principals (Chairman, Independent Director, President, and Chief Auditor) on the company's website. In addition to having the investor's important suggestions regularly submitted to the board of directors, it also provides a smooth communication channel with the suppliers and stakeholders to help safeguard the rights and interests of all those involved.</p> <p>(4) The Bank had acquired liability insurance for all directors on June 24, 2019.</p> <p>(5) According to Article 3, paragraph 2, of the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies," at least 12 hours of continuing education should be arranged for newly-elected directors on the year of reporting to duty and at least 6 hours of continuing education should be arranged annually thereafter. The directors had achieved the required hours of continuing education in 2019.</p> <p>(6) The Bank amended the "Regulations Governing the Performance Evaluation of the Board of Directors and Functional Committees by King's Town Bank" on May 14, 2018 to include functional Committees in the</p>	<p>(1) No difference.</p> <p>(2) No difference.</p> <p>(3) No difference.</p> <p>(4) No difference.</p> <p>(5) No difference.</p> <p>(6) No difference.</p>

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the Banking Industry and reasons
	Yes	No	Summary	
			<p>scope of performance evaluation. Performance evaluation includes five aspects, that are “the level of participation in the Bank’s operations,” “Board of Directors/Committee Decision Quality Improvement,” “Board of Directors/Committee Composition and Structure,” “Board of Director/Committee Elections and Continuing Education” and “Internal Control.”</p> <p>The results of the performance evaluation of the Board of Directors and all functional Committees in 2019 were “excellent” and were reported to the Board of Directors on February 24, 2020.</p> <p>(7) The external performance evaluation operation was commissioned to “Ernst and Young Enterprise Management Consulting Services Co., Ltd.” in 2019. After a comprehensive evaluation performed, the comprehensive performance of the Bank in terms of board structure, directors and processes and information was “advanced” and it was reported to the Board of Directors on May 20, 2019.</p>	(7) No difference.
<p>7. Please explain the corrective action implemented for the corporate governance result announced by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the most recent year and propose priority enhancements and measures for those that have not yet being improved: The Bank is ranked among the top 5% listed companies of the 5th corporate governance evaluation. Corrective action has been implemented for those items not scored. Liability insurance was acquired for all directors on 06.24.2019. Also, the amount and nature of non-audit charge was disclosed voluntarily in the annual report.</p>				

(VI) The operation of the Compensation Committee

1. Information on the members of the Compensation Committee

By identity	Condition Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience (Note 1)			Independence Criteria (Note 2)										Number of public companies where the members of the Compensation Committee are also the members of the Compensation Committees of these companies
		1	2	3	1	2	3	4	5	6	7	8	9	10	
Convener/Independent Director	Chen, Ming-Tai			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Independent director	Chen, Chao-Lung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
Independent director	Chiang, Hung-Liang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	

Note 1: Shall be with at least 5-year work experience and meet one of the following professional qualification requirements:

- (1) An instructor or higher in a department of commerce, law, finance, accounting or other academic department related to the business needs of the company in a public or private junior college, college, or university;
- (2) A judge, public prosecutor, attorney, certified public accountant or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company;
- (3) Work experience required for commerce, law, finance, accounting or banking profession.

Note 2: Each member who meets the following conditions in the two years before the election and during the term of office shall be marked with “✓” in the space corresponding to each requirement code.

- (1) Not an employee of the Company or its affiliates.
- (2) Not a director or supervisor of the Bank or any of its affiliates (the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary).
- (3) A natural-person shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under others’ name, in an aggregate of 1% or more of the total number of issued shares of the Bank or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship or lineal relative within the third degree of kinship of any of the managers stated in preceding paragraph (1) or the persons in preceding paragraph (2) and (3).
- (5) Not a director, supervisor, or employee (the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary) of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Bank, is ranked in the top 5 in shareholding, or designates its representative to serve as a director or supervisor of the Bank under Article 27, Paragraph 1 or 2 of the Company Act.
- (6) Not a director, supervisor or employee of other companies that are controlled by the person who also controls the majority of the Bank’s director seats or voting shares (the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary).
- (7) Not a director (or governor), supervisor or person holding an equivalent position of the Bank and that person in any of those positions at another company or institution are the same person or are spouses (the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary).
- (8) Not a director (or governor), supervisor, managerial officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Bank (if the specified company or institution holds 20% or more and no more than 50% of the total number of issued shares of the company, the same does not apply, however, in cases where the person is an independent director of the Bank, its parent company or any subsidiary, as appointed in accordance with the Securities and Exchanges Act or with the law of the country of the parent or subsidiary).
- (9) Not a professional individual or an owner, partner, director (or governor), supervisor, or managerial officer of a sole proprietorship, partnership, company or institution that, provides auditing services to the Bank or its affiliates, or that provides commercial, legal, financial, accounting or related services to the Bank or its affiliates for which the provider in the last 2 years has received accumulative compensation less than NT\$500,000 or a spouse thereof; Provided that this restriction does not apply to a member of the Compensation Committee, public tender offer review Committee or special Committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchanges Act, the Business Mergers and Acquisitions Act, or related law and regulations.
- (10) Not under any of the categories stated in Article 30 of the Company Act.

2. Information on the operation of the Compensation Committee

(1) The Banks Compensation Committee has three members.

(2) The current term of members: May 26, 2017 to May 16, 2020. The most recent (2019) Compensation Committee had 4 meetings (A) held. The qualifications and attendance of the members are as follows:

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (%) (B/A)	Remarks
Convener	Chen, Ming-Tai	4	0	100%	Assumed the office on 2017.05.26 with 4 meetings to attend.
Committee	Chen, Chao-Lung	4	0	100%	Assumed the office on 2017.05.26 with 4 meetings to attend.
Committee	Chiang, Hung-Liang	4	0	100%	Elected for the first time on 2018.11.12 with 4 meetings to attend.
Committee	Chuang, Chin-Chung	2	1	67%	Elected for the first time on 2018.06.11, discharged on 2019.11.14 with 3 meetings to attend.

Other notes:

1、Discussion and resolution of the Compensation Committee and the company's response to the opinions of the members:

Compensation Committee	Details of the relevant agendas and the subsequent	Resolution	The company's response to the opinions of the members:
The 9 th meeting of the 3 rd term 2019.02.25	The 2018 Remuneration of Employees and Directors proposal review	Passed with the consensus consent of all members	Passed with the unanimous consent of all attending board directors.
	The 2018 department heads and managers collective and personal performance evaluation result for review	Passed with the unanimous consent of the Committee members for review	Relevant operations have been handled in accordance with the resolution.
The 10 th meeting of the 3 rd term 2019.03.25	The amendments to the "Compensation Committee Charter" of the Company proposal review	Passed with the unanimous consent of the Committee members for review	Passed with the unanimous consent of all attending board directors.
The 11 th meeting of the 3 rd term 2019.09.09	The remuneration of directors and Presidents of the financial industry in 2018 and review and evaluation of the company's operating performance reference table	Passed with the consensus consent of all members	Relevant operations have been handled in accordance with the resolution.
The 12 th meeting of the 3 rd term 2019.12.09	Newly formulated "Rules Governing Review of Wealth Management Salespersons Financial Services Evaluation and Reward" proposal review	Passed with the consensus consent of all members	Relevant operations have been handled in accordance with the resolution.
	The amendments to the "Compensation Committee Charter" of the Company proposal review	Passed with the consensus consent of all members	Passed with the unanimous consent of all attending board directors.
	The Bank's "Annual Employee Performance Evaluation Measures" and "Annual Bonus Measures" proposal review	Passed with the unanimous consent of the Committee members for review	Relevant operations have been handled in accordance with the resolution.

2、Where the Board may not take or revise the advice of the Compensation Committee, specify the date and the session of the Board, the content of the motion, the resolution of the Board, and the response to the opinions of the banks towards the advice of the Compensation Committee (if the resolution of the Board suggested better position of remuneration than the advice of the Compensation Committee, specify the reasons and the variations): None.

3、 Where members of the Compensation Committee may have adverse opinions or qualified opinions in their resolutions on record or in written declaration, specify the date and session of the committee, the content of the motion, the opinions of all other members, and the responses to the adverse opinions: None.
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3. Scope of responsibility of the Compensation Committee

The Committee shall exercise the care of a good administrator to faithfully perform the following duties and present its recommendations to the board of directors for discussion:

- (1) Periodically review this Charter and make recommendations for amendments.
- (2) Establish and periodically review the annual and long-term performance goals, and the policies, systems, standards, and structure for the remuneration of the directors and managerial officers of the company.
- (3) Periodically assess the degree to which performance goals for the directors and managerial officers of the company have been achieved, and set the types and amounts of their individual remunerations.

The Committee shall perform the abovementioned duties based on the following principles:

- (1) Ensure that the remuneration arrangements of the company comply with applicable law and regulations and are sufficient to recruit outstanding talent.
- (2) Performance evaluation and remuneration levels of directors and managerial officers shall take into account the general pay levels in the industry, the time spent by the individual and their responsibilities, the extent of goal achievement, their performance in other positions, and the remuneration paid to employees holding equivalent positions in recent years. Also, to be evaluated are the reasonableness of the correlation between the individual's performance and the company's operational performance and future risk exposure, with respect to the achievement of short-term and long-term business goals and the financial position of the company.
- (3) No act intended to guide a director or a managerial officer into a deal in excess of the risk tolerance in the attempt to strive for higher pay remuneration.
- (4) For directors and senior managerial officers, the percentage of bonus to be distributed based on their short-term performance and the time for payment of any variable remuneration shall be decided with regard to the characteristics of the industry and the nature of the company's business.
- (5) No member of the Committee may participate in discussion and voting when the Committee is deciding on that member's individual remuneration.

"Remuneration" referred to in the preceding two paragraphs includes cash compensation, stock options, profit sharing and stock ownership, retirement benefits or severance pay, allowances or stipends of any kind, and other substantive incentive measures. Its scope shall be consistent with the remuneration for directors and managerial officers as set out in the "Guidelines Governing Information to be Published in Annual Report of Public Companies." When discussing the Committee's recommendations, the remuneration amount, payment methods and Company's future risks should be considered collectively.

To decline to adopt or amend a recommendation of the Committee, the board of directors shall require the agreement of a majority of the directors in attendance at the meeting attended by two-thirds or more of all of the directors; also, explain whether or not the resolved remuneration proposal in the preceding paragraph is superior to the recommendation of this Committee.

If the remuneration approved by the board of directors is better than the recommendations of the Committee, the company shall specify the details and cause of the discrepancy in the board meeting minutes and within 2 days counting inclusively from the date of the board meeting resolution, shall furthermore carry out public announcement and reporting on the Market Observation Post System.

If the decision-making and handling of any matters relating to the remuneration of directors and managerial officers of a subsidiary is delegated to the subsidiary but requires ratification by the board of directors of the company, the Committee shall be asked to make recommendations before the matter is submitted to the board of directors for deliberation.

(VII) The Bank's social responsibility performance and its difference from the "Corporate Social Responsibility Best-Practices Principles for TWSE/GTSM Listed Companies" and the root causes

Items for evaluation	Implementation Status		Summary	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No		
1. Does the Bank conduct risk assessments of environmental, social and corporate governance issues related to the company's operations in accordance with the materiality principle, and formulate relevant risk management policies or strategies?	V		In order to practice corporate social responsibility and promote the balance and sustainable development of the economy, society, and the environment, the Bank has established the "Corporate Social Responsibility Best-Practice Principals." The corporate social responsibility report is prepared. Perform a risk assessment on major issues of sustainable development in accordance with the materiality principle, and develop corresponding risk management policies and appropriate risk response measures based on the assessed risks in order to maintain the sustainable development of the enterprise.	No difference.
2. Does the Bank set up a full-time (part-time) unit that promotes corporate social responsibility that is to be managed by the management with the authorization of the board of directors and to report the situation to the board of directors?	V		In order to fulfill corporate social responsibility and implement sustainable operation, the Bank designates the "Corporate Governance and Nomination Committee" as the corporate social responsibility supervision unit. The Committee is composed of at least three directors selected by the board of directors from among themselves, and a majority of the Committee members shall be independent directors. The "Corporate Social Responsibility Work Group" is organized with the Vice Chairman as the convener. The Operation Management Department of the Head Office is the enforcement unit for promoting corporate social responsibility and be responsible for formulating and reviewing CSR policies, systems and management policies, and consolidating and planning the social responsibility activities of the Head Office and all business units, convening a meeting on a quarterly basis, submitting reports on the results of implementation each year and report to the board of directors after the discussion of the Corporate Governance and Nomination Committee. Four meetings of the "Corporate Social Responsibility Working Group" were held in 2019; also, the execution plans and results were discussed by the "Corporate Governance and Nomination Committee" on 9/9/2019 and 12/9/2019 and then reported to the Board of Directors.	No difference.
3. Environmental issues (1) Has the Bank established a suitable environment management system by nature of the industry?	V		(1) In order to substantiate energy conservation, the Bank has formulated the "Environmental Protection and Code of Conduct Handbook." For the energy consumption (water, electricity, etc.) of each business unit, the semi-annual review is	(1) No difference.

Items for evaluation	Implementation Status			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
	Yes	No	Summary	
(2) Has the Bank made effort to enhance the efficient use of all resources and used regenerated materials to mitigate the impact on the environment?	V		<p>compared with the same period last year and to check and review the branches with nonconformity identified in order to realize an appropriate environmental management. The Headquarters building has obtained ISO 50001 energy management system certification.</p> <p>(2) In response to the government’s energy saving campaign, employees are being prompted to recycle paper, make good use of used envelopes for internal document distribution, implement double-sided printing, rent office machines with power-saving mode functions, and purchase supplies with environmentally-friendly marks in order to mitigate the effects of global warming and reduce operating cost.</p>	(2) No difference.
(3) Does the Bank assess the potential risks and opportunities of climate change for companies now and in the future, and take measures to address climate-related issues?	V		<p>(3) Global climate change is with abnormal climates formed frequently. The Bank has reviewed the three aspects of operations, environment, and society to examine the potential risks to the Company caused by climate change, and develop the responsive measures and action plans to reduce the climate risk of corporate operations.</p>	(3) No difference.
(4) Does the bank count greenhouse gas emissions, water consumption, and total weight of waste over the last two years, and formulate policies for energy conservation and carbon reduction, greenhouse gas reduction, water consumption reduction, or other waste management?	V		<p>(4) The Bank had calculated the greenhouse gas emissions and water consumption of the Bank taking as a whole in the last two years, and had also counted the types and weight of waste in the head office building since November 2018. The Bank’ has found internally that the electricity consumption is the largest energy use of the Bank. Therefore, the Bank has formulated energy saving plans for lighting equipment, air-conditioning equipment, computer rooms, and elevator equipment; also, strive to reduce electricity consumption and greenhouse gas emissions by 15% in 2022 comparing to that of in 2017. The specific operation is as follows:</p> <ol style="list-style-type: none"> 1. Newly installed and replaced lighting equipment are equipped with energy-saving T5 or LED light fixtures. 2. The frequency conversion high-power host is adjusted, the constant temperature control device is used, and the average indoor air temperature should not be lower than 26 degrees Celsius. 3. Adjust the computer room layout and reorganize the circuit to improve the 	(4) No difference.

Items for evaluation	Implementation Status		Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
	Yes	No	
			<p>energy efficiency of the computer room.</p> <p>4. Regulate the billboard light on and off time period for carbon reduction and energy saving according to the daylight time and season.</p> <p>5. Under the active implementation of energy management by the staff of the company, as of the end of 2019, electricity saving by 10.32%. In the “2019 MOEA Energy Saving Benchmark Awards Campaign” organized by the Bureau of Energy of the Ministry of Economic Affairs in 2019, the Bank passed the first stage of review and was awarded with the recognition of “Excellent Energy-Saving Enterprise” that has the staff of the Bank encouraged to work towards the goal of 2022.</p> <p>6. In terms of water consumption, the direct water consumption of the banking industry accounts for a very small proportion of the business scale. However, the amount of paper required for daily operations is significant. Papermaking is an industry consuming large volume of water and energy, and causes severe pollution. It takes 24.5 tons of water to produce 1 ton of white paper on average. In order to reduce indirect water consumption, the Bank has actively planned and implemented measures, such as, reducing paper consumption and paperless statements, since 2010.</p> <p>7. In terms of waste management, the Bank has conducted statistics on the amount of waste in the head office building since November 2018. The waste in the head office is divided into three categories: general waste, recyclable waste, and kitchen waste. Waste is weighted before dumping on a daily basis in order to implement waste sorting policy and improve the resource recycle rate. The Bank encourages recourse recycling. For example, the restaurant in the head office does not use disposable tableware, but the company provides environmentally friendly tableware. Paper cups are not provided during meetings. Employees are encouraged to bring environmentally</p>

Items for evaluation	Implementation Status			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
	Yes	No	Summary	
			friendly cups in order to realize the effort of waste reduction starting from the employees.	
4. Social issues				
(1) Has the Bank established related management policy and procedure in accordance with applicable legal rules and international conventions on human rights?	V		(1) The Bank acknowledges and supports the spirit and basic principles of human rights protection as disclosed in various international human rights conventions, such as, the “Universal Declaration of Human Rights,” the “UN Global Compact,” and the “ILO Declaration of Fundamental Principles and Rights at Work.” The “King’s Town Bank Human Rights Policy” is formulated to protect the basic human rights of the staff taking as a whole, customers, and stakeholders.	(1) No difference.
(2) Has the bank formulated and implemented reasonable employee benefits measures (including remuneration, vacation and other benefits, etc.), and appropriately reflect operating performance or results in employee remuneration?	V		(2) The Bank has established the “King’s Town Bank Working Rules,” which have clear rewards and punishment standards for employees’ ethical conducts and violations of corporate ethics or bribery and corruption. The rewards and punishments are included for performance evaluation. The promotion and remuneration of the Bank staff is based on the annual evaluation results; therefore, the Bank can effectively encourage the staff to implement corporate ethics and social responsibility.	(2) No difference.
(3) Has the Bank provided a safe and health work environment for the employees, and provided education on labor safety and health regularly?	V		(3) The Bank organizes health check-ups every two years to safeguard the physical and mental health of employees. The Bank arranges self-defense and firefighting seminars regularly every year to strengthen employees’ common sense of fire evacuation. CPR cardiopulmonary resuscitation teaching is held every year to improve employees’ first aid knowledge and skills.	(3) No difference.
(4) Has the Bank established the training program for the effective planning of career development for the employees?	V		(4) The Bank bases on the different positions and qualifications of employees to handle training courses for new recruits, clerks and operations directors; also, selects relevant personnel to participate in various professional courses of external institutions or hires external professional lecturers to teach in order to enhance the clerks’ professional skills and knowledge so they will be able to develop a good career.	(4) No difference.
(5) Regarding customer health and safety, customer privacy,	V		(5) The Bank’s marketing and labeling of products and services are handled in accordance with relevant regulations and	(5) No difference.

Items for evaluation	Implementation Status		Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
	Yes	No	
<p>marketing, and labeling of products and services, does the Bank comply with relevant regulations and international standards, and formulate relevant consumer protection policies and appeal procedures?</p> <p>(6) Has the bank formulated a supplier management policy that required suppliers to follow relevant norms on specific issues, such as, environmental protection, occupational safety and health, or labor rights, and their implementation?</p>			<p>written orders of the competent authority and international standards. The Bank has formulated the “King’s Town Bank Fairness Dealing Policy and Strategy,” “King’s Town Bank Consumer Protection Act,” and “Operating Standard for Customer Appeals” to specify the measures to be implemented in the consumer protection policy, assign the responsible unit to review the effectiveness of the consumer protection mechanism and report it regularly to the board of directors.</p> <p>(6) The Bank has the “Supplier Management Measure” established to work with suppliers to fulfill corporate social responsibility and present an image of excellence and to make the balance and sustainable development of the economy, society, and the environment the corporate goal.</p> <ol style="list-style-type: none"> 1. Fully understand the counterparty’s ethical corporate management when signing the contract, include the requirement of complying with the Bank’s ethical corporate management policy in the contract and avoid engaging in commercial transactions with agents, suppliers, or other business associates involved in unethical conducts. 2. The Bank also invites major suppliers to sign the “Human Rights and Environmental Sustainability Commitment” which promises to implement corporate social responsibility, such as, labor compliance, employee care and basic human rights, energy conservation and environmental protection. All (100%) the suppliers with a procurement amount of NT\$10 million in 2019 had the “Human Rights and Environmental Sustainability Commitment” signed. 3. The “King’s Town Bank Corporate Social Responsibility Supplier Self-Assessment Form” is prepared with the following contents included: Energy-saving management, occupational safety and health and human rights protection and environmental protection. Actively promote suppliers to conduct self-assessment and understand the <p>(6) No difference.</p>

Items for evaluation	Implementation Status		Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
	Yes	No	
			<p>corporate social responsible performed by the suppliers through the self-assessment mechanism, which will also be used as a reference for continuous cooperation with suppliers. There were 62 suppliers on the list in 2019, of which, 13 suppliers had completed the self-assessment; also, the result of the self-assessment did not violate the Bank’s believe in fulfilling corporate social responsibility.</p> <p>4. For suppliers engaged in high-risk work, such as, contractor for building construction and decoration, safety propaganda must be arranged at the start of the meeting according to the “King’s Town Bank Contractor Work Hazardous Factors Notification Form.” In addition to requiring them to comply with the Occupational Safety and Health Act, the workers at the worksite must be educated about job safety and health and avoid dangerous matters to prevent them from being injured during the operation. There were 5 safety propaganda events arranged in 2019; also, there was no casualty as a result of engineering accidents. For suppliers engaged in high-risk work, such as, contractor for building construction and decoration, visit the worksite from time to time; also, the responsible personnel of the Bank shall conduct an onsite inspection with an inspection record kept in accordance with the inspection items of the “King’s Town Bank Contractor Safety and Health Checklist.” The main contents of the inspection include whether the provisions of the Occupational Safety and Health Act have been implemented, and the important safety propaganda of the Bank’s contractor work hazardous factors notification form. There were 5 field visits and inspections performed in 2019 without any special or significant non-conformity detected. The Bank has set up the “Corporate Social Responsibility” zone on the company’s website to disclose information on corporate social responsibility.</p>

Items for evaluation	Implementation Status		Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons	
	Yes	No		Summary
5. Does the Bank refer to international criteria or guidelines for the preparation of reports, and compile reports on corporate non-financial information, such as, corporate social responsibility reports? Did the aforementioned reports obtain the assurance or guarantee opinion of a third-party verification institute?	V		The Bank has prepared the 2018 Corporate Social Responsibility Report with the corresponding contents written by following the GRI Standards that were issued by the Global Reporting Initiative (GRI) in 2016, and the “Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies.” Also, the said report is externally guaranteed by the third-party independent certification institute “SGS Taiwan” for the compliance with the key criteria of GRI Standards.	No difference.
6. If the Bank has its “Corporate Social Responsibility Best-Practice Principle” formulated in accordance with the “Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies,” please describe the difference between its operation and the established principles: there is no difference.				
7. Other information critical to the understanding of our bank’s corporate social responsibility and how it is put into practice: (1) In terms of social participation, environmental sustainability, and customer service, the Bank has made “financial education and promotion,” “green finance” and “advanced customer digital services” as its main promotion theme in order to fulfill its corporate social responsibility. Please refer to page 69 “V. Operation Overview-C. Corporate Responsibility and Ethical Conduct” in the 2019 annual report. (2) The Bank passed the certification of ISO 50001 energy management system in 2018, promoted the rational and efficient use of energy, eliminated energy waste, implemented energy management in daily life and successfully completed the ISO50001 energy management renewal audit in 2019. (3) The Stock and Exchange Corporation announced the results of the 5 th (2018) Corporate Governance Evaluation. The Company was listed as a “top 5%” listed company and is classified in the category of finance and insurance ranking bracket. For the “top 10%” industry, it will continue to strengthen the structure and operation of the board of directors and implement the sustainable business philosophy.				

(VIII) The Bank’s ethical corporate management performance and its difference from the “Ethical Corporate Management Best-Practices Principles for TWSE/GTSM Listed Companies” and the root causes

Items for evaluation	Implementation Status			Difference with other companies listed in TWSE/GTSM in best-practice principles of business integrity
	Yes	No	Summary	
<p>1. The policy and plan of business integrity</p> <p>(1) Has the bank formulated an ethical corporate management policy that was approved by the board of directors, and clearly specified in the rules and external document the ethical corporate management policies and strategies and the commitment by the board of directors and senior management on rigorous and thorough implementation of the policies in internal management and in commercial activities?</p>	V		(1) The Bank has formulated the “Ethical Corporate Management Best-Practice Principles” and “Procedures for Ethical Management and Guidelines for Conduct” with the approval of the Board of Directors as the company’s ethical corporate management policy. It clearly states that “directors, managers, employees, or persons with substantial control may not commit any unethical conduct in the course of business operations; there must be no unethical conduct. The directors, senior management, and all employees signed the “ethical conduct statement” in August, 2019; also, the “ethical corporate management, anti-corruption and anti-bribery policy and commitment” was disclosed on the Bank’s global website.	(1) No difference.
<p>(2) Has the bank had established a risk assessment mechanism against unethical conduct, regularly analyzed and assessed business activities within the business scope which were at a higher risk of being involved in unethical conduct and established prevention programs accordingly that at least included the preventive measures against the conducts specified in Article 7, paragraph 2 of the “Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies?”</p>	V		<p>(2) The Bank has formulated the “Procedures for Ethical Management and Guidelines for Conduct” for adopting preventive measures against business activities that involve risks of unethical conduct, including:</p> <p>1. It clearly indicates that bank staff shall not take advantage of the job position to seek illegal benefits, unjustified entertainment, gifts, kickbacks, embezzlement or other illegal gains.</p> <p>2. The offer of political contributions, charitable donations, or sponsorships must be submitted to the authorized officers for approval and must be in compliance with relevant law and regulations and internal operating procedures.</p>	(2) No difference.
<p>(3) Has the bank specified the operating procedures, guidelines for conducts punishment and appeal system for</p>	V		(3) 1. In addition to the “Ethical Corporate Management Best-Practice Principles” and	(3) No difference.

Items for evaluation	Implementation Status			Difference with other companies listed in TWSE/GTSM in best-practice principles of business integrity
	Yes	No	Summary	
violations in the prevention programs, have they been implemented accordingly and regularly reviewed and revised the aforementioned programs?			<p>“Procedures for Ethical Management and Guidelines for Conduct,” the Bank has established the “Working Rules” and “Employee Service Ethics and Code of Ethical Conduct” that include reporting, disciplinary actions and appeals system, so that both employers and employees are committed to the establishment of corporate ethics and professional ethics, and request directors and managerial officers to lead and set a good example and strictly abide by the principle of good faith.</p> <ol style="list-style-type: none"> 2. The labor contract signed by the Bank and all employees contains confidentiality agreements. Employees are responsible for the absolute confidentiality of the business, matters, documents, and customer information under their custody, and may not arbitrarily read or copy the accounting data and documents irrelevant with their job duty; also, that they may not have such information disclosed without complying with the law or being approved and the same requirement applies after their resignation. 3. The Bank has formulated relevant disciplinary regulations; also, the personnel who have committed serious violations of ethical conduct will be dismissed or fired. 4. The Bank has established a HR Evaluation Committee to conduct review and retrial of employee-related disciplinary action. 5. The Bank has established a whistleblower system to encourage internal and external personnel to report unethical conduct or misconduct, and should regularly publicize and educate the subordinates about the whistleblowing system. 6. In order to prevent the unethical 	

Items for evaluation	Implementation Status		Difference with other companies listed in TWSE/GTSM in best-practice principles of business integrity
	Yes	No	
			<p>conduct of directors, managerial officers, and employees using information that is not available in the market to obtain illegal gains, the Bank has established internal regulations, such as, the “Corporate Governance Best-Practice Principles,” “Procedures for Handling Material Inside Information” and “Self-Regulatory Rules on Disclosure of Merger and Acquisition Information” to expressly stipulate that those who know important internal information shall not disclose it to others before the information is made public; those who know the undisclosed internal important information due to the execution of business shall not have it disclosed to others. The Bank and other institutions or personnel who have participated in the Bank’s mergers and acquisitions, important memoranda, strategic alliances, other business cooperation plans, or important contract signing should have the confidentiality commitments signed and enforced truthfully.</p> <p>7. The Bank regularly reviews and amends plans to prevent unethical conducts every year.</p>
<p>2. The Materialization of Business Integrity</p> <p>(1) Has the Bank evaluated the record on ethical practices of its counterparties, and has specified the clause of business ethic in the agreements binding the Bank and its counterparties?</p> <p>(2) Does the bank set up a unit dedicated to promoting ethical corporate management under the board of directors, and regularly (at least once a year) report to the board of directors its ethical corporate management policies and unethical conduct preventive action and the implementation of</p>	<p>V</p> <p>V</p>	<p>(1) The Bank does not engage in transactions with those who have a record of unethical conduct when conducting commercial activities. The criteria of ethical conduct will be clearly stated in commercial contracts in the future.</p> <p>(2) The Bank designate the “Corporate Governance and Nomination Committee” under the Board of Directors as the unit to assist in integrating ethical conduct and morality and values into the company’s business strategy, formulate relevant fraud prevention measures in accordance with the</p>	<p>(1) No difference.</p> <p>(2) No difference.</p>

Items for evaluation	Implementation Status			Difference with other companies listed in TWSE/GTSM in best-practice principles of business integrity
	Yes	No	Summary	
supervision?			statutory system to ensure ethical corporate management, and regularly report to the board of directors its ethical corporate management policies and unethical conduct preventive action and the implementation of supervision every year?	
(3) Has the Bank mapped out the policy for the avoidance of the conflict of interest and has provided suitable channels for such purpose, and properly pursued the policy?	V		(3) The Bank has had the e-mail addresses of the Chairman, President, and Chief Auditor on the Bank's global information network for access.	(3) No difference.
(4) Does the Bank have established an effective accounting system and internal control system for the implementation of ethical corporate management, and the internal audit unit based on the assessed risk of unethical conduct to formulate relevant audit plans, and check the compliance with the unethical conduct preventive action or commission an accountant to perform the check?	V		(4) The Bank has established an effective accounting system in accordance with the "Regulations Governing the Preparation of Financial Reports by Listed Banks" by the competent authority, which is available for audit. An unethical act, such as, bribing, bribed, profiteering, fraud and engaging in unfair competition is clearly prohibited in the Bank's "Ethical Corporate Management Best-Practice Principles," "Working Rules" and "Employee Service Ethics and Code of Ethical Conduct;" also, a clear appointment, dismissal, and punishment system is in place to maintain the Bank's credibility. The Bank has indeed complied with the "Regulations Governing the Implementation of Internal Control and Audit System of Financial Holding Companies and Banking Industry" to establish an internal control system. An independent and impartial audit department establishes a rigorous annual audit plan to carry out inspections in order to ensure that the design and implementation of the system are effective continuously.	(4) No difference.
(5) Has the Bank organized internal and external training on ethical corporate management?	V		(5) The Bank regularly conducts education and training related to ethical corporate management to directors, senior management, and all employees, including 1. The "Promotion of Whistleblower System" was arranged in	(5) No difference.

Items for evaluation	Implementation Status		Difference with other companies listed in TWSE/GTSM in best-practice principles of business integrity
	Yes	No	
			<p>September 2019. The content of the training course was mainly to publicize the relevant rules of the whistleblower operation stated in the “Procedures for Ethical Management and Guidelines for Conduct” with a focus on the reporting channel and case submission method.</p> <p>2. The “Procedures for Handling Material Inside Information and Self-Regulatory Rules on Disclosure of Merger and Acquisition Information” was arranged in August 2019. The content of the training course was to publicize the procedures for handling material inside information and related regulations and the self-regulatory rules on disclosure of merger and acquisition information.</p> <p>3. The “Financial Service Industry Fairness Dealing Policy and Strategy” was arranged in June 2019. The content of the training course mainly included the Financial Consumer Protection Act, the financial industry fairness dealing policy and strategy and case study on financial consumer dispute.</p> <p>4. The “Promotion of the Anti-Money Laundering and Counter-terrorism Financing Act” was arranged in July 2019. The content of the training course was mainly about the promotion of anti-money laundering and counter-terrorism financing related norms and precautions for practices, customer name check system inquiry, practical operation and anti-money laundering and counter-terrorism financing template and relevant questions and answers -financial institutions.</p> <p>5. The “Promotion of Personal Data Protection Act” was arranged in November 2019. The</p>

Items for evaluation	Implementation Status			Difference with other companies listed in TWSE/GTSM in best-practice principles of business integrity
	Yes	No	Summary	
			<p>content of the training course was mainly on the promotion of the Personal Information Protection Act.</p> <p>6.The “Regulatory Compliance Education and Training” was arranged in every month of 2019.</p> <p>In summary, there were 24,619 persons/times and total 22,176 persons/hours arranged in 2019 totally.</p>	
<p>3. The reporting system of the Bank in action</p> <p>(1) Has the Bank established a reporting and reward system and the channels for facilitating the report on unethical practices, and has appointed designated personnel to handle the subject of reporting?</p> <p>(2) Has the bank established standard operating procedures for investigating reported events, follow-up measures to be taken after the investigation was completed, and related confidentiality mechanisms?</p>	V		<p>(1) The Bank incorporates ethical corporate management into employee performance evaluation and provides smooth and convenient reporting channels. Employees can respond to all management levels through multiple channels, and then transfer them to designated units for processing in accordance with the Bank’s relevant operating procedures.</p> <p>(2) 1. The responsible unit of the Bank shall review the types of cases reported and submit it to the investigating unit for investigation and deliberation. The responsible unit shall inform the informant the investigation filing, handling, and results. If any serious incidental or illegal act is discovered after the investigation, it shall be disclosed or reported to the competent authorities lawfully. The Bank shall keep the identity of the whistleblower and the contents of the reported incident confidential when accepting and investigating the reported incident; also, shall not leak, disclose, or announce information sufficient to identify the whistleblower to non-essential third parties, and shall take effective safeguard measures.</p> <p>2. The Bank strictly keeps the identity of the whistleblower in</p>	<p>(1) No difference.</p> <p>(2) No difference.</p>

Items for evaluation	Implementation Status			Difference with other companies listed in TWSE/GTSM in best-practice principles of business integrity
	Yes	No	Summary	
(3) Has the Bank taken protection measures to protect the informant from improper treatment after reporting on unethical practices?	V		confidence with protection measures provided so that the whistleblower will not be improperly disciplined or retaliated. The written document of the case acceptance, investigation process, and investigation result shall be reserved for five years. 3. The Bank shall report the reported incident, handling method, and follow-up review and improvement measures to the responsible unit. (3) The Bank provides comprehensive protection to the whistleblowers against improper discipline.	(3) No difference.
4. Enhancing Information Disclosure Does the Bank disclose the content of its ethical corporate management best-practice principles and implementation effectiveness on its website and Market Observation Post System?	V		The Bank has disclosed the content and implementation of its ethical corporate management on the company's website, stating "Ethical Corporate Management and Anti-Corruption and Anti-Bribery Policy Commitments."	No difference.
5. If a bank has established its own ethical corporate management best-practice principles in accordance with the "Ethical Corporate Management for TWSE/GTSM Listed Companies," please describe the difference between its operation and the established Principles: there is no difference				
6. Other important information that helps understand the Bank's ethical corporate management operation: None				
(IX) Corporate Governance Best-Practice Principles and Related Rules inquiry Please refer to the Corporate Governance of the Market Observation Post System (http://mops.twse.com.tw/mops/web/index/) or the Bank's Global Information Network (https://customer.ktb.com.tw/new/) About King's Town / Corporate Governance / Corporate Governance Information.				
(X) Other important information that is sufficient to enhance the understanding of the Bank's corporate governance operation Please refer to the Market Observation Post System (http://mops.twse.com.tw/mops/web/index/) or the Bank's Global Information Network (https://customer.ktb.com.tw/new/) About King's Town.				

- (XI) Status of Internal Control
 1. Declaration of Internal Control

Statement of Internal Control System of King's Town Bank

- A. I on behalf of King's Town Bank hereby declare that the Bank had complied with the "Regulations Governing the Implementation of Internal Control and Auditing System for Financial Holding Companies and Banking Industry" from January 1, 2019 to December 31, 2019, established an internal control system, and implemented risk management. The audit was performed by an independent and impartial audit department, which was regularly reported to the board of directors and the Audit Committee.
- B. For the securities business operated concurrently, the effectiveness of the internal control system design and implementation is assessed in accordance with the judgment items on the effectiveness of the internal control system stipulated in the "Regulations Governing the Establishment of Internal Control System by Service Enterprises in Securities and Futures Market" by the Securities and Futures Bureau of the Financial Supervisory Commission Whether the execution is effective.
- C. Insurance agent business operated concurrently:
- i. The Bank assesses the effectiveness of the internal control system design and implementation in accordance with the provisions of the "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies" (hereinafter referred to as the "Regulations." The internal control criteria stipulated in the "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies" shall include at least the following constituent elements: 1. Environment control, 2. Risk assessment, 3. Control operations, 4. Information and communication, and 5. Supervision operations.
 - ii. The Bank has adopted the aforementioned internal control system criteria to check the effectiveness of the internal control system design and implementation.
 - iii. The Bank based on the aforementioned inspection results believes that the internal control system design and implementation (including knowing the soundness of operations, the reliability of reports, and the compliance with relevant law and regulations) during the aforementioned period is effective, and it can reasonably achieve the aforementioned objectives.
- D. After carefully assessing the internal control and regulatory compliance of each unit in current year, except for the items listed in the attached table, an effective implementation is completed. This statement will become the main content of the Bank's annual report and prospectus for the information of the public. Any misrepresentation or concealment of the aforementioned disclosures shall be liable to violation of Articles 20, 32, 171 and 174 of the Securities and Exchanges Act and the legal consequences thereof.
- E. The Bank hereby declares that this statement was approved by the board of directors on February 24, 2020.

To:

Financial Supervisory Commission

Undersigned:

Chairman: Tai, Chen-Chih

President: Chang, Jih-Cheng

Chief auditor: Pai, Ching-Chu

Compliance Officer of the Head Office: Yu, Chi-Wei

February 24, 2020

III. Corporate Governance Report

The matters related to the internal control system of King's town Bank for improvement and the improvement plan
(Base date: December 31, 2019)

Enhancement Items	Improvement Measures	Planned Date of Completion
Please strengthen the credit risk control of stock collateral financing.	<p>1. It is proposed to amend the “Regulations Governing the Value Assessment of the Collateral Pledge of Rights” and “for guaranteed loans with non-listed stock and emerging stock as collateral the collateral is valued according to the net value.” A conservative and rigorous mechanism has been adopted for the valuation of unlisted stock shares.</p> <p>2. The “Operating Procedures for Credit Loan Business of the Bank” is amended and the provisions of the “Directions for Credit Loan Operation” are formulated to process stock collateral (co-collateral) credit loans (including credit lending). In addition to assessing the borrower’s intended use of funds, credit status, financial status, repayment ability and professional operating ability, the condition of the industry that the stock issuing company engaged in should be analyzed and included in the credit investigation report in order to substantiate the collateral stock investigation operation and ensure the Bank’s credits.</p>	It was reported to the competent authority on February 13, 2020, and will be implemented in accordance with the proposed adjustment and improvement operation.

2. Those who entrust a certified public accountant to review the internal control system should have the CPA’s audit report disclosed: None.

(XII) In the last two years and up to the date of the annual report published, the disciplinary action brought against the Bank and the Bank's major non-conformities and corresponding corrective action:

1. The responsible person or the employee was indicted by the prosecutor for a crime committed in the business: The former financial adviser of the sales department was suspected of embezzling customer's funds in 2017. The court sentenced him with 9-year imprisonment and confiscated the proceeds of crime by the first instance of court on December 14, 2018. An appeal for the case has been filed by both parties and is currently being processed by the court of second instance.
2. A fine imposed by the Financial Supervisory Commission (FSC) for violation of law or regulations, an official reprimand delivered by the FSC pursuant to Article 61-1 of the Banking Act, or a disciplinary act rendered by the bank to the personnel for violating the bank's internal control system that may have a significant impact on the shareholders' equity or security price, or met the major sanctions and penalties specified in Article 2 of the Regulations on the Publication of Material Penalties for Violations of Finance Law:
 - (1) On January 4, 2018, the Financial Supervisory Commission rectified the misconduct of the Bank's selling insurance products to the bank clerks.
[Improvement measures] The Bank has revised relevant control programs and operating procedures to strengthen control.
 - (2) On May 9, 2018, the Financial Supervisory Commission fined the Bank for NT\$2 million for the deficiencies listed in the Bank's 2017 general business inspection report.
 - ① The review items were incomplete before the financial products marketed for sale; therefore, a fine of NT\$1.2 million was imposed.
 - ② The bank clerk provided customers with investment risk attribute assessment operations outside the bank without authorization; therefore, a fine of NT\$600,000 was imposed.
 - ③ There were 2 block currency transactions not reported to the Ministry of Justice Investigation Bureau; therefore, a fine of NT\$200,000 was imposed.
 - ④ Relevant deficiencies in the Bank's assessing customer money laundering risk levels and ongoing monitoring operations should be rectified.
[Improvement measures] The Bank has amended relevant regulations, control programs, and operating procedures and the current operations have been performed in accordance with regulations.
3. Individual losses or total losses arising from security incidents for an amount of NT\$50 million or more each year due to personnel fraud, serious incidents or failure in performing safety maintenance work: None.
4. Other matters designated by the Financial Supervisory Commission for disclosure: None.

(XIII) Important resolutions of the Shareholders' Meeting and the Board of Directors for the year of 2019 and as of the end of February 2020

Classification	Date	Case	Resolution	Status of implementation:
Meeting of shareholders	2019.06.24	The 2018 Final Accounts proposal	732,453,806 rights voted in favor, and 19,871 rights voted against, so the proposal was passed as voted.	Relevant books and document have been submitted to the competent authority for inspection and announcement in accordance with the law and regulations of the Company Act and the Securities and Exchange Act.
		The 2018 Annual Net Income distribution proposal	736,088,370 rights voted in favor, and 24,870 rights voted against, so the proposal was passed as voted.	The distribution base date was scheduled on July 15, 2019, and the payment date was scheduled on July 31, 2019. (Distribution of cash dividends of NT\$1.5 per share))
		“Amendment of the Company’s procedures for acquisition or disposal of assets by the Company” proposal	735,989,118 rights voted in favor, and 20,061 rights voted against, so the proposal was passed as voted.	It was announced on the Company’s website on July 9, 2019 and handled in accordance with the amended procedures.
Board of Directors	2019.04.15	The establishment of the “Banking and Insurance Department”	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.05.20	Yongkang Branch relocation proposal	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		Purchased Taiwan Stock Exchange Corporation stocks from five companies, including CDIB Capital Group	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.06.03	Purchased Taiwan Stock Exchange Corporation stocks from CDIB Capital Group	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.07.01	Tainan City Nan-min Section Lot #1454 and #1455 Land Purchase proposal	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.08.12	Bad debts written-off	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		Repurchased the Company’s issued shares for the 20 th time.	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.09.09	Matters concerning the independence and competence assessment of the Bank’s certified public accountants	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		Matters concerning the appointment of the Bank’s certified public accountants for attestation service	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.09.23	Revision of the Bank’s organizational chart, organizational charter, and hierarchical details of the credit center	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		Neihu Branch relocation proposal	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.10.07	Taiwan Futures Exchange Corporation investment proposal	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.10.28	The Bank’s disposal of property proposal	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.11.11	Repurchased the Company’s issued shares	Passed by the attending	Relevant operations have been

Classification	Date	Case	Resolution	Status of implementation:
		for the 21 st time.	directors unanimously by being consulted by the Chairman.	handled in accordance with the resolution.
	2019.11.25	Bad debts written-off	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2019.12.09	Applied to close the Bank's non-business office (archive office) located in Puzi City, Chiayi County	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		Purchased the stock shares of Taiwan Stock Exchange Corporation	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2020.01.06	Report the appointment of the CPA for attestation service by the Company's Banking and Insurance Department.	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2020.01.20	Bad debts written-off	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2020.02.10	Bad debts written-off	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
	2020.02.24	The "2019 Statement on Internal Control System of King's Town Bank" discussion proposal	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		The "2019 Statement on the Internal Control System for Anti-Money Laundering and Counter-Terrorism Financing"	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		Produced and submitted the Bank's 2019 parent company only financial statements and consolidated financial statements and business reports	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		The 2019 distribution of earnings	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.
		Beigang Branch relocation proposal	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution.

(XIV) For the year of 2019 and as of the end of February 2020, the directors or supervisors had different opinions that were recorded or documented on important resolutions passed by the board of directors: For the year of 2019 and as of the end of February 2020, the directors or independent directors had no different opinions expressed.

(XV) Summary of the resignation and dismissal of relevant personnel of the Bank (referring to the chairman, President, financial director, accounting director, internal chief auditor, and corporate governance director) in 2019 and as of February 2020: None

E. Disclosure of the accountant's fee:

(I) Public Certified Accountant fees bracket

Firm Name	CPA Name	Duration of Audit	Remarks
Ernst & Young Global Limited	Huang, Shih-Chieh; Chang, Cheng-Tao	20190101~20191231	Changes in job assignment within the CPA firm

Fee levels	Fee items	Auditing fee	Non-Auditing fee	Total
1	Below NT\$2,000 thousand	-	✓	-
2	NT\$2,000 thousand (inclusive) ~ NT\$4,000 thousand	✓	-	✓
3	NT\$4,000 thousand (inclusive) ~ NT\$6,000 thousand	-	-	-
4	NT\$6,000 thousand (inclusive) ~ NT\$8,000 thousand	-	-	-
5	NT\$8,000 thousand (inclusive) ~ NT\$10,000 thousand	-	-	-
6	Over NT\$10,000 thousand (inclusive)	-	-	-

Unit: NTD thousand

Firm Name	CPA Name	Auditing fee	Non-Auditing fee					The duration of the audit	Remarks
			System design	Corporate Registration	Human Resources	Others	Subtotal		
Ernst & Young Global Limited	Huang, Shih-Chieh; Chang, Cheng-Tao	2,880	-	-	-	690	690	2019.1.1~2019.12.31	-

Note: The anti-money laundering and counter-terrorism financing mechanism for auditing NT\$500 thousand Cancellation of treasury stock case checklist and review opinion for NT\$100 thousand King's Town Bank and insurance agent simple merger reported for NT\$90 thousand

(II) Change of Accounting firm and the auditing fee of the year changing the Accounting firm less than that of the previous year: None.

(III) Auditing fee were 10% less than that of the previous year: None.

F. Information on CPA replacement in the last two years and thereafter

(I) Predecessor CPAs:

Date or replacement	February 25, 2019		
Reason for and description of the replacement	Internal job rotation of the CPA Firm		
Explain that the termination of the commission is accepted or declined by the CPA or the principal	The parties	CPA	The principal
	situation		
	Terminate the commission voluntarily	NA	NA
Decline the (continuing) renewal of the commission	NA	NA	
Audit reports with an opinion other than unqualified opinion included in the last two years and the reasons	None.		
Any disagreement with the Bank	Yes	-	Accounting principles or practices
		-	Disclosure of financial reports
		-	Auditing scope or steps
		-	Others
	No	✓	
Remarks: None.			
Other disclosures (Disclosures requested according to Article 10, Subparagraph 6, Item 1-4 of the Regulations)	None.		

(II) Successor CPAs:

Name of CPA Firm	Ernst & Young Global Limited
Name of CPAs	Shi-Chieh Huang and Cheng-Tao Chang
Date of appointment	February 25, 2019
Consultation matters and results on the accounting methods or accounting principles of certain transactions and possible opinions on the financial reports before the appointment of the CPA	None.
The matters on which the successor accountant's opinion is different from the opinion of the predecessor accountant in writing	None.

(III) Reply of the predecessor CPAs to the issues stated in Article 10, Paragraph 6, Section 1 and Section 2-3 of this Regulations: No such situation.

G. The chairman, president, chief financial or accounting manager of the Bank who holds position in the business under the commissioned CPA firm or its affiliates in 1 year: None.

H. Changes in the share transfer and share mortgage of the directors, supervisors, managerial officers and the individual or affiliated party holding a certain percentage of the voting shares of one bank met the requirements of reporting according to Article 11 of the regulations

(I) Changes in shareholdings

Unit: shares

Title	Name	2019		As of February 29, 2020	
		Increase (decrease) in No. of Shares	Increase (decrease) in No. of Pledged Shares	Increase (decrease) in No. of Shares	Increase (decrease) in No. of Pledged Shares
Chairman (major shareholder)	Tiangang Investment Co., Ltd.	0	0	0	0
Corporate representative of the Chairman (major shareholder)	Tai, Chen-Chih	385,000	0	0	0
Corporate representative of the Vice Chairman	Tsai, Chiung-Ting	0	0	0	0
Corporate representative of the Directors	Chuang, Chin-Chung	0	0	0	0
Corporate representative of the Directors	Wang, Hsien-Tsung	0	7,000,000	0	0
Independent director	Chen, Ming-Tai	0	0	0	0
Independent director	Chen, Chao-Lung	0	0	0	0
Independent director	Hung-Liang Chiang	0	0	0	0
President	Chang, Jih-Cheng	0	0	0	0
Executive Vice President	Yu, Chi-Wei	0	0	0	0
Chief Auditor	Pai, Ching-Chu	0	0	0	0
Senior Vice President	Pen, Chien-Wei (Date of office: 01.30.2020)	0	0	0	0
Assistant VP	Su, Fan-Chen	0	0	0	0
Assistant VP	Ou, Yu-Yin	0	0	0	0
Finance Officer (Director)	Wu, Chih-Jin	0	0	0	0
Assistant VP	Chen, Hsueh-Ling	(73,673)	0	0	0
Assistant VP	Yu, Chih-Cheng	0	0	0	0
Director and Corporate Governance Officer	Yang, Chien-Ko	0	0	0	0
Assistant VP	Shen, Hung-Sung (Date of office: 11.01.2019)	0	0	0	0
Assistant VP	Tsai, Shu-Chen (Date of office: 02.10.2020)	0	0	0	0
Chief accountant	Chen, Yu-Hsuan	0	0	0	0

(II) Information of shares ownership transfer: Not applicable, because the counterparts of said shares ownership transfer are not stakeholders.

(III) Information of shares ownership pledge: Not applicable, because the counterparts of said shares ownership pledge are not stakeholders.

I. Information on the top 10 shareholders of the Company by proportion of shareholding are related parties or spouses to one another, kindred within the 2nd tier under the Civil Code.

Information on the relationship between the top ten shareholders

Base date: 2020.02.29

Name	Own shareholdings		Spouse and minor children Status of shareholding		Shareholdings under the title of a third party		If there are related parties, spouses, kindred within the 2nd tier under the Civil Code among the top 10 shareholders, give the names and affiliations of such shareholders		Remarks
	Quantity of Stock (Shares)	Ratio of Shareholding	Quantity of Stock (Shares)	Ratio of Shareholding	Quantity of Stock (Shares)	Ratio of Shareholding	Title/Name	Relation	
Mercuries Life Insurance Co. Ltd.	93,386,000	8.26%	0	0%	0	0%	None	None	
Representative of the aforementioned companies Chen, Hsiang Chieh	0	0%	0	0%	0	0%	None	None	
Tai, Chen-Chih (*)	78,209,000	6.91%	5,890,000	0.52%	0	0%	None	None	
Tsai, Tien-Tsan	72,752,033	6.43%	10,346,139	0.91%	0	0%	Tiangang Investment Co., Ltd	Spouse of the representative	
							Tianye Investment Co., Ltd.	Representative's relatives within the second degree of kinship	
							Wang, Hsien-Tsung Chen, Yi Ying	A relationship within the second degree of kinship	
Jincheng Construction Co., Ltd.	46,651,000	4.12%	0	0%	0	0%	None	None	
Representative of the aforementioned companies Chiu, Chun Chun	6,619,000	0.59%	0	0%	0	0%	None	None	
Tiangang Investment Co., Ltd. (*)	39,399,025	3.48%	0	0%	0	0%	None	None	
Representative of the aforementioned companies Meiyun S. Tsai	10,346,139	0.91%	72,752,033	6.43%	0	0%	Tsai, Tien-Tsan	Spouses	
							Wang, Hsien-Tsung Chen, Yi Ying	A relationship within the second degree of kinship	
							Tianye Investment Co., Ltd.	Representative's relatives within the second degree of kinship	
Hsinray Investment Co., Ltd.	36,993,869	3.27%	0	0%	0	0%	None	None	
Representative of the aforementioned companies Chuang, Yi Li	554,000	0.05%	0	0%	0	0%	None	None	
Tianye Investment Co., Ltd.	34,690,325	3.07%	0	0%	0	0%	None	None	
Representative of the aforementioned companies Chen, Yi Ying	23,756,000	2.10%	0	0%	0	0%	Tsai, Tien-Tsan	A relationship within the second degree of kinship	
							Tiangang Investment Co., Ltd	Representative's relatives within the second degree of kinship	
Wang, Hsien-Tsung (*)	29,277,882	2.59%	12,432,667	1.10%	0	0%	Tsai, Tien-Tsan	A relationship within the second degree of kinship	
							Tiangang Investment Co., Ltd	Representative's relatives within the second degree of kinship	
Chen, Yi Ying (*)	23,756,000	2.10%	0	0%	0	0%	Tsai, Tien-Tsan	A relationship within the second degree of kinship	
							Tianye Investment Co., Ltd.	Representative:	
							Tiangang Investment Co., Ltd	Representative's relatives within the second degree of kinship	
Special Account for Investment of the Central Bank of Norway in custody of Citibank(Taiwan)	18,834,000	1.66%	0	0%	0	0%	None	None	

Note: (*) is the number of shares declared by insiders to the competent authority

J. Quantity of shareholdings of the same investee by the Bank and directors, supervisors, presidents, Executive Vice Presidents, Asst. Executive Vice Presidents, supervisors of the various departments and branches, and direct or indirect subsidiaries in proportion to the combined holdings of all

Basis date: 2019.12.31

Investee	Investment made by the Bank		Investment made by directors, supervisors, presidents, executive vice presidents, assistant VPs, supervisors of branches, and direct or indirect subsidiaries		Combined investment	
	Quantity of Stock (Shares)	Ratio of Shareholding	Quantity of Stock (Shares)	Ratio of Shareholding	Quantity of Stock (Shares)	Ratio of Shareholding
Depository & Clearing Corporation	1,382,983	0.36%	0	0%	1,382,983	0.36%
Taipei Forex Inc.	80,000	0.40%	0	0%	80,000	0.40%
Taiwan Futures Exchange	1,770,677	0.50%	0	0%	1,770,677	0.50%
Financial Information Service Co., LTD.	6,119,158	1.17%	0	0%	6,119,158	1.17%
Taiwan Stock Exchange Corporation	20,694,887	2.84%	0	0%	20,694,887	2.84%
Sunshine Asset Management Co., Ltd.	37,211	0.62%	0	0%	37,211	0.62%
King's Town Bank International Leasing Co., Ltd.	65,323,000	100%	0	0%	65,323,000	100%
Taiwan Incubator SME Development Corporation	3,417,440	4.84%	0	0%	3,417,440	4.84%

IV. Status of Capital Planning

A. Shares and Dividends

(I) Sources of shares and dividends

Base date: 2020. 02.29
Unit: Shares; NT\$

Year and month	Issuing price	Authorized shares capital		Paid-in shares capital		Remarks	
		Quantity	Amount	Quantity	Amount	Sources of shares and dividends	Others
1978.01		20,000,000	200,000,000	20,000,000	200,000,000		Reformed as a bank by order.
1980.03		24,000,000	240,000,000	24,000,000	240,000,000	Shareholder dividend of NT\$30.4 million, special reserve of NT\$9.6 million	MOEA (69) Commerce No. 19797 dated 06.19.1980
1981.05		30,000,000	300,000,000	30,000,000	300,000,000	Dividends for NT\$14.4 million, bonus for NT\$25.2 million, and special reserve for NT\$20.4 million	MOEA (71) Commerce No. 09006 dated 03.18.1982
1982.03		40,200,000	402,000,000	40,200,000	402,000,000	Value-added reserve for NT\$45.9 million and special reserve for NT\$56.1 million	MOEA (71) Commerce No. 47072 dated 12.17.1983
1983.10		42,500,000	425,000,000	42,500,000	425,000,000	Special reserve for NT\$23 million	MOEA (72) Commerce No. 51587 dated 12.29.1983
1984.09		45,000,000	450,000,000	45,000,000	450,000,000	Special reserve for NT\$25 million	MOEA (73) Commerce No. 43814 dated 11.10.1984
1985.07		47,500,000	475,000,000	47,500,000	475,000,000	Special reserve for NT\$25 million	MOEA (74) Commerce No. 40767 dated 09.17.1985
1986.06		50,000,000	500,000,000	50,000,000	500,000,000	Special reserve for NT\$25 million	MOEA (75) Commerce No. 37468 dated 08.25.1986
1987.07		52,500,000	525,000,000	52,500,000	525,000,000	Special reserve for NT\$25 million	MOEA (76) Commerce No. 41397 dated 08.18.1987
1988.05		63,000,000	630,000,000	63,000,000	630,000,000	Special reserve for NT\$105 million	MOEA (77) Commerce No. 18642 dated 06.30.1988
1989.06		80,000,000	800,000,000	73,080,000	730,800,000	Special reserve for NT\$100.8 million	MOEA (78) Commerce No. 123964 dated 06.14.1989
1989.11	NT\$180 per share	80,000,000	800,000,000	80,000,000	800,000,000	Capital increase in cash for NT\$69.2 million	MOEA (78) Commerce No. 134390 dated 12.16.1989
1990.06		200,000,000	2,000,000,000	120,350,000	1,203,500,000	Additional paid-in capital for NT\$240 million, special reserve for NT\$160 million, and employee bonus for NT\$3.5 million	MOEA (79) Commerce No. 115085 dated 07.13.1990
1991.06		200,000,000	2,000,000,000	171,500,000	1,715,000,000	Earnings and special reserve for NT\$228.665 million, additional paid-in capital for NT\$277.835 million, and employee bonus for NT\$5 million	MOEA (80) Commerce No. 1199766 dated 09.10.1991
1992.11		227,300,000	2,273,000,000	227,300,000	2,273,000,000	Earnings and special reserve for NT\$274.4 million, additional paid-in capital for NT\$277.83 million, and employee bonus for NT\$5.77 million	(81) MOF. Sec. (I) dated 09.14.1992 No. 02348
1993.08		270,000,000	2,700,000,000	270,000,000	2,700,000,000	Earnings and special reserve for NT\$281.232 million, additional paid-in capital for NT\$144.768 million, and employee bonus for NT\$1 million	(82) MOF. Sec. (I) dated 05.17.1993 No. 01649
1994.03	NT\$53 per share	335,000,000	3,350,000,000	335,000,000	3,350,000,000	Earnings for NT\$390.415 million, additional paid-in capital for NT\$9.585 million, and capital increase in cash for NT\$250 million	(83) MOF. Sec. (I) dated 07.05.1994 No. 28035
1995.03	NT\$43 per share	440,130,000	4,401,300,000	440,130,000	4,401,300,000	Capital increase in cash for NT\$100 million, earnings for NT\$599.204 million, additional paid-in capital for NT\$332.096 million, and employee bonus for NT\$20 million	(84) MOF. Sec. (I) dated 06.10.1995 No. 31862
1996.10		545,762,200	5,457,622,000	545,762,200	5,457,622,000	Earnings for NT\$624.985 million and additional paid-in capital for NT\$431.327 million	(85) MOF. Sec. (I) dated 07.12.1996 No. 41979
1997.11		646,727,022	6,467,270,220	646,727,022	6,467,270,220	Earnings for NT\$578.507 million and additional paid-in capital for NT\$431.151 million	(86) MOF. Sec. (I) dated 08.16.1997 No. 65313
1998.12		724,334,265	7,243,342,650	724,334,265	7,243,342,650	Earnings for NT\$523.849 million and additional paid-in capital for NT\$252.223 million	(87) MOF. Sec. (I) dated 09.15.1998 No. 79377
2005.10	NT\$10.7 per share	1,800,000,000	18,000,000,000	1,084,334,265	10,843,342,650	Capital increase in cash for NT\$3.6 billion	(94) FSC. I. Tzi dated 08.15.2005 No. 0940132082
2008.11		1,800,000,000	18,000,000,000	1,069,334,265	10,693,342,650	Treasury stock shares cancelled for an amount of NT\$150,000,000	(97) FSC. III. Tzi dated 09.17.2008 No. 0970050338 (97) FSC. III. Tzi dated 10.20.2008 No. 0970055145
2008.12		1,800,000,000	18,000,000,000	1,051,234,265	10,512,342,650	Treasury stock shares cancelled for an amount of NT\$181,000,000	(97) FSC. III. Tzi dated 12.15.2008 No. 0970068208
2013.03	NT\$10 per share	1,800,000,000	18,000,000,000	1,201,234,265	12,012,342,650	Private placement of convertible financial bonds converted into equity for NT\$1,500,000,000	(102) MOEA. So.Sun.Tzi No. 10201059550 dated 04.01.2013
2016.02		1,800,000,000	18,000,000,000	1,164,234,265	11,642,342,650	Treasury stock shares cancelled for an amount of NT\$370,000,000	(105) MOEA. So.Sun.Tzi No. 10501037030 dated 02.24.2016
2016.03		1,800,000,000	18,000,000,000	1,151,234,265	11,512,342,650	Treasury stock shares cancelled for an amount of NT\$130,000,000	(105) MOEA. So.Sun.Tzi No. 10501053730 dated 03.18.2016
2019.02		1,800,000,000	18,000,000,000	1,141,234,265	11,412,342,650	Treasury stock shares cancelled for an amount of NT\$100,000,000	(108) MOEA. So.Sun.Tzi No. 10801016600 dated 02.27.2019
2019.10		1,800,000,000	18,000,000,000	1,131,234,265	11,312,342,650	Treasury stock shares cancelled for an amount of NT\$100,000,000	(108) MOEA. So.Sun.Tzi No. 10801141640 dated 10.21.2019

(II) Stock Type

Base date: 2020.02.29
Unit: shares

Stock Type	Authorized shares capital			Remarks
	Outstanding shares	Unissued Shares	Total	
Common stock	1,131,234,265	668,765,735	1,800,000,000	TWSE-listing companies stock
Preference shares	0	0	0	

(III) Composition of Shareholders

Base date: 2020.02.29
Unit: person, share, %

Composition of Shareholders	Government Apparatus	Financial Institution	Other Juridical	Foreign Institution and Foreigner	Individual	Treasury stock	Total
Amount							
Number of people (persons)	1	9	122	251	33,872	1	34,256
Shareholding (shares)	1,450	110,706,631	279,805,782	233,504,054	504,216,348	3,000,000	1,131,234,265
Shareholding ratio (%)	0.00%	9.79%	24.73%	20.64%	44.57%	0.27%	100%

(IV) Diversification of Shareholdings

NTD10/share

Base date: 2020.02.29

Range of Shares	No. of Shareholders	Shares	Shareholding ratio (%)
1 to 999	16,532	4,309,496	0.38%
1,000 to 5,000	12,207	27,167,793	2.40%
5,001 to 10,000	2,577	19,904,341	1.76%
10,001 to 15,000	815	10,206,598	0.90%
15,001 to 20,000	504	9,222,651	0.82%
20,001 to 30,000	488	12,597,251	1.11%
30,001 to 40,000	223	8,025,229	0.71%
40,001 to 50,000	136	6,302,321	0.56%
50,001 to 100,000	289	21,186,870	1.87%
100,001 to 200,000	163	23,758,522	2.10%
200,001 to 400,000	108	31,131,400	2.75%
400,001 to 600,000	48	23,297,081	2.06%
600,001 to 800,000	25	17,496,163	1.55%
800,001 to 1,000,000	21	18,931,479	1.67%
Over 1,000,001 shares	120	897,697,070	79.36%
Total	34,256	1,131,234,265	100%

Note: Distribution of preferred shares: None

(V) Name of Principle shareholder

Base date: 2020.02.29

Name of Principle shareholder	Shares	Ratio of Shareholding (%)
Mercuries Life Insurance Co. Ltd.	93,386,000	8.26%
Tai, Chen-Chih	78,209,000	6.91%
Tsai, Tien-Tsan	72,752,033	6.43%
Jincheng Construction Co., Ltd.	46,651,000	4.12%
Tiangang Investment Co., Ltd.	39,399,025	3.48%
Hsinray Investment Co., Ltd.	36,993,869	3.27%
Tianye Investment Company	34,690,325	3.07%
Wang, Hsien-Tsung	29,277,882	2.59%
Chen, Yi Ying	23,756,000	2.10%
Special Account for Investment of the Central Bank of Norway in custody of Citibank(Taiwan)	18,834,000	1.66%

Note: The top ten shareholders list

(VI) Information on market price, net value, earnings and dividends per share in the most recent 2 years

Unit: NTD

Item		Year	2018	2019	As of February 29, 2020
Market Price Per Share	The Highest		43.00	34.65	38.00
	The Lowest		28.10	27.80	33.10
	Average		33.84	32.09	35.99
Net Value Per Share	Before Distribution		30.83	36.28	37.60
	After Distribution		29.33	-	-
Earnings per share	Weighted average number of shares (Thousands of shares)		1,147,757	1,137,777	1,128,234
	Earnings per share		2.51	2.99	0.79
Dividend Per Share	Cash dividends		1.5	-	-
	Free-Gratis Dividends	Retained Shares Distribution	-	-	-
		Capital Reserve Shares Distribution	-	-	-
	Retained Dividends		-	-	-
Return on investment Analysis	P/E ratio (Note 1)		13.48	10.73	-
	Price to dividends ratio (Note 2)		22.56	-	-
	Cash dividend yield (Note 3)		4.43	-	-

Note 1: Price-Earnings Ratio = Average closing price per share of current year / Earnings per share

Note 2: Dividend Yield = Average closing price per share of current year / Cash dividend per share

Note 3: Cash Dividend Yields = Cash dividend per share / Average closing price per share of current year

Note 4: The dividend payment for 2019 has not been approved by the shareholders general meeting.

Note 5: In February 2020, the net value per share and earnings per share were calculated by the Bank internally.

(VII) Dividend Policy and the Status of Implementation

1. Dividend policy

The Bank's dividend policy is specified in Article 33-1 of the Articles of Incorporation as follows:

If there is a surplus in the Company's annual final accounts after all taxes have been paid, it should be applied to make up for the losses of previous years, and then appropriate 30% legal reserve; also, after having the special reserve appropriated according to law, for the balance amount, if any, thereafter, along with the retained earnings, the board of directors shall propose a distribution plan to the shareholders meeting for approval. For the distribution of dividends, the cash dividends must not be less than 10% of the total dividends of the current year. The aforementioned dividends distribution principles regarding the cash dividend ratio may be adjusted depending on the Company's business operation requirements and major legal amendments. However, the cash dividend ratio must not be less than 1% of the total dividend. If the distribution of cash dividends per share is for less than NT\$0.1, no dividends will be distributed.

If the Company's accumulated legal reserve equals or exceeds the Company's paid-in capital, or when it meets the sound financial standard set by the competent authority under Article 50, Paragraph 2 of the Banking Act, and the legal reserve is provided in accordance with the Company Act, the legal reserve restrictions on deposits and maximum cash surplus distribution shall not apply.

Before the accumulated legal reserve equals or exceeds the Company's paid-in capital or the ratio of equity fund to risk assets meets the requirements of the Banking Act, the maximum cash dividends distribution shall be handled in accordance with the Banking Act and the requirements of the competent authority.

In summary, the Company's dividend distribution policy is to apply the annual net income to pay tax lawfully, make up for the losses of previous years, and appropriate legal reserve and special reserve, then for the remaining distributable earnings net of the fund reserved for business operation planned is to be distributed as dividend to the shareholders of common stock; also, 0% ~ 60% of the distributable amount shall be appropriated for distribution according to the proposal plan presented by the board of directors to be resolved in the shareholders meeting.

In addition, if there is one of the situations listed in Article 44-1, Paragraph 1 of the Banking Act, it is prohibited to have cash profit distributed or shares repurchased. Before the accumulated legal reserve equals or exceeds the Company's paid-in capital, the maximum cash dividends distribution shall not exceed 15% of the total capital.

2. Proposed dividends distribution at this shareholders' meeting: The Bank's proposed final distribution of cash dividends of 2019 is NT\$1.5 per share.

(VIII) The impact of the stock dividends proposed at the shareholders' meeting on the Bank's operating performance and earnings per share: there was no stock dividend distributed in 2019, so, no impact on the Bank.

(IX) Remuneration of employees, directors and supervisors

1. Percentage or scope of remuneration for employees, directors and supervisors in the Bank's articles of incorporation.

According to Article 33 of the Company's Articles of Incorporation, if there are earnings in current year, an amount no less than 0.01% of the earnings shall be appropriated as remuneration of employee and an amount no more than 2% of the earnings shall be appropriated as remuneration of directors. However, when the company still has accumulated losses, an amount equivalent to the loss should be reserved for making up the loss. The employees with stock or cash received as remuneration as stated in the preceding paragraph include employees of subsidiary companies that meet certain conditions.

2. Basis for the estimation of the remuneration of employees, directors and supervisors in current period, basis for the calculation of stock shares distributed to employees as remuneration, and accounting treatment for the difference between the actual distribution amount and the estimated amount: the difference is treated as changes in accounting estimates in the next year.
3. Proposal of distribution passed by the Board:
 - (1) Amount of remuneration to employees and directors and supervisors with cash or stock distributed: It was resolved in 2019 to issue cash remuneration for NT\$400,000 to employees, NT\$0 to directors and supervisors that has no significant difference from the estimated annual expense amount.
 - (2) The ratio of the employee remuneration amount with stock distributed to the net income and total employee remuneration on the parent company only or individual financial report in the current period: None
4. Actual distribution of remuneration of employees, directors, and supervisors in the previous year: The Bank passed the 2018 earnings distribution resolution in the shareholders meeting on June 24, 2019 with NT\$0 to directors and supervisors and NT\$360,000 in cash to employees.

(X) Repurchase of the Bank's stock shares in 2019 and as of the end of February 2020:

1. The Bank's stock shares repurchased (transaction completed)

Period No.	20 th time (period)	21 st time (period)
Purpose of repurchase	Maintain corporate credit and shareholders' equity	Transferred to employees
Repurchase period	08/13/2019~09/23/2019	11/14/2019~12/09/2019
Price range for repurchase	30~35	30~35
Type and amount of the repurchased shares	10,000,000 Shares	3,000,000 Shares
Amount of the repurchased shares	311,658,338	98,421,625
Ratio of repurchased shares to shares repurchase planned	100%	100%
Capital adequacy ratio before the repurchase of the Bank's shares	Base date: 07/31/2019 Ratio: 14.61	Base date: 9/30/2019 Ratio: 14.70
Capital adequacy ratio after repurchase of the Bank's shares	Base date: 07/31/2019 Ratio: 14.46	Base date: 9/30/2019 Ratio: 14.66
Shareholdings that have been cancelled and transferred	10,000,000 shares (Note 1)	0 Shares
Cumulative number of shares held by the Bank	10,000,000 Shares	3,000,000 Shares
Ratio of cumulative number of shares held by the Bank to the total issued shares (%)	0.88%	0.27%
Transfer of repurchased shares to the employees	Not applicable	Not yet transferred
Circumstances in which the Board will take restrictive measures if the transfer is not completed within three years after the share repurchase	Not applicable	None

Note: The 20th repurchase of treasury shares was cancelled and capital decreased according to the resolution of the board of directors on 09.23.2019; also, the change of registration for the capital decreased was approved by the competent authority on 10.21.2019.

2. The Bank's stock shares repurchased (transaction not yet completed): None.

B. Issuance of Financial Bonds

None.

C. Issuance of preferred stock shares

None.

D. Issuance of overseas depositary receipts

None.

E. Issuance of employee stock warrant and restricted employee shares

None.

F. Merger and Acquisition or transfer of other financial institutions

None.

G. Progress on the use of funds

(I) Plan content: The Bank did not issue financial bonds or handle cash replenishment in 2019.

(II) Implementation situation: None.

V. Operation Profile

A. Business Contents

(I) Principal business of the Bank by business type:

1. Deposit Operations
Accept check deposits, savings deposits, time deposits, general deposits, agency collection/payment, and domestic exchanges
2. Loan Operations
It is classified as corporate finance and consumer finance. Corporate financing business deals with various lending, bill discounting, issuance of domestic letters of credit and domestic guarantee businesses; also, consumer financing business deals with personal home mortgage loans and consumer financial operations.
3. Foreign Exchanges Operations
Handle foreign exchange deposits, exchanges, imports, exports, foreign currency loans and guarantee services for foreign currency guarantee payments.
4. Wealth Management
Help position the risk attributes of customers and provide customers with customized financial planning (including insurance and funds) through the analysis of investment attributes.
5. Trust Operations
Handle specific money trust investments in domestic and foreign securities, advance receipt trusts and property trust business.
6. Investment business
Handle capital movement in New Taiwan Dollar and foreign currency, investment in securities and issuance of financial bonds.

(II) The ratio of each business asset and/or revenue to total assets and/or revenue and its growth and changes

1. Asset by business and its growth and changes

Unit: NTD thousand; %

Item	2019.12.31	2018.12.31	Amount of increase/decrease	Growth rate (%)
New Taiwan Dollar deposit business	176,392,985	175,585,475	807,510	0.46
Foreign currency deposit business	15,422,458	13,130,016	2,292,442	17.46
Loan Operations	157,597,636	154,571,216	3,026,420	1.96
Balance of trust	31,542,846	27,590,280	3,952,566	14.33

Unit: NT\$ Million; %

Item	2019.12.31	2018.12.31	Amount of increase/decrease	Growth rate (%)	
Investment business	CD of Central Bank of the Republic of China (Taiwan)	17,700	17,600	100	0.57
	Domestic Treasury Bonds	37,036	39,224	-2,188	-5.58
	Domestic corporate bonds	0	0	0	-
	Stock	3,590	5,236	-1,646	-31.44
	Fund	1,910	2,367	-457	-19.31
	REITS	387	387	0	0
	ETN	6	0	6	-
	Domestic convertible bonds	0	50	-50	-100.00
	Asset exchange	0	0	0	-
	Structured products	0	0	0	-
	Foreign currency securities (excluding foreign stocks)	36,323	38,233	-1,910	-5.00
	Long-term equity investment	2,017	745	1,272	170.74
Total	98,969	103,842	-4,873	-4.69	

2. Ratio of each business to operating income

Unit: NTD thousand; %

Item	2019		2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Operating revenue	8,492,984	100.00	7,000,814	100.00
Loan Operations	4,281,930	50.42	4,517,629	64.53
Corporate banking	3,958,483	46.61	4,176,579	59.66
Consumer banking	323,447	3.81	341,050	4.87
Trust Operations	31,481	0.37	10,298	0.15
Foreign Exchanges Operations	609,865	7.18	520,104	7.43
Wealth Management	373,497	4.40	355,846	5.08
Investment business	3,056,155	35.98	1,574,840	22.50
Others	140,056	1.65	22,097	0.32

(III) The 2020 business plan

1. Deposit Operations

- (1) Grasp the trend of digital development, drive the innovation of business models, actively create a digital financial environment, introduce digital deposit accounts, provide more diversified and convenient financial services for citizens and businesses, and enhance the competitiveness of the financial industry.
- (2) Design products that meet market needs according to the regional characteristics of each business unit; also, implement outbound visits and strengthen community development. The Bank can become a major customer-oriented bank by promoting various activities.
- (3) Actively provide customers with comprehensive services; promote digital financial transactions; apply digital technology to develop new channels and digital services at the branches; and improve customer loyalty to the Bank.
- (4) Continue to promote the digitalization of financial services and innovative business models; optimize service processes and online banking APP, and provide customers with a friendly user experience.

2. Credit business

- (1) Adjust credit products in a timely manner according to market changes and provide suitable financial products according to the characteristics of different customer groups and provide different lending solutions for various loan needs to meet customer financial needs.
- (2) Review the income of credit products, and continue to research and develop innovative financial products in order to increase the functions and added-value of the Bank's credit products.
- (3) Continue to focus on credit guarantee business and cooperate with SME credit granting business to effectively improve capital efficiency and protect creditor's rights; also, actively participate in domestic and international syndicate loans to gradually strengthen credit granting breadth and increase market visibility.

3. Foreign Exchanges Operations

- (1) In response to the changes in the digital financial environment, actively develop online banking and mobile online banking APP foreign currency digital financial products.
- (2) Continue to develop and promote foreign exchange deposit instruments and absorb stable foreign exchange funds.
- (3) Simplify foreign exchange operations and open inter-bank operations to improve branch operation efficiency and customer satisfaction.
- (4) Develop an online Western Union Company remittance website platform for individuals not a customer of the Bank.

4. Wealth Management

- (1) Plan and implement various professional training courses for wealth management business, including:
 - A. Professional training for financial consultants will be held twice a month in Tainan, Zhongpu and Taipei for 90 trainees each time.
 - B. Trust sales personnel training, 2 training courses nationwide are planned with 160 persons to be trained.
 - C. Wealth Management Seminar will be held for branch managers and finance personnel occasionally.
 - D. Financial trainees training courses and preliminary training courses for new financial consultants
 - E. Conference call (investment market newsletter) on every Tuesday morning
 - F. New product education and training courses are held occasionally to help branch colleagues understand investment market trends and new investment instruments.
 - G. The VIP customer wealth management briefing sessions and branch evening courses are held occasionally to help the Bank's wealth management customers and colleagues understand the investment market trends and directions.
 - H. In order to handle the Bank's pre-sale education and training for investment instruments, the training courses and order-reading processes have been established on the "Online Training Platform."
- (2) Focus on niche instruments and lump sum investment in stock fund to increase the Bank's service fee income.
- (3) Continue to increase investment platforms and promote overseas bonds and ETF products.
- (4) Continue to promote online banking and mobile banking APP fund orders, and increase the proportion of online banking and mobile bank APP orders.

- (5) Support the development of e-commerce and enhance the establishment and development of non-OTC trading platforms for financial management business. Plan to add online banking (Web) and mobile banking (APP) overseas bond trading functions in 2020.
 5. Trust business
 - (1) Meet the diversified needs of personal or corporate financial planning, transaction security, asset transfer and property preservation through the trust function.
 - (2) Make exclusive trust products for customers and promote trust concepts and instruments to increase the Bank's service fee income.
 - (3) Establish a culture-centered "fair hospitality" culture and improve protection for financial consumer:
 - A. Cooperate with the competent authority to add and amend law and regulations; also, update relevant contracts and specifications in a timely manner.
 - B. Establish a trust price information notification platform.
 6. Financial operations business
 - (1) Strengthen asset and liability management, strictly control liquidity risks and improve the efficiency of the Bank's overall capital utilization.
 - (2) Maintain a smooth and stable capital movement business in order to cope with the development of branch deposits business.
 - (3) Clearly stipulate the operating specifications and authorization scope of various securities investment and derivative financial instrument transactions in order to strictly control various transaction risks.
- (IV) Market Analysis
1. The Bank's business operation regions

The Bank has 66 domestic business bases and 1 international financial business branch currently that are located in Yunlin and Chiayi region and major metropolitan areas with 14 offices in the northern region, 4 offices in the central region, 43 offices in the Yunlin and Chiayi region, and 5 offices in the Kaohsiung and Pingtung region. All of the offices of the Bank are full-featured branches for a diversified businesses operation, including wealth management, personal finance and corporate finance, and other diversified banking businesses to provide customers with the highest quality financial services.
 2. Future market supply/demand and growth potentials

According to the latest data from international forecasting agencies, most believe that the global economic and trade performance in 2020 will be better than that in 2019. In terms of domestic market, due to factors, such as, the continued advancement in manufacturing process of the advanced semiconductor manufacturers, the continuous development of 5G infrastructure, and the increasing home-coming Taiwanese businessmen, investment has become the main driving force behind Taiwan's economic growth, so the Taiwan Institute of Economic Research predicts a 2.67% economic growth rate in 2020. However, the progress of US-China trade negotiations, the easing of monetary policies of central banks in various countries, and geopolitical conflicts will all bring uncertainty and risks to the domestic economy; also, short-term financial markets will be affected by the development of new coronavirus pandemics.
 3. Advantages and disadvantages of competitive niche and development prospects
 - (1) The Bank's advantages in competition
 - A. The operating performance indicators (return on equity, non-performing loans ratio, and coverage ratio) are better than the average level of domestic banks.
 - B. It is a small and medium-sized financial institution with profound local business foundation, long-term loyal customers, and niche advantages.
 - (2) The Bank's disadvantages in competition
 - A. The deposit and loan business is relatively small in scale; also, most of the branches are located in the Yunlin and Chiayi area instead of in the northern and central area of Taiwan that is not conducive to business development.
 - B. The Bank has not yet established an overseas branch, which is not conducive to the struggle for Taiwanese business with the profitability of overseas markets limited.
 4. Countermeasures
 - (1) Regularly evaluate branch performance and regional development in order to adjust business locations and increase competitiveness.
 - (2) Focus on core products, integrate marketing resources, substantiate cross-marketing, expand business relationships with core customers and increase overall customer contribution.
 - (3) Concurrently operate insurance agent business, strengthen the protection of customer rights and interests, and improve operating performance.

- (4) Respond to the needs of the digital financial era, continue to build a new generation of personal online banking, corporate online banking and mobile banking, and provide customers with a more user-friendly interface and transaction function.
- (V) Research and Development of financial products and status of business development
1. Major financial instruments and new business units, the operation scale, profit, and loss in the last two years
 - (1) Corporate finance:
 - A. Support the government’s economic revitalization policy and strengthen corporate loans. For small and medium-sized enterprises with insufficient guarantee capabilities, they will be transferred to the SME Credit Guarantee Fund of Taiwan (Taiwan SMEG) for loans. As of the end of 2019, the balance of loans to SMEs was NT\$84,712,056 thousand.
 - B. Corporate Finance provides professional and diversified financial instruments and services for various types of SME customers, such as, transportation industry, construction industry, tourism industry, civil engineering financing, etc., also, understands the actual operating status of customers, and customizes financial and financing structures in order to identify sources of repayment and reduce overall credit risk.
 - C. Actively promote supply chain financing business, regional core industry credit business, and improve product competitiveness.
 - (2) Consumer finance:
 - A. Actively promote home mortgage loan business, such as, preferential home mortgage loan, wealth management home loan. As of the end of 2019, the overall home mortgage loan balance was NT\$19,848,722 thousand.
 - B. The home mortgage loan business is aimed at a stable development, providing customers with product requirements at different stages, developing local customers in-depth, strengthening customer relationship maintenance and service quality, etc., which is conducive to the long-term and stable development of the home mortgage loan business.
 - (3) Trust business:

Overview of the trust business for the year of 2019: as of the end of December 2019, the balance of specific money trust (fund business) asset was NT\$9,171,811 thousand, and the balance of other trust (including real estate trust and other money trust businesses) asset was NT\$22,371,035 thousand. The total trust assets were NT\$31,542,846 thousand, and the total trust fee income was NT\$79,539 thousand.
 - (4) Wealth management business:

The wealth management service fee income in 2019 was NT\$373,497 thousand, an increase of NT\$17,651 thousand from last year, representing a growth rate of 4.96%.
 2. Research and development expenditures and results in the last two years, and future research and development plans
 - (1) Research and development expenses

Unit: NTD thousand

Year	2019	2018
Amount	58,122	40,713

- (2) Research and development achievements
 - A. Completed the agent foreign exchange settlement SET APP project
 - B. Completed the securities account transfer project
 - C. Completed the assessment process automation project
 - D. Completed the New Taiwan Dollar preferential interest savings project
 - E. Completed the old EAI system conversion project
 - F. Completed a new personal online and Mobile Bank ETF project
 - G. Completed cross-border inter-bank payments project
 - H. Completed ACH system file format expansion project
 - I. Completed the ATM inter-bank transfer service fee reduction project
 - J. Completed foreign currency staged interest rate calculation project

(3) Future research and development plans and estimated research cost

Recent annual plans	R&D expenses that should be reinvested (NT\$ Thousands)	Scheduled to complete in
Digital deposit account project	31,044	October 2020
Internal staff performance evaluation automation project	0	June 2020
Message notification platform integration project	0	March 2020
Mobile payment project	0	December 2020
New Personal Online Banking and Mobile Bank Overseas Bond Project	0	September 2020
WU.COM project	0	March 2020
EACH project	7,500	December 2020
HSM Integration project	6,000	June 2020
OPEN API project	0	December 2021
Credit Granting Process Automation Project	0	December 2020
Review Process Automation Project	0	December 2020
Card-free Withdrawal Project	2,000	December 2020
Computer Room reconstruction project	29,370	December 2020
Core system upgrade project	27,625	December 2020
New Taiwan Dollar and foreign currency core system integration project	0	June 2021
Privileged account management	5,988	November 2020
Log Management System added with LOG & SIEM Authorization	3,600	November 2020

Note: The estimated completion time is estimated based on the original planning and design, and will be adjusted based on business process changes or other project schedules.

(VI) Long-term and short-term business development plans

1. Short-term business development plan

- (1) Grasp the digital development trend, drive innovation in business models, provide more diversified and convenient financial services to individuals and businesses, and enhance the competitiveness of the financial industry.
- (2) Actively provide customers with comprehensive services, promote digital financial transactions, apply digital technology to develop new channels and digitalize branch services, and increase customer loyalty to the Bank.

2. Long-term business development plan

- (1) In response to changes in the financial environment and business needs, focus on niche financial instruments and promote businesses that focus on service fee income.
- (2) Continue to simplify business operation, reduce operation risk, improve operation and service efficiency, and provide customers with high-quality financial services.
- (3) Review the economic development status and operating performance of branches in each region; also, propose branch relocation plans in a timely manner to enhance the competitiveness of the Bank.
- (4) Strengthen the leadership and management skills of supervisors at all levels, and accelerate the training of trainees in order to refine the foundation for the Bank's sustainable operations.
- (5) Fulfill corporate social responsibility, improve employee welfare, and cultivate the local communities.

B. The information of employees within the last two years and up to the printing date of the annual report

(I) Employee personal information

Year		2018	2019	As of February 29, 2020
Employee No.	Supervisory heads	268	270	277
	Employees	671	678	676
	Total	939	948	953
Average age		39.6	39.5	39.9
Average seniority		12.3	12.1	12.4
Education Background	Master degree and above	9.3%	9%	9.8%
	College	82.1%	83%	81.9%
	Below Senior High School	8.6%	8%	8.4%
Professional designation and licensing, and number of such employees	Securities broker test	129	141	137
	Securities senior broker test	84	91	88
	Securities investment analyst test	7	8	8
	Futures broker test	62	66	69
	Investment trust and investment consulting salesperson test	58	62	62
	Trust salesperson test	681	708	683
	Financial consultant test	197	193	186
	Bank internal controller and internal auditor test	648	648	640
	Junior Forex personnel test	99	104	101
	Junior credit officer test	207	207	206
	Senior credit officer test	9	10	8
	Life insurance agent	6	6	7
	Property insurance agent	4	5	5
	Life insurance broker	3	3	3
	Property insurance broker	4	4	4
	Life insurance salesperson test	786	823	806
	Property insurance salesperson test	733	780	765
	Investment insurance instrument salesperson test	502	505	514
	Foreign currency receipt and payment for non-investment instrument test	456	490	499
	SME finance personnel qualification certificate	25	26	27
	Structured instrument salesperson qualification	164	162	155
	Anti-money laundering and counter-terrorism financing specialists	285	285	285
	Risk Management Competency test	6	6	4
	Fintech Power and Knowledge Competence Test	19	19	23
	Corporate Governance Competency Test	-	-	6
	Chartered Finance Analyst	2	2	1
	International Anti-Money Laundering Analyst	1	1	1
Layer	1	1	2	
Internal auditor	1	1	1	
Certified Information Systems Auditor	1	1	1	

(II) The relevant licenses specified by the competent authority for the qualification of the Bank's personnel related to financial information transparency are as follows:

Relevant department	Relevant certificates specified by the competent authority	The number of person obtained
Auditing Dept.	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	13
	CIA International Internal Auditor	1
	CISA International Computer Auditor	1
Administration Dept.	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	9
	SME Financial Staff Test (Ministry of Economic Affairs, Taiwan Academy of Banking and Finance)	1
	Enterprise Internal Controller Competency Test (Securities and Futures Institute)	1
	Corporate Governance Competency Test	5
Treasury Dept.	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	10
Risk Management Dept.	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	12
	Enterprise Internal Controller Competency Test (Securities and Futures Institute)	1
Compliance Dept.	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	7
	SME Financial Staff Test (Ministry of Economic Affairs, Taiwan Academy of Banking and Finance)	1
	International Anti-Money Laundering Specialist (Certified Anti-Money Laundering Specialist, CAMS)	1
	Anti-Money Laundering and Counter-Terrorism Financing personnel test (Taiwan Academy of Banking and Finance)	9

(III) Continuing education and training of employees

In order to cope with the changes in the financial environment and maintain the Company's competitiveness, we have reinforced the concept of talents cultivation and employees' lifelong learning, encouraged employees to pursue growth through learning and stimulated their personal potential and continued to commit resources training courses. The goal is to use training activities to improve knowledge and skills required for jobs, improve efficiency and service quality and facilitate personal career development of employees. Our results for 2019 education and training courses are as follows:

Courses	Number of classes	Total number of person	Total hours	Total cost (NT\$)
Specialized training	352	1,226	21,093	4,378,967
Training for new recruits	4	74	2,960	
Advocacy on regulations	6	544	8,926	
Information security education and training	3	2,796	1,838	
First aid training	1	28	84	
Labor safety and firefighting team training	2	77	228	
Total	368	4,745	35,129	

(IV) Managers participating in continuing education and training related to corporate governance:
In 2019, 14 managers participated in a total of 84 hours of classes in corporate governance.

Title	Name	Training date	Organizer	Course name	Training Hours
President	Chang, Jih-Cheng	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Chief Auditor	Pai, Ching-Chu	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Administration Dept.	Yang, Chien-Ko	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Information Technology Dept.	Lin, Hsiang-Yin	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Legal Dept.	Huang, Shui-Shan	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Compliance Dept.	Cheng, Yu-Che	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Digital Services and Channel Management Dept.	Tsai, Shu-Chen	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Insurance department of the bank	Cheng, Chuan Yi	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Tainan Branch	Wang, Mei-Wen	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Shanhua Branch	Ko, Hui-Ling	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Rende Branch	Huang, Chih-Fu	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Xigang Branch	Hsu, Li-Hsueh	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Trust Dept.	Lin, Chih-Hung	2019.11.25	Securities and Futures Institute	Regulations related to financial technology, regulatory compliance, risks, digital banking and open banking	6
Treasury Dept.	Yu, Hui Chen	2019.12.05	Taiwan, Taiwan Academy of Banking and Finance (TABF)	New Corporate Governance Blueprint and Evaluation Workshop	6

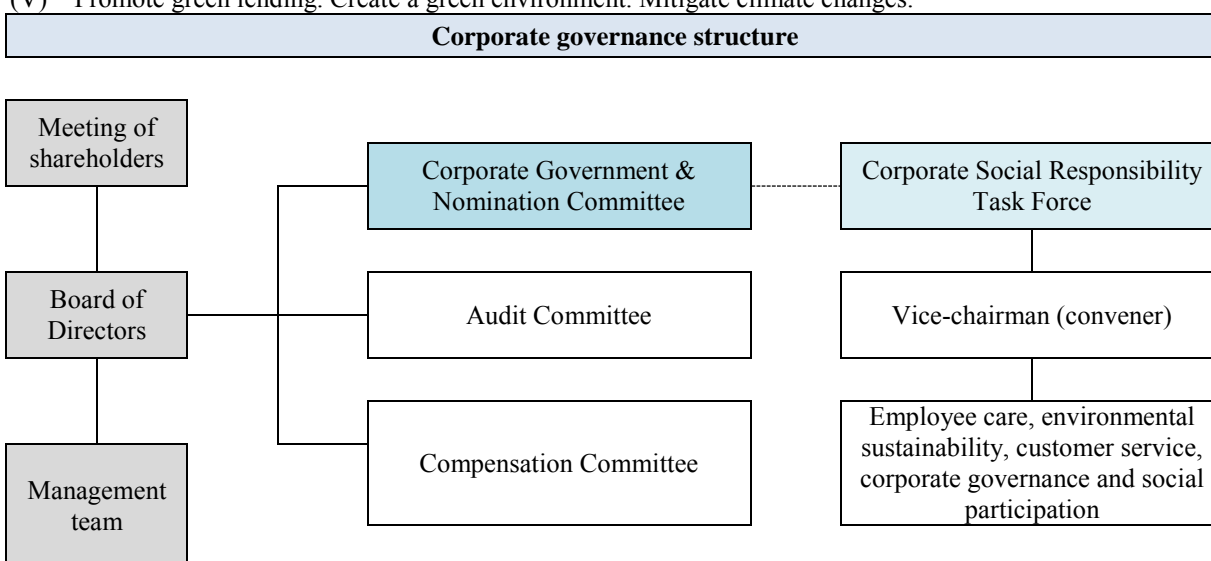
(V) Protection measures for work environment and employees' personal safety

1. We have implemented security systems and personnel in business premises to protect the safety of workplace and employees.
2. Establish occupational safety and health rules and hold occupational safety and health training for employees every year to achieve the goal of zero workplace accidents and ensure the safety and health of all employees.
3. Hold firefighting drills twice a year to raise employees' awareness of firefighting and evacuation procedures.
4. Hold CPR and emergency training courses every year to improve employees' knowledge and skills on first aid.
5. In 2019, there were two sessions of labor safety and firefighting team training. A total of 77 people attended a total of 228 hours of training.

C. Enterprise Responsibilities and Ethical Behavior

Community is the foundation of our company. In view of the transformation of market environment and social changes, we know that we can only grow stronger if we fulfill corporate social responsibility and balance stakeholder interests. We have established a Corporate Governance and Nomination Committee under the board of directors. The vice-chairman convenes a Corporate Social Responsibility Task Force, with the chairman being the responsible person, which has teams working on topics such as employee care, environmental sustainability, customer service, corporate governance and social participation. The teams hold quarterly meetings and report their results to the Corporate Governance and Nomination Committee before reporting to the board every year. The structure and implementation results of corporate social responsibility are shown below.

- (I) Reinforce corporate governance. Value risk control. Practice regulatory compliance.
- (II) Improve business processes. Understand customer needs. Enhance customer experience.
- (III) Cultivate local talents. Care for colleagues. Recognize women job skills.
- (IV) Support disadvantaged families. Eliminate barriers to education. Sponsor art and culture activities.
- (V) Promote green lending. Create a green environment. Mitigate climate changes.



King's Town Bank summary of 2019 corporate social responsibility initiatives
<p>Customer care</p> <ol style="list-style-type: none"> 1. In 2019, the number of users with electronic transactions had a year-on-year growth of 22%. 2. In 2019, the volume of account transfers via mobile banking had a year-on-year growth of 77%. We have also actively committed more resources in mobile banking and continued to hold various digital marketing campaigns to enable customers enjoy the convenience and experience at their fingertips. 3. In response to the results of customer satisfaction surveys, we have continued to upgrade and install ATMs. As of the end of 2019, we had added 65 deposit machines. 98% of our branches are equipped with ATMs offering both withdrawal and deposit functions. Services have been upgraded to accept deposits without the use of a banking card. 4. As of the end of 2019, we have accumulated 70,683 fans in our LINE@ account, showing a growth of 31% over the previous year. 5. As of the end of 2019, we have 32,418 fans in our Facebook fan page, showing a growth of 15% over the previous year.
<p>Environmental protection</p> <ol style="list-style-type: none"> 1. In 2019, the Bureau of Energy of the Ministry of Economic Affairs held the 2019 Ministry of Economic Affairs Energy Saving Benchmark Award Nomination Event, in which we passed the first stage of review and was awarded an Energy Saving Enterprise of Excellence. 2. In August 2019, we have completed the secondary review for ISO 50001 Energy Management. 3. In 2019, the whole company used 4,599,209kWh of electricity, and by the end of 2019, the company has shown a power saving of 10.32% over the end of 2017. 4. In 2019, we used 21,961 cubic meters of water and as of the end of 2019, the average water consumption per person has shown savings of 3.75% over the end of 2017. 5. In 2019, our greenhouse gas emissions were 2,495.23 metric tons (CO₂e / year), and as of the end of 2019, we have reduced 12.85% over the end of 2017. 6. In 2019, the used 36,798kWh of electricity generated in-house, which further reduced carbon emissions by 19,613kg.

King's Town Bank summary of 2019 corporate social responsibility initiatives

Social welfare and community participation

1. In 2019, we held or participated in 257 community care events and had 2,007 volunteers to help a total of 56,410 people.
2. In 2019, we have successfully blocked 113 cases of fraud and stopped transactions worth more than NT\$15 million. In Tainan City, our personnel who earned the merit were recognized in the monthly public safety meetings convened by the Mayor and were often awarded by the local police departments.
3. In June 2019, we participated in a large-scale charity carnival organized by the Taiwan Financial Services Roundtable. Volunteers patiently explained correct concept of financial knowledge to community residents through fun pinball and sand pouch tossing games in the hot sun. They also helped people with disabilities to participate in games and gave out gifts for charity causes, implement charity and charity. The local community residents responded warmly to the event, in which more than 1,000 people participated.
4. In order to support children who lived in the remote areas and inspire their interest in learning, we donated 10-inch tablet to 6 elementary school located far away from cities in 2019. It is expected that the donation efforts are able to help children with their learning and improved the availability of education information to remote areas.
5. With respect to availability of financial education to youths, we gathered our personnel specialized in information, law, operations management, foreign exchange, digital finance and financial management departments and sent them to campuses to be lecturers in financial education seminars for senior high and vocational schools. A total of 8 events were held in 2019, which helped a total of 290 students.
6. In order to establish a collaborative relationship with schools and benefit students, we have launched a program, Financial Institution Management Course, at Chang Jung Christian University. The program started in September 2019 and lasted the entire semester. The lecturers were all selected elite workers with rich practical experience from our various departments. As for the classes on insurance, we invited experts from our partner, Prudential Insurance, to jointly help youths develop their talents.
7. We have sponsored Tainan Arts Festival, Angel Heart Family Social Welfare Foundation, Teach for Taiwan, Twilight Elite Development Association, Legispedia seminars, Foundation of Taiwan Organization for Philanthropic Education - Taipei Music Academy & Festival, golf athletes, purchases of pineapple gift boxes from Guanmiao and other events and participated in many local community activities, giving out a total of NT\$3.16 million.

D. Number of full-time employees other than supervisors, full-time employee average salary and means:

	2018	2019	Growth rate
Number of full-time employees (person)	812	818	0.74%
Full-time employee average salary (Thousands)	710	756	6.48%
Full-time employee salary means (Thousands)	655	695	6.11%

E. IT Equipment

We use broadband and highly stable networks and equipment to establish our communication and resources integration platform. The connection structure of business units use HiLink VPN (enterprise-exclusive ultra-high-speed data transfer network), which offers load balancing and mutual backup capabilities. In the future, we will continue to progress toward building a transaction environment which has safe and efficient internal operations management and external collaboration advantages to enhance our core competencies. We use IBM AS/400 server groups to handle NTD deposits, check deposit, check collection, remittance, accounting, lending, foreign exchange, telephone banking, online banking, enterprise online banking, mobile banking and other core businesses. For systems of mutual funds, funds of the Central Bank, bonds, notes and bills and wealth management, we use IBM or HP servers.

Broadband and highly stable networks and equipment are used to establish our communication and resources integration platform. The connection structure of business units use HiLink VPN (enterprise-exclusive ultra-high-speed data transfer network), which offers load balancing and mutual backup capabilities. We will continue to progress toward building a transaction environment which has safe and efficient internal operations management and external collaboration advantages to enhance our core competencies.

In addition to implementing general security in computer rooms and improving fire safety facilities, environmental monitoring and early warning functions, we have used international-level firewall, anti-virus, intrusion detection and other information security systems and equipment to enhance our protection measures. In recent years, we have completed the construction of IPS firewall and WAF,

replaced central backbone switches, reinforced internal network architecture and information equipment monitoring systems and other projects.

In order to improve the performance of our mainframe and replace old equipment, we have planned to upgrade the core accounting mainframe and reinforced on-site and off-site backup measures to ensure the continuous operation of our systems and services.

In response to the development of digitization, we continue to update our digital financial services and have begun to build our digital deposit account and mobile payment systems. In order to improve operational performance and provide customers with a more convenient and safer environment for transactions, we will continue to simplify our operating procedures and innovate digital businesses. We will also integrate our message and digital platforms to provide value-added services to make the entire service more user-friendly.

F. Labor-Management Relations

(I) Employee benefits

1. Company's benefit practices

- (1) Benefits: Employee specials on deposits and loans, group insurance, sports, art and recreational activities and others.
- (2) We have established an employee benefits committee to handle benefits-related issues. Employees may apply for subsidies for wedding, childbirth, funeral and other occasions.

2. Employee Benefits Committee

We have established an Employee Benefits Committee. We deduct 0.5% from employees' salary and allocate 0.1% of our operating income to pool for the employee benefits funds. The Committee is in charge of handling matters related to employee benefits, such as:

- (1) Payments for wedding, childbirth and funeral occasions and illness or injury.
- (2) Bouses for Spring, Dragon Boat and Mid-Autumn Festivals.
- (3) Activity clubs receive club subsidies.

3. Employee benefit savings trust program

Our employees have formed the King's Town Bank Employee Stock Ownership Committee which withdraws a certain amount from members' salary to deposit into a trust to acquire and manage the Company's stocks on a long-term basis. The Company also allocates funds as bonuses to reinforce team cohesion, help members to accumulate wealth and ensure their welfare after retirement or resignation.

(II) Retirement system

1. In accordance with the Labor Standards Act and Labor Pension Act, we have established our Employee Retirement Measures to handle matters related to employee retirement. Employees may apply for voluntary retirement if they meet any one of the following criteria:

- Have served for more than 15 years and reached the age of 55.
- Have served for more than 25 years.
- Have served for more than 10 years and reached the age of 60.

2. Our Employee Retirement Measures established in accordance with the Labor Standards Act is a defined-benefit plan which has started to allocate 15% of total salary to the pension fund on a monthly basis and make the deposits in a special account at the Bank of Taiwan under the name of Supervisory Committee of Labor Retirement Reserve since 2012. The pension payments are based on the number of units accrued for the number of employees' years of service and the average monthly salary in the half of the year before their retirement.

3. Our Employee Retirement Measures established in accordance with the Labor Pension Act is a defined-contribution plan which allocates 6% of employees' monthly salary to the labor pension fund on a monthly basis. In 2019 and 2018, the expenses recognized for the defined-contribution plan are NT\$31,157 (thousand) and NT\$30,783 (thousand), respectively.

(III) Employer-employee agreement and maintenance measures for various employee rights

1. Employer-employee meetings: We hold employer-employee meetings on a quarterly basis in accordance with Article 83 of the Labor Standards Act and the Regulations for Implementing Labor-Management Meeting to facilitate harmony in the employer-employee relationship.

2. In order to clearly define the rights and obligations of both employees and employer, so that both parties can work together to create business sustainability, we have established the Work Rules in accordance with Article 70 of the Labor Standards Act with which both parties shall comply.

3. The results of labor condition inspections conducted in 2019 have not shown violation of the Labor Standards Act, the Act of Gender Equality in Employment and others, showing that we have fulfilled the maintenance of employees' rights and interests.

(IV) Losses due to labor disputes in the most recent year and as of the end of February 2020, and the estimates expected currently and for the future to be disclosed and their corresponding measures: None.

G. No loss or compensation for the time being

Major Agreements	Nature of agreement	Contracting Parties	Term of Agreement	Summary Content Limitation Article
Contract of mandate	Leader International Asset Management Service Co., Ltd.	2020.03.08-2021.03.07	Outsourced collections for overdue accounts	None
Contract of mandate	Jungshin Asset Management Co., Ltd.	2019.06.29-2020.06.28		None
Contract of mandate	Asia Credit Management Co., Ltd.	2019.06.29-2020.06.28		None
Contract of mandate	United Credit Services	2019.06.29-2020.06.28		None

H. Types of and the related information regarding securitization products approved under the Financial Asset Securitization Act and the Clauses of the Real Estate Securitization Act in recent years

Name of beneficiary securities fund	Type	Date of being publicly listed (on OTC)	Total Issued
Millerful No. 1 REIT	Real estate investment trust (REIT)	2018.12.05	10.5817 billion

VI. Financial Status

A. Summary balance sheet and income statement for the last 5 years

(I) Condensed consolidated balance sheet

Unit: NTD thousand

Item	Year	Financial information for the last five years				
		2015	2016	2017	2018	2019
Cash and cash equivalent, Due from Central Bank and lend to Banks		38,841,253	39,288,559	18,978,280	18,187,099	14,711,349
Financial assets at fair value through profit and loss		4,722,217	5,585,356	21,606,855	31,786,797	34,979,793
Financial assets at fair value through other comprehensive income		-	-	-	53,487,356	50,891,550
Investment of debt instruments on the basis of cost after amortization		-	-	-	17,597,996	17,698,135
Bonds and securities sold under repurchase agreements		3,287,166	3,106,295	2,565,772	624,167	150,022
Receivables – Net		1,289,518	1,470,477	2,669,418	3,642,416	4,907,384
Discounting and advances – Net		123,642,946	124,251,450	142,947,865	152,229,752	155,350,678
Available-for-Sale Financial Assets		58,310,324	63,973,405	59,078,492	-	-
Held-to-maturity financial assets		-	-	17,600,000	-	-
Investment by the equity method – Net		-	-	-	-	-
Other financial assets – net		4,227,015	3,052,381	2,309,637	4,705	4,396
Real estate and equipment – Net		2,494,436	2,461,730	2,393,890	2,388,923	2,713,818
Right-of-use assets		-	-	-	-	215,683
Deferred income tax assets		216,709	235,828	275,018	266,927	145,188
Other assets - net		522,006	658,481	751,034	878,581	974,912
Total assets		237,553,590	244,083,962	271,176,261	281,094,719	282,742,908
Deposits from Central Bank and other banks		17,160,139	10,381,448	22,269,428	19,937,251	14,533,849
Funds borrowed from Central Bank and other banks		3,835,656	7,811,960	5,315,680	3,438,640	4,395,830
Financial liabilities at fair value through profit and loss		26,986	34,946	127,902	25,784	6,002
Bills and bonds sold under repurchase agreements		16,431,429	15,553,347	21,359,805	29,316,496	28,218,020
Payables		1,156,928	2,260,933	2,431,811	2,311,881	1,252,826
Current Tax Liability		268,041	577,283	564,198	404,846	78,459
Liabilities directly related to assets available for sale		-	-	-	-	-
Customer deposits and remittances		169,383,517	173,752,830	180,388,401	188,432,924	191,798,662
Other financial liabilities		-	70,000	900,000	1,230,000	500,000
Liability reserve		471,814	491,765	473,759	420,427	383,414
Lease liability		-	-	-	-	217,256
Deferred tax liabilities		73,721	55,482	50,135	59,890	135,832
Other liabilities		290,250	293,472	334,262	332,519	291,249
Total liabilities	Before Distribution	209,098,481	211,283,466	234,215,381	245,910,658	241,811,399
	After Distribution	209,669,098	213,002,818	235,936,103	247,622,510	Note 2
Equity of the parent company		28,455,109	32,800,496	36,960,880	35,184,061	40,931,509
Capital stock	Before Distribution	12,012,343	11,512,343	11,512,343	11,512,343	11,312,343
	After Distribution	12,012,343	11,512,343	11,512,343	11,512,343	Note 2
Capital surplus		180,332	62,323	62,323	99,585	56,095
Retained earnings	Before Distribution	15,916,232	19,593,229	23,478,293	24,355,709	25,553,798
	After Distribution	15,345,615	17,873,877	21,757,571	22,643,857	Note 2
Other equity		1,319,176	1,762,241	2,037,561	(468,711)	4,107,695
Treasury stock		(972,974)	(129,640)	(129,640)	(314,865)	(98,422)
Non-controlling interest		-	-	-	-	-
Total equity	Before Distribution	28,455,109	32,800,496	36,960,880	35,184,061	40,931,509
	After Distribution	27,884,492	31,081,144	35,240,158	33,472,209	Note 2

Note 1: The annual financial reports from 2015 to 2019 have been verified by certified public accountants.

Note 2: The dividend payment for 2019 has not been approved by the shareholders general meeting.

VI. Financial Status

(II) Condensed individual balance sheet

Unit: NTD thousand

Item	Year	Financial information for the last five years				
		2015	2016	2017	2018	2019
Cash and cash equivalent, Due from Central Bank and lend to Banks		38,503,721	38,829,461	18,938,467	18,163,828	14,667,749
Financial assets at fair value through profit or loss		4,722,217	5,585,356	21,606,855	31,459,508	34,733,596
Financial assets at fair value through other comprehensive income		-	-	-	53,412,766	50,810,145
Investment of debt instruments on the basis of cost after amortization		-	-	-	17,597,996	17,698,135
Bonds and securities sold under repurchase agreements		3,172,466	3,106,295	2,565,772	624,167	150,022
Receivables – Net		995,199	1,073,268	950,065	1,028,136	1,270,450
Discounting and advances – Net		123,642,946	124,251,450	142,947,865	152,229,752	155,350,678
Available-for-Sale Financial Assets		58,310,324	63,791,755	58,723,646	-	-
Held-to-maturity financial assets		-	-	17,600,000	-	-
Investment by the equity method – Net		913,341	997,671	1,066,561	988,643	699,890
Other financial assets – net		4,127,015	2,952,381	2,189,637	4,705	4,396
Real estate and equipment – Net		2,494,270	2,461,369	2,392,392	2,387,498	2,706,831
Right-of-use assets		-	-	-	-	215,683
Deferred income tax assets		216,709	235,828	267,833	265,736	142,041
Other assets - net		519,304	653,899	745,778	870,298	956,932
Total assets		237,617,512	243,938,733	269,994,871	279,033,033	279,406,548
Deposits from Central Bank and other banks		17,160,139	10,381,448	22,269,428	19,937,251	14,533,849
Funds borrowed from Central Bank and other banks		3,835,656	7,746,960	4,775,680	2,458,640	1,655,830
Financial liabilities at fair value through profit and loss		26,986	34,946	127,902	25,784	6,002
Bills and bonds sold under repurchase agreements		16,431,429	15,553,347	21,359,805	29,316,496	28,218,020
Payables		1,148,858	2,242,415	2,419,466	2,299,446	1,223,956
Current Tax Liability		230,666	527,028	544,736	366,893	71,953
Liabilities directly related to assets available for sale		-	-	-	-	-
Customer deposits and remittances		169,542,182	173,827,862	180,719,981	188,677,300	191,812,314
Other financial liabilities		-	-	-	-	-
Liability reserve		471,814	491,765	473,759	420,427	383,414
Lease liability		-	-	-	-	217,256
Deferred tax liabilities		73,721	55,482	50,135	59,890	135,832
Other liabilities		240,952	276,984	293,099	286,845	216,613
Total liabilities	Before Distribution	209,162,403	211,138,237	233,033,991	243,848,972	238,475,039
	After Distribution	209,733,020	212,857,589	234,754,713	245,560,824	Note 2
Equity of the parent company		28,455,109	32,800,496	36,960,880	35,184,061	40,931,509
Capital stock	Before Distribution	12,012,343	11,512,343	11,512,343	11,512,343	11,312,343
	After Distribution	12,012,343	11,512,343	11,512,343	11,512,343	Note 2
Capital surplus		180,332	62,323	62,323	99,585	56,095
Retained earnings	Before Distribution	15,916,232	19,593,229	23,478,293	24,355,709	25,553,798
	After Distribution	15,345,615	17,873,877	21,757,571	22,643,857	Note 2
Other equity		1,319,176	1,762,241	2,037,561	(468,711)	4,107,695
Treasury stock		(972,974)	(129,640)	(129,640)	(314,865)	(98,422)
Non-controlling interest		-	-	-	-	-
Total equity	Before Distribution	28,455,109	32,800,496	36,960,880	35,184,061	40,931,509
	After Distribution	27,884,492	31,081,144	35,240,158	33,472,209	Note 2

Note 1: The annual financial reports from 2015 to 2019 have been verified by certified public accountants.

Note 2: The dividend payment for 2019 has not been approved by the shareholders general meeting.

(III) Condensed consolidated statement of comprehensive income

Unit: NTD thousand

Item	Year	Financial information for the last five years				
		2015	2016	2017	2018	2019
Interest revenue		6,508,388	6,227,659	6,232,248	6,872,966	6,833,454
Less: interest expense		(1,428,961)	(1,324,638)	(1,431,778)	(1,855,473)	(2,078,065)
Net interest income		5,079,427	4,903,021	4,800,470	5,017,493	4,755,389
Net income other than interest income		1,043,277	2,621,738	4,204,975	1,983,321	3,737,595
Net revenue		6,122,704	7,524,759	9,005,445	7,000,814	8,492,984
Bad debt expense and guaranty reserve		(52,633)	(111,058)	(670,584)	(1,643,112)	(2,655,404)
Operating expenses		(1,609,509)	(1,833,880)	(1,874,278)	(1,784,391)	(1,933,699)
Net profit before tax from continuing operations		4,460,562	5,579,821	6,460,583	3,573,311	3,903,881
Income tax (expense) gain		(777,808)	(798,363)	(850,049)	(695,510)	(504,194)
Current year profit of continuing business units		3,682,754	4,781,458	5,610,534	2,877,801	3,399,687
Profit or loss from discontinued operations		-	-	-	-	-
Current year net profit (net loss)		3,682,754	4,781,458	5,610,534	2,877,801	3,399,687
Current period other comprehensive income (net, after tax)		398,743	423,634	269,202	(3,303,535)	4,469,693
Current period other comprehensive income (after tax)		4,081,497	5,205,092	5,879,736	(425,734)	7,869,380
Net profit attributable to parent company		3,682,754	4,781,458	5,610,534	2,877,801	3,399,687
Net profit attributable to non-controlling interest		-	-	-	-	-
Total comprehensive income attributable to shareholders of the parent company		4,081,497	5,205,092	5,879,736	(425,734)	7,869,380
Total comprehensive income attributable to non-controlling interests		-	-	-	-	-
Earnings per share		3.09	4.17	4.89	2.51	2.99

Note: The annual financial reports from 2015 to 2019 have been verified by certified public accountants.

(IV) Condensed individual statement of comprehensive income

Unit: NTD thousand

Item	Year	Financial information for the last five years				
		2015	2016	2017	2018	2019
Interest revenue		6,502,846	6,209,013	6,162,590	6,729,884	6,649,901
Less: interest expense		(1,429,607)	(1,323,391)	(1,423,685)	(1,836,231)	(2,046,344)
Net interest income		5,073,239	4,885,622	4,738,905	4,893,653	4,603,557
Net income other than interest income		953,893	2,468,993	4,139,696	1,945,302	3,676,700
Net revenue		6,027,132	7,354,615	8,878,601	6,838,955	8,280,257
Bad debt expense and guaranty reserve		(46,933)	(59,645)	(639,497)	(1,606,593)	(2,553,305)
Operating expenses		(1,581,235)	(1,797,290)	(1,838,849)	(1,727,785)	(1,881,401)
Net profit before tax from continuing operations		4,398,964	5,497,680	6,400,255	3,504,577	3,845,551
Income tax (expense) gain		(716,210)	(716,222)	(789,721)	(626,776)	(445,864)
Current year profit of continuing business units		3,682,754	4,781,458	5,610,534	2,877,801	3,399,687
Profit or loss from discontinued operations		-	-	-	-	-
Current year net income after tax		3,682,754	4,781,458	5,610,534	2,877,801	3,399,687
Current period other comprehensive income (net, after tax)		398,743	423,634	269,202	(3,303,535)	4,469,693
Current period other comprehensive income (after tax)		4,081,497	5,205,092	5,879,736	(425,734)	7,869,380
Earnings per share		3.09	4.17	4.89	2.51	2.99

Note: The annual financial reports from 2015 to 2019 have been verified by certified public accountants.

VI. Financial Status

(V) Name of accountants and their opinions

Item	Year	2015	2016	2017	2018	2019
Certified public accountant		Huang, Shih-Chieh; Fu, Wen-Fang	Hu, Tzu-Jen; Chang, Cheng-Tao	Hu, Tzu-Jen; Chang, Cheng-Tao	Hu, Tzu-Jen; Chang, Cheng-Tao	Huang, Shih-Chieh; Chang, Cheng-Tao
Audit opinions		Standard unqualified opinion	Unqualified opinion	Unqualified opinion	Unqualified opinion (points of special attention or others)	Unqualified opinion (points of special attention or others)

B. Financial analysis and capital adequacy for the past five years

(I) Consolidated financial analysis

Unit: NTD thousand

Analytical items	Year	Financial Analysis for the most recent five years				
		2015	2016	2017	2018	2019
Operating ability	Loans to deposits ratio (%)	74.13	72.67	80.49	82.04	82.18
	NPL ratio (%)	0.03	0.02	0.02	0.02	0.01
	Interest expenses to annual average deposit ratio (%)	0.87	0.77	0.81	1.02	1.11
	Interest income to annual average loan ratio (%)	5.22	4.88	4.62	4.44	4.46
	Total assets turnover (times)	0.027	0.031	0.033	0.025	0.030
	Average operation revenue per employee	7,149	7,871	9,351	7,129	8,501
Profitability	Average profit per employee	4,056	5,002	5,826	2,931	3,403
	Return on Category I Capital (%)	17.20	19.45	19.84	10.46	11.24
	ROA (%)	1.56	1.99	2.18	1.04	1.21
	Return on equity (%)	13.25	15.61	16.08	7.98	8.93
	Net profit rate (%)	56.73	63.54	62.30	41.11	40.03
Financial structure	Earnings per share (NTD)	3.09	4.17	4.89	2.51	2.99
	Liabilities to total assets ratio	87.99	86.51	86.32	87.45	85.48
Growth rate	Ratio of real estate and equipment to equity	8.77	7.51	6.48	6.79	6.63
	Asset Growth Rate (%)	0.96	2.75	11.10	3.66	0.59
Cash flows	Profit Growth Rate (%)	(26.07)	25.09	15.78	(44.69)	9.25
	Cash flow ratio	31.91	(10)	(49.75)	(13.67)	(3.01)
	Cash flow adequacy ratio	415.73	361.36	280.31	145.75	137.28
Liquidity Reserve Ratio (%)	Cash flow for operating to cash flow from investing ratio	2,370.30	(247.81)	(3050.87)	16159.67	377.62
	Liquidity Reserve Ratio (%)	29.19	29.29	28.46	28.46	25.26
Related party secured loans	Related party secured loans	215,205	181,243	166,103	202,990	198,132
	Related party secured loans to total loan ratio (%)	0.17	0.14	0.11	0.13	0.13
Operation Scale	Asset market share (%)	0.47	0.47	0.50	0.49	0.48
	Market share of net worth (%)	0.83	0.91	0.98	0.88	0.95
	Market share of deposits (%)	0.51	0.51	0.51	0.52	0.50
	Market share of loans (%)	0.52	0.50	0.55	0.56	0.54
Explanation of reasons for the changes in various financial ratio in the past two years	<ol style="list-style-type: none"> The nonperforming loan ratio is lower than the previous period due to the Company's prudent risk management and credit policy contributing to the decrease in nonperforming loans. The decrease in asset growth over the previous period is due to the decrease in the amount of inter-bank placement and reverse repurchase of bills and bond investments. The increase in profit growth over the previous period is due to the stabilization of the stock market in this period which recognizes more valuation of profits. The increase in cash flow ratio and the decrease in cash flow adequacy ratio over the previous period are mainly due to the reduction in the purchase of financial assets and loans over the previous period, further reducing the net cash flows from operating activities. 					

Note: The annual financial reports from 2015 to 2019 have been verified by certified public accountants.

(II) Individual financial analysis

Unit: NTD thousand

Analytical items		Year	Financial Analysis for the most recent five years				
			2015	2016	2017	2018	2019
Operating ability	Loans to deposits ratio (%)	74.06	72.64	80.34	81.94	82.18	
	NPL ratio (%)	0.03	0.02	0.02	0.02	0.01	
	Interest expenses to annual average deposit ratio (%)	0.87	0.77	0.81	1.01	1.10	
	Interest income to annual average loan ratio (%)	5.22	4.87	4.57	4.35	4.34	
	Total assets turnover (times)	0.027	0.030	0.033	0.025	0.030	
	Average operation revenue per employee	7,154	7,841	9,465	7,169	8,493	
	Average profit per employee	4,119	5,098	5,981	3,017	3,487	
Profitability	Return on Category I Capital (%)	17.14	19.46	19.94	10.41	11.20	
	ROA (%)	1.56	1.99	2.18	1.05	1.22	
	Return on equity (%)	13.25	15.61	16.08	7.98	8.93	
	Net profit rate (%)	57.58	65.01	63.19	42.08	41.06	
	Earnings per share (NTD)	3.09	4.17	4.89	2.51	2.99	
Financial structure	Liabilities to total assets ratio	87.99	86.50	86.26	87.35	85.31	
	Ratio of real estate and equipment to equity	8.77	7.50	6.47	6.79	6.61	
Growth rate	Asset Growth Rate (%)	0.96	2.66	10.68	3.35	0.13	
	Profit Growth Rate (%)	(26.51)	24.98	16.42	(45.24)	9.73	
Cash flows	Cash flow ratio	32.71	(9.83)	(48.80)	(13.11)	0.41	
	Cash flow adequacy ratio	420.24	365.88	146.78	145.75	143.04	
	Cash flow for operating to cash flow from investing ratio	(19,742.00)	(242.69)	(2929.60)	15221.43	(132.46)	
Liquidity Reserve Ratio (%)		29.19	29.29	28.46	29.29	25.26	
Related party secured loans		215,205	181,243	166,103	202,990	198,132	
Related party secured loans to total loan ratio (%)		0.17	0.14	0.11	0.13	0.13	
Operating Scale	Asset market share (%)	0.47	0.47	0.50	0.49	0.47	
	Market share of net worth (%)	0.83	0.91	0.98	0.88	0.95	
	Market share of deposits (%)	0.51	0.51	0.51	0.52	0.50	
	Market share of loans (%)	0.52	0.50	0.55	0.56	0.54	
Explanation of reasons for the changes in various financial ratio in the past two years	<ol style="list-style-type: none"> 1. The nonperforming loan ratio is lower than the previous period due to the Company's prudent risk management and credit policy contributing to the decrease in nonperforming loans. 2. The decrease in asset growth over the previous period is due to the decrease in the amount of inter-bank placement and reverse repurchase of bills and bond investments. 3. The increase in profit growth over the previous period is due to the stabilization of the stock market in this period which recognizes more valuation of profits. 4. The increase in cash flow ratio and the decrease in cash flow adequacy ratio over the previous period are mainly due to the reduction in the purchase of financial assets and loans over the previous period, further reducing the net cash flows from operating activities. 						

Note: The annual financial reports from 2015 to 2019 have been verified by certified public accountants.

VI. Financial Status

The calculation of the financial items in the financial analysis tables (1) and (2) above is shown as follows:

1. Operating ability
 - (1) Loan-deposit ratio = Total loans / Total deposits
 - (2) Nonperforming loan ratio = Total nonperforming loans / Total loans
 - (3) Interest expense to average annual deposit balance ratio = total interest expenses/average annual deposit balance
 - (4) Interest income to average annual loan balance ratio = total interest incomes/average annual loan balance
 - (5) Total assets turnover rate = Earnings/Average total assets
 - (6) Employee average return = Earning/Total Employee No.
 - (7) Employee average profit rate = Earnings/Total Employee No.
2. Profitability
 - (1) Return on Category I Capital = EBT/Average total amount of Category I capital.
 - (2) ROA = Income after taxation/Average total assets.
 - (3) ROE = Income after taxation/Average net shareholders equity.
 - (4) Profit rate = Income after taxation/income-net
 - (5) Earnings Per Share = (Income attributable to parent company – dividends from preferred shares)/weighed average quantity of outstanding shares.
3. Financial structure
 - (1) Liabilities to total assets = Total liabilities/total assets.
 - (2) Real estate and equipment / equity ratio = Net real estate and equipment / net equity.
4. Growth rate
 - (1) Asset growth rate = (Total assets of current year – total assets of previous year)/total assets of previous year.
 - (2) Profit growth rate = (EBT of current year – EBT of previous year)/EBT of previous year.
5. Cash flow
 - (1) Cash flow ratio= net cash flow from operation /(Call loans and overdraft from banks + payable CP + Financial liabilities at fair value through profit and loss + R/P and bond liabilities + current portion of payables.
 - (2) Net cash flow adequacy rate= net cash flow from operation in the last 5 years/ (capital spending + Cash Dividends) in the last 5 years.
 - (3) Cash flow satisfied rate = Cash flow from operation/ cash flow from investments.
6. Liquidity Reserve Ratio = Central Bank Required Current Assets/Allowance for liquidity of liabilities.
7. Operating Scale
 - (1) Asset market share rate = Total assets/Total assets of all financial institutions available for making deposits and loans.
 - (2) Net worth market share rate = Net worth/total net worth of all financial institutions available for making deposits and loans.
 - (3) Deposit market share rate = Total deposits/Total deposits of all financial institutions available for making deposits and loans
 - (4) Loan market share rate = Total amount/Total amount of all financial institutions available for making deposits and loans

(III) Consolidated capital adequacy

Unit: NT\$ in thousand, %

Note: The financial information for the past five years shown above is furnished after adjustment by accountants.

Analytical items		Year	Capital adequacy ratio in the past five years					
			2015	2016	2017	2018	2019	
Total Self-owned Capital	Common stock equity		26,791,644	30,567,318	34,540,390	33,752,396	35,718,515	
	Other Tier I capital other than common stock equity		0	0	0	0	0	
	Category II Capital		941,833	1,286,745	1,371,984	670,827	1,160,997	
	Total Self-owned Capital		27,733,477	31,863,063	35,912,374	34,423,223	36,879,512	
Total risk-weighted assets	Credit Risk	Standardized Approach	159,808,610	172,253,077	189,364,260	197,892,405	203,419,934	
		Internal Ratings-Based Approach	0	0	0	0	0	
		Asset Securitization	0	16,802	0	0	0	
	Operation Risk	Basic Indicator Approach	11,660,108	12,491,079	13,659,885	13,772,518	14,518,830	
		Standard Method /Optional Standard Method	0	0	0	0	0	
		Advanced Measurement Approach	0	0	0	0	0	
	Market Risk	Standardized Approach	15,931,443	13,318,991	24,201,891	30,537,017	27,297,382	
		Internal Models Approach	0	0	0	0	0	
	Total risk-weighted assets			187,400,161	198,079,949	227,226,036	242,201,940	245,236,146
	Capital adequacy ratio			14.80%	16.09%	15.80%	14.21%	15.04%
Proportion of Category I capital to risk assets			14.30%	15.44%	15.20%	13.94%	14.56%	
Common stock equity as a percentage of risk assets			14.30%	15.44%	15.20%	13.94%	14.56%	
Leverage ratio			10.28%	11.71%	11.95%	11.17%	11.81%	
Please explain the reasons for the changes in capital adequacy ratio in the past two years (can be exempted if the change is no more than 20%): The capital adequacy ratio in the past two years is less than 20%, so analysis is not required.								

(IV) Individual capital Adequacy

Unit: NT\$ in thousand, %

Analytical items		Year	Capital adequacy ratio in the past five years					
			2015	2016	2017	2018	2019	
Total Self-owned Capital	Common stock equity		26,384,973	30,127,483	34,063,996	33,293,116	35,406,623	
	Other Tier I capital other than common stock equity		0	0	0	0	0	
	Category II Capital		535,163	837,909	885,604	211,547	849,105	
	Total Self-owned Capital		26,920,136	30,965,392	34,949,600	33,504,663	36,255,728	
Total risk-weighted assets	Credit Risk	Standardized Approach	159,432,129	171,480,858	187,587,490	195,257,564	199,737,743	
		Internal Ratings-Based Approach	0	0	0	0	0	
		Asset Securitization	0	16,802	0	0	0	
	Operation Risk	Basic Indicator Approach	11,552,161	12,384,281	13,437,529	13,510,439	14,230,138	
		Standard Method /Optional Standard Method	0	0	0	0	0	
		Advanced Measurement Approach	0	0	0	0	0	
	Market Risk	Standardized Approach	15,931,443	12,955,691	23,492,259	29,882,439	26,804,987	
		Internal Models Approach	0	0	0	0	0	
	Total risk-weighted assets			186,915,733	196,837,632	224,517,278	238,650,442	240,772,868
	Capital adequacy ratio			14.40%	15.73%	15.57%	14.04%	15.06%
Proportion of Category I capital to risk assets			14.12%	15.31%	15.17%	13.95%	14.71%	
Common stock equity as a percentage of risk assets			14.12%	15.31%	15.17%	13.95%	14.71%	
Leverage ratio			10.13%	11.56%	11.85%	11.11%	11.85%	
Please explain the reasons for the changes in capital adequacy ratio in the past two years (can be exempted if the change is no more than 20%): The capital adequacy ratio in the past two years is less than 20%, so analysis is not required.								

Note: 1. The financial information for the past five years shown above is furnished after adjustment by accountants.

2. The regulatory capital, risk-weighted assets and exposure measurement in the capital adequacy tables (3) and (4) shown above are calculated in accordance with the Regulations Governing the Capital Adequacy and Capital Category of Banks and the Description and Tables of Calculation for Banks' Regulatory Capital and Risk-Weighted Assets.

3. The formula for capital adequacy ratio in the capital adequacy tables (3) and (4) shown above is as follows:

(1) Total self-owned capital = Common stock equity + Category I capital other than common stock + Category II Capital.

(2) Total amount of risk-weighted-assets = Credit risk-weighted assets + Capital charge of (operational risk + market risk) x 12.5.

(3) Capital Adequacy ratio = Total self-owned capital / Total amount risk-weighted assets.

(4) The ratio of Category I capital to Risk Weighted Assets = (Common stock equity + Category I capital other than common stock) / Total risk weighted assets.

(5) Ratio of common stock equity to risk assets = Common stock equity / Total risk weighted assets.

(6) Leverage ratio = Net Category I capital / Total exposure.

4. The leverage ratio has been disclosed since 2015.

C. Audit committee review report of the 2019 financial reports

**King's Town Bank Co., Ltd.
Audit Committees' Review Report**

The individual financial statements and the consolidated financial statement of the Bank covering FY2019 were audited by Ernst & Young Global Limited with the issuance of Auditors' Report. The audited financial statements and the report on operation and proposal for distribution of earnings have been audited by the Auditing Committee of the Banking and confirmed that they are fairly presented. Pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby present the aforementioned statements and reports for ratification.

To:

2019 General Shareholders' Meeting

Audit Committee

Convener:



February 24, 2019

D. 2019 financial reports

Please refer to Appendix 1 on page 97 of the annual report for the 2019 independent auditor's report, financial reports and notes.

E. 2019 individual financial reports verified by independent auditor

Please refer to Appendix 2 on page 213 of the annual report for the 2019 individual financial reports which has been verified by independent auditor.

F. Financial difficulties and their impact on the financial status of the Company and its affiliates: None

VII. Review and analysis of financial condition and results, and Risk management matters

A. Financial Status

Unit: NTD thousand

Item	Year	2018	2019	Variation	
				Amount	%
Cash and cash equivalent, Due from Central Bank and lend to Banks		18,187,099	14,711,349	(3,475,750)	(19.11%)
Financial assets at fair value through profit and loss		31,786,797	34,979,793	3,192,996	10.05%
Financial assets at fair value through other comprehensive income		53,487,356	50,891,550	(2,595,806)	(4.85%)
Investment of debt instruments on the basis of cost after amortization		17,597,996	17,698,135	100,139	0.57%
Bonds and securities sold under repurchase agreements		624,167	150,022	(474,145)	(75.96%)
Receivables – Net		3,642,416	4,907,384	1,264,968	34.73%
Discounting and advances – Net		152,229,752	155,350,678	3,120,926	2.05%
Other financial assets – net		4,705	4,396	(309)	(6.57%)
Real estate and equipment – Net		2,388,923	2,713,818	324,895	13.60%
Right-of-use assets		-	215,683	215,683	-
Deferred income tax assets		266,927	145,188	(121,739)	(45.61%)
Other assets - net		878,581	974,912	96,331	10.96%
Total assets		281,094,719	282,742,908	1,648,189	0.59%
Deposits from Central Bank and other banks		19,937,251	14,533,849	(5,403,402)	(27.10%)
Funds borrowed from Central Bank and other banks		3,438,640	4,395,830	957,190	27.84%
Financial liabilities at fair value through profit and loss		25,784	6,002	(19,782)	(76.72%)
Bills and bonds sold under repurchase agreements		29,316,496	28,218,020	(1,098,476)	(3.75%)
Payables		2,311,881	1,252,826	(1,059,055)	(45.81%)
Current Tax Liability		404,846	78,459	(326,387)	(80.62%)
Customer deposits and remittances		188,432,924	191,798,662	3,365,738	1.79%
Other financial liabilities		1,230,000	500,000	(730,000)	(59.35%)
Liability reserve		420,427	383,414	(37,013)	(8.80%)
Lease liability		-	217,256	217,256	-
Deferred tax liabilities		59,890	135,832	75,942	126.80%
Other liabilities		332,519	291,249	(41,270)	(12.41%)
Total liabilities		245,910,658	241,811,399	(4,099,259)	(1.67%)
Capital stock		11,512,343	11,312,343	(200,000)	(1.74%)
Capital surplus		99,585	56,095	(43,490)	(43.67%)
Retained earnings		24,355,709	25,553,798	1,198,089	4.92%
Other equity		(468,711)	4,107,695	4,576,406	976.38%
Treasury stock		(314,865)	(98,422)	216,443	68.74%
Total shareholders' equity		35,184,061	40,931,509	5,747,448	16.34%
Description of differences:					
1. The increase in accounts receivable is due to the increase in the growth of subsidiaries' lease business, further increasing the bills receivable over the previous period.					
2. The decrease in deferred income tax is due to the decrease in allowance for bad debts and pension actuaries for income taxes.					
3. The changes in reverse repurchase of bills and bond investments and the Central Bank and inter-bank deposits and loans are due to capital flows of contracts that the Company undertakes.					
4. The decrease in financial liabilities at fair value through profit or loss is due to the decrease in valuation of foreign exchange compared with the previous period.					
5. The decrease in payables is due to the decrease in the payables of notes to be cleared compared with the previous period.					
6. The decrease in other financial liabilities is due to the decrease in subsidiaries' commercial paper payables compared with the previous period.					
7. The increase in deferred income tax liability is due to the increase in income tax valuation of financial assets compared with the previous period.					
8. The changes in capital surplus and treasury stock this period are due to the maintenance of the Company's credit and the cancellation of shareholders' equity for treasury stock buyback.					
9. The changes in other equities are due to the rebound in overseas bond market prices, further recognizing more valuation gains.					

B. Financial performance

Unit: NTD thousand; %

Item	Year	2018	2019	Increase (decrease)	
				Amount	Percentage (%)
Net interest income		5,017,493	4,755,389	(262,104)	(5.22%)
Net income other than interest income		1,983,321	3,737,595	1,754,274	88.45%
Bad debt expense and guaranty reserve		(1,643,112)	(2,655,404)	1,012,292	61.61%
Operating expenses		(1,784,391)	(1,933,699)	149,308	8.37%
Net profit before tax from continuing operations		3,573,311	3,903,881	330,570	9.25%
Current year profit of continuing business units		2,877,801	3,399,687	521,886	18.13%
Profit or loss from discontinued operations		-	-	-	-
Current year net profit (net loss)		2,877,801	3,399,687	521,886	18.13%
Analysis of variance:					
1. The increase in non-interest income is due to the rebound in the market prices of financial assets, leading to the increase in investment income over the previous period.					
2. The increase in bad debt expense and guaranteed liability reserve provisions is to ensure the quality of assets and long-term and robust operation, leading to the addition of expenses for bad debts of withdrawals and loans.					

C. Cash flows**(I) Analysis on liquidity in the most recent two years**

Item	Year	December 31, 2018	December 31, 2019	Variation (%)
Cash flow adequacy ratio	145.75	137.28	(8.47)	
Cash flow for operating to cash flow from investing ratio	16159.67	377.62	(97.66)	
Analysis of variance in increase/decrease:				
The increase in cash flow ratio and the decrease in cash flow adequacy ratio over the previous period are mainly due to the reduction in the purchase of financial assets and loans over the previous period, further reducing the net cash flows from operating activities.				

(II) Cash flow analysis for the next year

Unit: NTD thousand

Opening cash balance (1)	Projected cash inflows from operation of the year (2)	Expected annual cash flow (3)	Amount of cash surplus (shortfall) (1) + (2) + (3)	Remediation measures against expected cash flow deficit	
				Investment plans	Finance plans
9,374,376	7,174,385	2,619,693	13,929,068	-	-

D. 2019 impact of major capital expenditures on financial operations

(I) Uses of major capital expenditures and sources of funds: None.

(II) Expected gains: None.

E. 2019 re-investment policy, main reasons for profits or losses, improvement plans and investment plans for the next year**(I) Re-investment policy**

In order to meet the Company's need for long-term operation and development, we engage in investments and assessment of potential re-investment opportunities, and effectively diversifying operational risks and improving the overall profitability are our goals.

(II) Main reasons contributing to profit or loss of re-investment

The main source of profit in 2019 for reinvestment includes cash dividends distributed by the reinvestment companies and feedbacks from operating performance. If there are appropriate investment opportunities or investment in response to government policies in the future, we will conduct thorough assessment before taking action in compliance with relevant regulations.

(III) Remedy

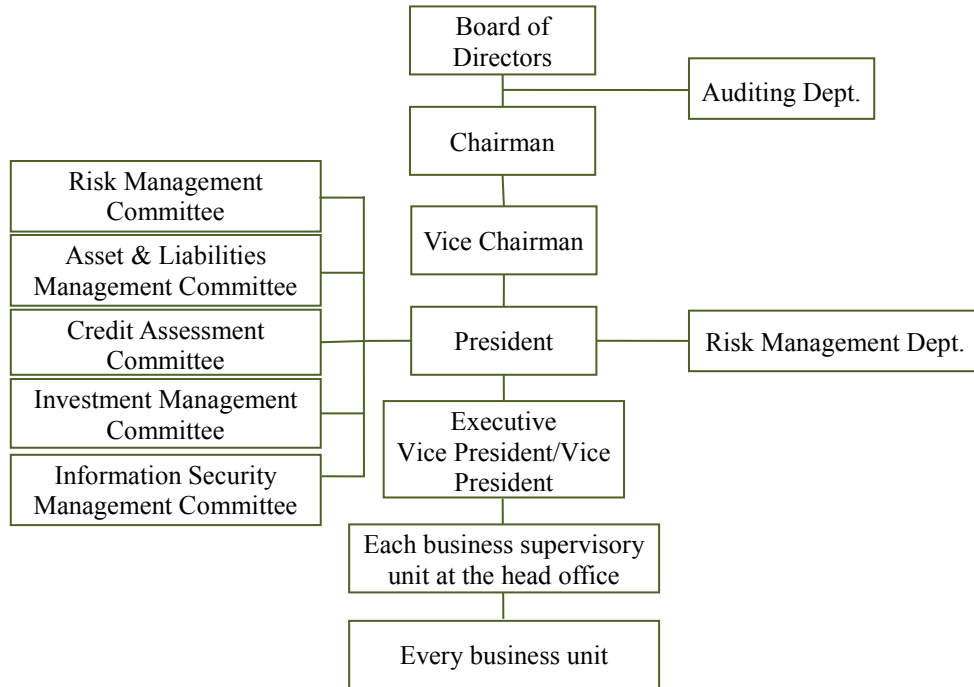
We update the operating efficiency and financial performance of our reinvestment companies on a quarterly basis, and produce annual performance appraisal reports to understand and monitor their status.

(IV) Investment plan for the coming year

If there are appropriate investment opportunities or investment in response to government policies in the future, we will conduct thorough assessment before taking action in compliance with relevant regulations.

F. Risk Management

- (I) Organizational structure and policies of risk management
 - 1. Risk management organizational structure



(1) Risk Management Committee

In order to improve risk management mechanism to avoid all possible adverse effects on the Company and maximize profits under limited risks, we have established a Risk Management Committee, in which the general manager serves as the chairperson. Committee members consist of managers from the Finance Department, Digital Services and Business Department, Risk Management Department, Credit Review Department, Administrative Management Department, Foreign Transactions Department, Regulatory Compliance Department and Operations Management Department and personnel appointed by the general manager. The chief auditor may attend the Committee meeting, but may not vote. The Committee has a meeting held once a month with the following missions to fulfill:

- A. Amendments to our risk management policies.
- B. Planning of the Company's management of credit, market, operational and other forms of risks.
- C. Examine the Company's ratio of regulatory capital to risk-weighted assets (as known as capital adequacy ratio).
- D. Handle and review the major risk exposure and unauthorized events which occur.
- E. Major issues or discussions related to risk management proposed by each unit.
- F. Matters assigned by the Board of Directors, Chairman, and Vice Chairman

(2) Asset & Liabilities Management Committee

Our general manager serves as the chairperson of the Asset and Liability Management Committee, in which the committee members are personnel appointed by the general manager and department managers from Digital Services and Business Department, Risk Management Department, Finance Department and Administrative Management Department. The committee adjusts the operational strategies in response to the domestic and overseas financial market condition to maintain liquidity, safety and profitability. The committee's regular meetings are held on a monthly basis, and the main tasks are shown as follows:

- A. Assess the impact of domestic and overseas political and economic condition and the government's policy on financial business.
- B. Forecast the impact of domestic and overseas capital, exchange rates, interest rates and other financial indicators on the Company's operations.

- C. Assess the Company's operating performance, capital condition, risk position of asset and liability and interest rate sensitivity, and discuss and adjust the most appropriate ratio for various assets and liabilities.
 - D. Assess the Company's pricing strategy for deposit and loan interest rates.
 - E. Estimate the Company's future operating performance and adjust the business strategy accordingly.
 - F. Matters assigned by the Board of Directors, Chairman, and Vice Chairman
- (3) Credit Assessment Committee
- The Credit Review Committee is chaired by the general manager and consists of managers from the Credit Review Department, Risk Management Department, Digital Services and Business Department and personnel designated by the general manager. The goal is to reinforce the review and risk control of credit business and ensure the Company's creditors' rights. In principle, a meeting will be held once a week to review the credit cases to be granted by the Board of Directors, and the results of the review will be presented to the Board of Directors for approval. The process and transfer of the proposals will be handled by the Credit Review Department.
- (4) Investment Management Committee
- In order to respond to changes in domestic and overseas financial situations, adjust investment strategies accordingly and control investment risks to maintain the Company's safety and profitability with respect to investment positions, we have established an Investment Management Committee as the Company's highest responsible unit for investment business. The Investment Management Committee is chaired by the President, and the members include the head of the Finance Department and other personnel appointed by the President. The Committee has a meeting held once a month with the following missions to fulfill:
- A. Establish the Company's investment strategy and principle in accordance with the changes in the domestic and overseas political and economic condition.
 - B. Assess if the performance of investment portfolios meets the expected goals and forecast the impact of domestic and overseas capital, exchange rates, interest rates and other financial indicators on the Company's investment positions, and discuss whether the investment strategy needs to be adjusted.
 - C. Assess the weight, allocation and re-investment direction of various financial investments.
 - D. Review the funding sources and cost structure of investments.
- (5) Information Security Management Committee
- In order to improve the information security management measures and reduce the effects and impact of risks associated with information security, we established the Information Security Management Committee in November 2015 in accordance with the government's relevant regulations to be responsible for reviewing the policies and standards of ISMS and overall implementation of information security measures, and the Information Security Division of the Risk Management Department reports the status of implementation to the board once a year. The committee is convened by the general manager or a person appointed by the general manager. The committee members are managers from the Risk Management Dept., Information Technology Dept., Digital Services and Channel Management Dept., Compliance Dept. and other departments designated by the convener. The Auditing Dept. may attend the Committee meeting, but may not vote. The committee holds a regular management review meeting at least once a year, or from time to time as necessary. The main tasks are as follows:
- A. Discussion of the Company's information security policies.
 - B. Promote the information security management system.
 - C. Assess the infrastructure of the information security management system.
 - D. Handle and review major information security incidents.
 - E. Major issues or discussions related to information security proposed by each unit.
 - F. Annual review of the overall implementation of information security measures.
 - G. Discussion of other information security issues.
2. Risk management policies
- We have established policies and measures based on different risk levels, and they are "Credit Policy," "Various Credit Review and Authorization Measures," "Risk Management Measures" and others. We have also established management standards for the policies and measures, such as the "Credit Risk Management Standards," "Market Risk Management Standards" and "Operational Risk Management Standards" in accordance with "Risk Management Measures." We have established a capital adequacy assessment process which takes into consideration the risk status in order to maintain capital adequacy based on the company's business growth. In addition, we conduct appropriate overall capital allocation to establish management measures for a variety of business risks considering our overall risk exposure to reinforce our operating performance.
3. Information security policies

In order to protect the Company's information assets and the confidentiality, integrity and availability of personnel, equipment, system, information, data and network from external threats or internal personnel's mishandling and disclosure, destruction or loss risks, we have established the "Information Security Policy" and its related measures with which our employees, outsourced service providers and visitors can comply.

(II) Qualitative and quantitative information about the various risks

1. Credit risk management system and capital requirement:

Credit risk management system

2019

Item	Contents
<p>1. Credit risk strategies, objectives, policies and processes</p>	<p>1. Credit risk strategy We have made appropriate adjustments in response to changes to the business environment and the associated risks. We make corrections in our strategy in consideration of the impact of economic cycles on the content and quality of overall credit portfolio, so we can ensure that the strategy can cover all major credit risks.</p> <p>2. Objectives of credit risks Maintain adequate capital and create maximum risk-adjusted return within the scope of credit risk that the Company can bear.</p> <p>3. Credit risk policies We have established the Credit Policy to properly plan and control the issuance of credit to a same natural person, a same legal person, a same public enterprise, a same related party, a same associate company and a same related company within a corporate group. We have set limits to the ratios of the Company's net worth which they account for (among them, a same public enterprise shall not exceed the Company's net worth, and the limit may be adjusted for a same related company based on the credit rating, financial rating by Cmoney and prospects), in order to control the credit risk to a single party and enhance the efficiency of capital utilization. With respect to the proportion of the Company's total credit committed to the issuance of credit to a single industry, we assess the industry and the overall economy, the nonperforming loan ratios in each industry and the future prospect to adjust the limit accordingly. In order to reinforce the risk control of credits to industries located in overseas and China regions, we have set industry-specific limits to those regions. With respect to the proportion of the Company's total issuance of credit to those who use residential real estates as collaterals, we set limits to fund uses such as house repairs and working capital, and dynamically adjust the credit amounts to avoid the overall risk and excessive concentration risk.</p> <p>4. Credit risk process In order to maintain a safe and robust credit business and control its associated risk, we have established a credit risk control mechanism for a variety of businesses and follow the procedures of identification, measurement, communication and monitoring. Under a hierarchy of responsibility in credit management, each level conduct case review within its level of authorization in accordance with the Various Credit Review and Authorization Measures to ensure the quality of assets for credit. We also have established the "Essentials for Secondary Review of Credit" for which the Credit Review Department at the head office is responsible to reinforce management after issuing credit, effectively control the associated credit risk. We have established the "Regulations Governing the Procedures to Evaluate Assets and Deal with Non-Performing/Non-accrual Loans" to regulate internal system and procedures for assessment of asset quality, allocation of loss reserve, liquidation of collection of nonperforming loans and bad debt write-off. In order to accelerate liquidation of bad debt and reduce nonperforming loans, we have established the "Non-performing Loan Management Measures," so that we can achieve the goal of having a sound financial structure and reinforcing asset and liability management.</p>
<p>2. Credit risk management organization and structure</p>	<p>1. <u>The board of directors</u> is our highest decision-making body for credit risk management and has the ultimate liability in terms of credit risk management.</p> <p>2. <u>Our Risk Management Committee</u> is responsible for implementing decisions on credit risk management approved by the board, reviewing credit risk regulations, coordinating credit risk management tasks and supervising the effectiveness of risk management implementation.</p> <p>3. <u>The Credit Review Committee</u> is responsible for reviewing and discussing credit cases at the board's authorization level and reporting the review results to the board for approval. After the establishment of accounts for cases for which the amount is at the board's authorization level and have been approved by the board, the Credit Review Committee is authorized to adjust the interest rate and fee rate accordingly, and provides summary reports to the board for monthly review.</p> <p>4. <u>The Risk Management Department</u> is responsible for planning, building and coordinating the Company's credit risk management operations and monitoring the Company's overall credit risk management tasks. It regularly compiles the information on the Company's credit risk and reports it to the Risk Management Committee and the board. It also calculates the capital charge of credit risk and discloses information on risk in accordance with the regulations by the authority.</p> <p>5. <u>Each business supervisory unit</u> at the head office is responsible for establishing and managing its respective credit risk regulations and operating procedures and monitoring the implementation, assisting the Risk Management Department to achieve the control of credit risk of the entire Company. Each business supervisory unit at the head office shall identify and manage the credit risk of all financial instrument, and ensures that the risk control mechanism is in place before engaging in new types of instrument or transactions.</p> <p>6. <u>Every business unit of the Company</u> is responsible for identifying, assessing and measuring risks and adopting appropriate risk countermeasures. Comply with the Company's rules on credit check, credit issuance and credit risk to conduct daily operations and credit risk management and report to the relevant units in accordance with the regulations in a timely manner. Incorporate the control of credit risk into daily operations and ensure the correctness and completeness of information of each operation.</p> <p>7. <u>The credit review team of business units</u> is responsible for convening credit review meetings on credit</p>

VII. Review and analysis of financial condition and results, and Risk management matters

Item	Contents
	issuance cases approved within the business unit supervisors' authorization level and reinforcing the review of credit business to protect the creditor's rights and fulfill risk control.
3. Scope and characteristics of credit risk report and measurement system	<p>The Company has established the Credit Risk Management Standards based on the overall risk management policy. Risk exposure is categorized to assess various risk-weighted assets and disclose them in risk control reports to be submitted to the board on a quarterly basis. The content and scope are shown as follows:</p> <ol style="list-style-type: none"> 1. Control of limits to counterparties (a same natural person, a same legal person, a same related party, a same associate company, a same related company within a corporate group and a same industry) 2. Control of credit risk concentration (monitor the top 20 clients who receive credit) 3. Analysis of credit business structure (according to types of loan) 4. Asset quality (nonperforming loans, NPL ratio, allowance for bad debts, coverage ratio) <p>The credit risk measurement system includes credit rating maintenance, on-balance sheet risk-weighted asset maintenance and others.</p>
4. Credit risk hedging or mitigation policies, and effective strategies and process for controlling risk hedging and mitigation tools	<ol style="list-style-type: none"> 1. When conducting credit risk businesses, assess the probability of default and the loss amount of the event or transaction and adopt countermeasures, such as risk avoidance - high probability of default and large amount of loss, risk reduction or transfer - low probability of default and large amount of loss, risk control - high probability of default and small amount of loss and risk retention - low probability of default and small amount of loss. Set limit to a same natural person, a same legal person, a same related party, a same associate company, a same related company within a corporate group and a same industry in order to avoid excessive risk concentration. Add credit limit criteria, request for collaterals and guarantor or transfer to credit guarantee funds to reinforce the Company's claims. 2. Evaluate the fair value of collaterals and conduct on-site inspection of collaterals regularly or irregularly. Conduct credit check and re-evaluation of collaterals based on the current status of credit recipients. Assess the extent of guarantee provided by clients who receive credit and the legality of guarantors to ensure the effectiveness of credit protection. Regularly maintain and develop the credit risk management system based on the status of business and credit retention to ensure continuous and effective operation.
5. Approach for regulatory Capital Charge	Standardized Approach

Note: This form is applicable to banks which adopt the Standards Act.

Exposure and capital requirement under the credit risk standardized approach after risk mitigation

December 31, 2019

Unit: NTD thousand

Type of exposure	Exposure after risk mitigation	Capital requirement
Sovereigns	34,433,719	0
Non-central government public sector entities (PSEs)	0	0
Banks (including multilateral development banks-MDBs)	20,280,462	506,273
Corporates (including securities and insurance companies)	162,895,966	12,317,542
Retail	32,837,379	2,387,850
Residential mortgage	10,537,095	494,377
Equity securities investments	18,728	1,498
Other assets	5,450,423	271,140
Total	266,453,772	15,978,680

2. Risk management measures and amount of exposure for asset securitization, and the management strategy and procedures for securitization of capital accrual.

Risk management system of securitization

2019

Item	Contents
1. Management strategy and process of securitization	<p>[Trading Book]:</p> <ol style="list-style-type: none"> 1. In order to implement risk management, we conduct investment decisions and process management based on the Company' relevant measures on marketable securities when investing in securitized products (such as REITs) on the trading book. 2. We have not taken the role of an originator, service institution or credit enhancement institution. We shall first establish the relevant management policies if we wish to handle the related businesses in the future. <p>[Banking Book]: We have not invested in securitized products which are considered part of the banking book and we have not taken the role of an originator.</p>
2. Management organization and structure of securitization	<p>[Trading Book]:</p> <ol style="list-style-type: none"> 1. We have established the Risk Management Committee responsible for implementing decisions on credit risk management approved by the board and supervising the effectiveness of risk management implementation. We regularly hold the Asset and Liability Management Committee meetings to evaluate the Company's capital and investment operations and reviewing the implementation. We also regularly hold Investment Management Committee meetings to adjust our investment strategy as needed to control investment risk in response to changes in the domestic and overseas financial markets, further protecting the Company's investment position and profitability. 2. When investing in securitized products (such as REITs) on the trading book, we manage the associated risks based on the credit, market and other relevant risk management organizations and structure. <p>[Banking Book]: We have not invested in securitized products which are considered part of the banking book and we have not taken the role of an originator.</p>

VII. Review and analysis of financial condition and results, and Risk management matters

Item	Contents
3. Risk report on securitization and scope and characteristics of measurement system	<p>[Trading Book]: When investing in securitized products (such as REITs) on the trading book, we evaluate them daily and manage the associated risks based on the credit, market and other relevant risk management organizations and structure, and disclose the information on the risk control reports to be submitted to the board every quarter.</p> <p>[Banking Book]: We have not invested in securitized assets which are considered part of the banking book and we have not taken the role of an originator.</p>
4. Securitization hedging and risk reduction policies, as well as monitoring strategy and process for risk reduction tools' continued effectiveness.	<p>[Trading Book]:</p> <ol style="list-style-type: none"> We have not taken the role of an originator, service institution or credit enhancement institution and have not established policies related to securitization hedging and risk reduction. We shall first establish the relevant management policies if we wish to handle the related businesses in the future. We currently adopt the following measures based on the credit, market and other relevant risk standards: risk avoidance - high probability of default and large amount of loss, risk reduction or transfer - low probability of default and large amount of loss, risk control - high probability of default and small amount of loss and risk retention - low probability of default and small amount of loss. <p>[Banking Book]: We have not invested in securitized products which are considered part of the banking book and we have not taken the role of an originator.</p>
5. Approach for regulatory Capital Charge	<p>[Trading Book]: Adopt the Standards Act for market risk.</p> <p>[Banking Book]: We have not invested in securitized products which are considered part of the banking book and we have not taken the role of an originator.</p>

Amount of risk exposure for securitization and capital accrual
December 31, 2019

Unit: NTD thousand

Types of risk exposure Bank's role	Type of asset	Traditional				Capital requirement	Combination		Total			
		Exposure at default					Exposure at default	Capital requirement	Exposure at default	Capital requirement	Capital accrual before securitization	
		Keep or buy	Provide liquid financing amount	Provide credit enhancement	Subtotal							
					(1)	(2)	Keep or buy	(3)	(4)	(5)=(1)+(3)	(6)=(2)+(4)	
Non-originator	Banking Book	-	0	0	0	0	0	0	0	0	0	0
	Trading Book	-	0	0	0	0	0	0	0	0	0	0
	Subtotal	-	0	0	0	0	0	0	0	0	0	0
Originator	Banking Book	-	0	0	0	0	0	0	0	0	0	0
	Trading Book	-	0	0	0	0	0	0	0	0	0	0
	Subtotal	-	0	0	0	0	0	0	0	0	0	0
Total	-	0	0	0	0	0	0	0	0	0	0	0

Remarks

- The field of "Asset Category" is defined in accordance with the asset type of securitization (such as credit card, home equity loan and car loan) or the securities invested (such as mortgage-backed securities, commercial real estate-backed securities, asset-backed securities and collateralized debt obligation). RMBS are a type of beneficiary securities for mortgage securitization or asset-backed securities. REITs are real estate investment trust beneficiary securities.
- The amount of risk exposure on the banking book is the amount filled after risk reduction.
- The box of "Provide Liquid Financing Amount" includes the allocated and unallocated risk exposure amount.

3. Operational risk management system and capital requirement

Operational risk management system

2019

Item	Contents
1. Operational risk management strategies and processes	<ol style="list-style-type: none"> Operational risk management strategy Make appropriate adjustments in response to the changes in the Company's operating environment and risks involved to maintain the consistency with the Company's business strategy and objectives, which also cover all important operational risks related to the business. Operational risk management process Establish operational risk management measures. Identify, measure, communicate and monitor all operational risks that may arise from daily operations and management processes.
2. Operational risk management organization and structure	<ol style="list-style-type: none"> <u>The board of directors</u> is our highest decision-making body for operational risk management and has the ultimate liability in terms of operational risk management. <u>Our Risk Management Committee</u> is responsible for implementing decisions on operational risk management approved by the board, reviewing operational risk regulations and supervising the effectiveness of risk management implementation. <u>The Risk Management Department</u> is responsible for planning, building and coordinating the Company's operational risk management, and it regularly compiles the information on the Company's operational risk and reports it to the Risk Management Committee. <u>Each business supervisory unit at the head office</u> is responsible for establishing and managing its respective operational risk regulations and operating procedures and monitoring the implementation, assisting the Risk Management Department to achieve the control of operational risk of the entire Company. <u>Every business unit of the Company</u> is responsible for identifying, assessing and measuring risks and adopting appropriate risk countermeasures. Comply with the Company's rules on operational risk to conduct daily operations and operational risk management.

VII. Review and analysis of financial condition and results, and Risk management matters

Item	Contents
<p>3. Scope and characteristics of operational risk report and measurement system</p>	<p>We have established the Operational Risk Management Standards based on the overall risk management policy to actively and effectively measure, control and monitor all operational risks associated with all products, services, operations and systems, and disclose the information in risk control reports to be submitted to the board on a quarterly basis.</p> <ol style="list-style-type: none"> 1. The content and scope are shown as follows: <ol style="list-style-type: none"> (1) Our rules and regulations on the self-assessment of risk control. (2) Self-assessment of risk control in compliance with various rules and regulations of all units' operating procedures. (3) Self-assessment of risk control for new products (business), activities, processes and systems. (4) Managing authorization and limits of credit issuance operations of all business units. (5) Managing authorization and limits of loan, foreign exchange and investment businesses of the Finance Department. (6) Report progress to the point of contact at the financial supervisory authority. (7) Progress of data collection on losses attributable operational risk. (8) Status of key risk indicator (KRI). (9) Progress of compliance with the three reinforcing pillars of the New Basel Accord. (10) Education and training sessions on risk management conducted by supervisory units of businesses. 2. In order to effectively measure operational risk, the measurement system is divided into operational risk event maintenance, authorized credit limit maintenance and others. Establish the following operational measures: <ol style="list-style-type: none"> (1) Essentials for Collection of Operational Risk Loss Event Data: Collect loss event data, categorize the data based on the patterns and business types and understand the distribution of loss events. (2) Essentials for Business Units' Risk Control Self-Assessment: Use the Risk Control Assessment Form to assess the Company's operating procedures, rules and regulation, new products (businesses), activities, processes, systems and other operations. (3) Essentials for Key Risk Indicators: Establish quantitative indicators and thresholds and warning values corresponding to main risk exposure in order to monitor the risk exposure and control measures for operational risk.
<p>4. Operational risk hedging or mitigation policies, and effective strategies and process for controlling risk hedging and mitigation tools</p>	<p>When dealing with operational risk-related businesses, we assess the probability and severity of the events or transactions and adopt countermeasures (such as outsourcing operations, employee dishonesty insurance and others) in the categories of risk avoidance, risk reduction or transfer, risk control and risk retention. We then regular maintain and develop the operational risk management system based on the circumstances of business and risk retention to ensure that the system can continue to effectively operate.</p>
<p>5. Approach for regulatory Capital Charge</p>	<p>Basic indexing method.</p>

Capital requirement for operational risk

December 31, 2019

Unit: NTD thousand

Year	Gross profit	Capital requirement
2017	7,771,530	1,138,411
2018	6,759,952	
2019	8,236,739	
Total	22,768,221	1,138,411

4. Market risk management system and capital requirement

Market risk management system
2019

Item	Contents
1. Market risk management strategies and processes	<p>1. Market risk management strategy Make appropriate adjustments in response to the changes in the Company's operating environment and risks involved to maintain the consistency with the Company's business strategy and objectives, which also cover all important market risks related to the business. Seek stability when investing in marketable securities and other financial instrument. Pay attention to the fundamental analysis of products and economic cycle and avoid excessive risk concentration. Comply with the regulations on investment limits.</p> <p>2. Market risk management process Establish market risk management measures. Effectively identify, measure, communicate and monitor market risks associated with all main products and transactions.</p>
2. Market risk management organization and structure	<p>1. <u>The board of directors</u> is our highest decision-making body for market risk management and has the ultimate liability in terms of market risk management.</p> <p>2. <u>The Investment Management Committee</u> may adjust our investment strategy as needed to control investment risk in response to changes in the domestic and overseas financial markets, further protecting the Company's investment position and profitability.</p> <p>3. <u>Our Risk Management Committee</u> is responsible for implementing decisions on market risk management approved by the board, reviewing market risk regulations and supervising the effectiveness of risk management implementation.</p> <p>4. <u>The Risk Management Department</u> is responsible for planning, building and coordinating the Company's operational risk management. The department handles the liquidation and settlement of the Company's capital allocation and securities trading, regular assesses profits and losses at fair market values, controls investment positions and transaction limits and reports over-the-limits, stop-loss and early warnings to business units which have transactions. It regularly compiles the information on the Company's operational risk and reports it to the Risk Management Committee.</p> <p>5. <u>Each business supervisory unit at the head office</u> is responsible for establishing and managing its respective market risk regulations and operating procedures and monitoring the implementation, assisting the Risk Management Department to achieve the control of market risk of the entire Company.</p> <p>6. <u>Every business transactions unit</u> of the Company is responsible for identifying, assessing and measuring risks and adopting appropriate risk countermeasures. Comply with the Company's market risk management rules and carry out daily operations and market risk management. The risk management personnel are independent from the front-end of transactions or are the personnel from different departments or divisions. Actively monitor the over-the-limits and stop-loss measures and report events to the relevant units in a timely manner.</p>
3. Scope and characteristics of market risk report and measurement system	<p>Market risk involves interest rates, equity securities, foreign exchange and financial instrument. We have established the Market Risk Management Standards based on the overall risk management policy. The positions held are categorized into the "Trading Book" and "Banking Book" in accordance with the Trading Book and Banking Book Categorization Measures to effectively manage positions of financial instrument. The risk management of various investments is conducted in accordance with the relevant regulations and the Company's standards to control the risk within an acceptable range and disclose the information in risk control reports to be submitted to the board on a quarterly basis. The content and scope are shown as follows:</p> <p>1. Investment limit and early warning management for market risk:</p> <p>(1) Invest in a variety of securities: (a) Limits for a variety of securities (required by the authority); (b) Restrictions on investment in a same legal person, a same related company within a corporate group and a same industry (required by the Company); (c) Limits for non-statutory investment grade (required by the authority), and application criteria for non-statutory investment grade bonds and bills and the balance in any one particular investment (required by the Company); (d) Limits for balance in any one particular bond and bill on watch (required by the Company), and limits for non-statutory investment grade bonds and bills on watch (required by the Company); (e) Bonds and bill on watch with credit ratings of "BBB-/Baa3, twBBB- and equivalent" and the limits for non-statutory investment grade bonds (required by the Company); (f) Investment ceiling on a particular country with a sovereign credit rating of Baa1 to Baa3/BBB+ to BBB- in accordance with the Company's National Risk Management Guidelines (required by the Company). (g) Total balance of investment in various securities in China (required by the Company), and the balance of investment in bonds and bills in China overall (required by the Company). Balance of investment in bonds and bills (required by the Company) issued by non-financial institutions (including leasing companies and asset management companies). (h) Balance of transactions for bond repurchase (required by the government authority).</p> <p>(2) Invest in derivatives: (a) The upper limits of total position and loss of notional principal; (b) The control of notional principal of various contracts; (c) Upper limit of transaction counterparty's credit risk, early warning for gains of counterparty's market valuation; (d) Limit of counterparty (a related company within a corporate group, an industry); (e) With respect to the total profits or losses in market valuation of the overall unhedged contracts and individual unhedged contract, the limit of loss amount if there are losses.</p> <p>(3) Foreign exchange transactions: (a) Limits of uncovered total position between NTD and foreign currencies in the whole company; (b) Uncovered total position between foreign currencies in the whole company; (c) Positions of various exchanges against the USD.</p> <p>(4) Lending limits to counterparties in the loan business (NTD, foreign currencies).</p> <p>2. Stop-loss mechanism for market risk and monitor major risk exposure mechanism:</p> <p>(1) Invest in a variety of securities: (a) Stop-loss position, execution and major risk exposure of various types of securities; (b) Financial asset impairment or sale assessment and major risk exposure of various types of securities.</p>

VII. Review and analysis of financial condition and results, and Risk management matters

Item	Contents
	(2) Stop-loss of individual unhedged contract in derivatives investment. ° (3) Restriction and enforcement of exchange losses of commercial positions and traders of the whole company. 3. Market risk stress testing (Impact of profits and losses in comprehensive scenarios / Minimum capital calculated needed for the market risk).
4. Market risk hedging or mitigation policies, and effective strategies and processes for controlling risk hedging and mitigation tools	Establish limits and stop-loss measures in the operating standards and procedures for the Company's various investment in compliance with the authority's standards on investment limits to monitor market risk. When dealing with market risk-related businesses, we adopt countermeasures in the categories of risk avoidance, risk reduction or transfer, risk control and risk retention. We grasp our overall exposure position and risk measurement results based on the circumstances of businesses and risk retention we face to ensure continued effectiveness.
5. Approach for regulatory Capital Charge	Standardized Approach

Capital requirements for market risk

December 31, 2019

Unit: NTD thousand

Type of risk	Capital requirement
Interest rate risk	1,151,932
Equity securities risk	912,631
Foreign Exchange risk	79,836
Commodity risk	0
Total	2,144,399

5. Liquidity risk includes maturity analysis of assets and liabilities, and explains how to manage liquidity of assets and liquidity of working capital gaps.

(1) Risk management procedures:

For each asset and liability, we regularly analyze the maturity gap and the term structure change at maturity, and use them as the basis for capital allocation to conduct liquidity management, further reducing liquidity risk. We regularly analyze the correlation between assets, liabilities and market interest rates to assess market interest rate risk, and adjust pricing of interest rates for deposits and loans accordingly to manage the interest rate risk. We regularly report the status of asset and liability allocation and the changes in various indicators for risk management at the Asset and Liability Management Committee meetings to ensure the implementation of risk management procedures.

(2) Principles of measurement and control:

In order to meet the needs for liquidity, monitor liquidity risk and prevent excessive concentration of capital utilization, we regularly prepare the "NTD Maturity Term Structure Analysis Table" and "USD Maturity Term Structure Analysis Table" to analyze the working capital gaps of various terms and use them as the early warning indicators for liquidity. We also take the impact of domestic and overseas financial market conditions and seasonal factors into consideration and adjust our business strategy, interest rate gaps and asset and liability structure in a timely manner and report the results to the Asset and Liability Management Committee.

In terms of capital utilization, we allocate sufficient funds as legal reserve in accordance with the regulations and the remaining capital is invested in government bonds, transferrable certificates of deposits from the Central Bank, treasury bills, financial bonds, government debt repurchase, corporate bonds, commercial papers, banker's acceptance, beneficiary certificates and other fixed-income financial instrument. We value the security of investments and consider the liquidity of the secondary market to reduce our operational risk.

Analysis of maturity structure of NTD

December 31, 2019

Unit: NTD thousand

	Total	Remaining balance to maturity					
		0 to 10 days	11 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than 1 year
Main capital inflow upon maturity	229,723,828	50,921,248	14,135,711	12,354,584	21,256,940	36,124,994	94,930,351
Main capital outflow upon maturity	248,369,349	12,819,228	10,122,762	29,259,729	31,286,226	43,523,136	121,358,268
Gap	(18,645,521)	38,102,020	4,012,949	(16,905,145)	(10,029,286)	(7,398,142)	(26,427,917)

Note: This table refers to the amount in NTD in the whole company.

USD maturity date structure analysis table

December 31, 2019

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	1,618,912	93,056	16,317	24,820	33,375	1,451,344
Outward remittance of due fund	1,663,610	1,127,780	174,587	52,830	82,193	226,220
Gap	(44,698)	(1,034,724)	(158,270)	(28,010)	(48,818)	1,225,124

Note: This table refers to the amount in USD in the whole company.

(III) The influence of domestic and foreign major policies and law amendment exerting on the bank's financial structure and responding measures

We are committed in our efforts in preventing money laundering and countering terrorism financing. In compliance with the requirements and standards of the authority, our Regulatory Compliance Department has established the Money Laundering Prevention Division in March 2017 as the responsible unit for preventing money laundering and countering terrorism financing. We supervise the planning and implementation of identification, assessment and monitoring policies and procedures for money laundering and terrorism financing risks to ensure the compliance with the relevant regulations, including the relevant templates or self-disciplinary standards established by the Banker Association and approved by the Financial Supervisory Commission. In the same year, we established the "Verification Policy and Procedures for Names and Titles of Clients and the Associated Parties of Transactions" and the "Accounts and Transactions Monitoring Policy and Procedures" and have used our information system to help us find suspicious transactions. In 2019, we completed model structures of risk assessment for customers' money laundering activities. We were able to adjust the maintenance fields of customer basic data based on the customer risk assessment and the related models of the new structure to facilitate the subsequent calculation of cumulative results of risk factor weights.

(IV) Impact of technological and industry changes on the banking and financial businesses and the corresponding measures

In this ever-advancing era of digital finance, we first established a mobile phone authentication measure in 2015 to facilitate the development of services based on digital finance, and then we revised the layout of our personal online banking page to present a new look to customers. In 2016, we continued with our original design elements and style to launch our mobile banking and enterprise online banking, so that both corporate and individual accounts can enjoy convenient financial services without facing geographical and time constraints. In 2017, we continued to build a new generation of personal online banking and mobile banking services, and added fingerprint login feature, expense manager and other daily life functions and personalized reminders to give customers a more user-friendly interface and transaction functions. In 2018, we continued to optimize our personal online banking and mobile banking, and added mutual fund services to provide customers with more convenient options for personal wealth management. In 2019, we added the "In-house card-less deposit" function to our ATMs.

(V) Impact of the image changes on the bank and the corresponding measures: None.

(VI) Expected result and possible risks of mergers and acquisitions and Counter assessments: None.

(VII) Expected benefits, potential risks and countermeasures for expanding business locations: In 2019, we did not expand our business locations.

(VIII) Risks arising from concentration of business and the countermeasures: Our business development and investment control practices are in compliance with the Banking Act and other relevant laws and regulations.

(IX) The effect of change in the management produced to the Bank, possible risk and countermeasures: None.

(X) With respect to the directors, supervisors and shareholders who own more than 1% of shares, the impact of large-scale transfer of their equity and their replacement on the bank's risks and the corresponding measures: None.

(XI) Litigation and non-litigation events: With respect to the case of financial planner Lin of the Operation Department embezzling more than NT\$60 millions from customer deposits, we have received the 2017 Jin-Su-Zhi No. 7 criminal judgment from the Tainan District Court on December 4, 2018, and the defendant has appealed. As for the civil judgment, the Tainan District Court is examining the case in its 2018 Jin-Su-Zhi No. 1, 2 and 3.

(XII) Other important risks and the countermeasures: The results from our 2019 information security assessment tests, vulnerability scanning, penetration tests, information security equipment monitoring and other procedures have shown no significant operational risks. They are all controllable and we have implemented the corresponding control measures.

G. Crisis management mechanism

In order to improve our crisis management standards and contingency measures, we have established the "Crisis Response Operations Guidelines," "Safety Maintenance Operations Standards," "Emergency Response Operations Essentials" and "Emergency Response Operations Essentials for Personal Data Breach" for compliance. In the event of a major emergency, the supervisors of the relevant business units can immediately take appropriate measures. For major incidents, all business units of the Company will take immediately remedial measures, promptly notify the system convener and the event holder by telephone and adopt the relevant countermeasures in a timely manner to quickly mitigate the impact of crisis and maintain the normal operation of our operating activities.

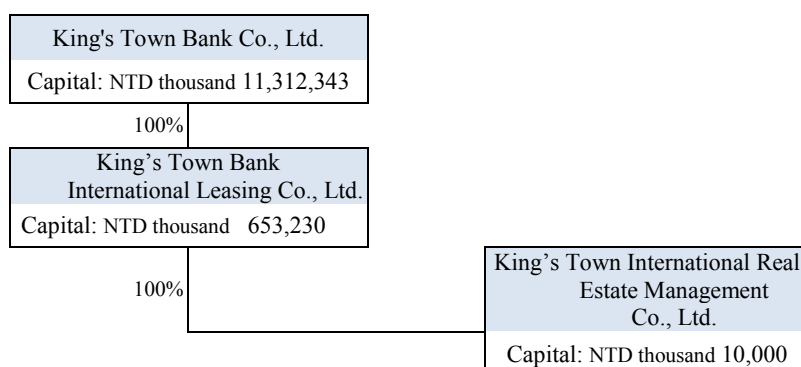
H. Other important notes: None.

VIII. Special Notes

A. Information regarding the bank's subsidiaries

(I) Consolidated Report on business operations:

1. Organizational chart of subsidiaries (Base date: February 29, 2020)



2. Profiles of the bank's subsidiaries

Unit: NTD thousand

Name of enterprise	Date of establishment	Address	Paid-in Capital	Principal business
King's Town Bank International Leasing Co., Ltd.	2015.01.22	8F., No. 167, Dunhua N. Rd., Songshan Dist., Taipei City	653,230	Finance lease
King's Town International Real Estate Management Co., Ltd.	2016.12.07	8F., No. 167, Dunhua N. Rd., Songshan Dist., Taipei City	10,000	Real Estate Management

3. Information on directors, supervisors and general managers of associate companies

Basis date: 2019.12.31

Name of enterprise	Title	Company name or representative	Status of shareholding	
			Quantity of Stock (Shares)	Ratio of Shareholding (%)
King's Town Bank International Leasing Co., Ltd.	Chairman Director Supervisor	King's Town Bank Co., Ltd. Representative: Liu, Chien Chih King's Town Bank Co., Ltd. Representative: Tai, Chen-Chih King's Town Bank Co., Ltd. Representative: Tsai, Chiung-Ting King's Town Bank Co., Ltd. Representative: Yang, Chien-Ko	65,323,000	100.00%
King's Town International Real Estate Management Co., Ltd.	Chairman Director Director Supervisor	King's Town Bank International Leasing Co., Ltd. Representative: Chen, Ming Hui King's Town Bank International Leasing Co., Ltd. Representative: Tai, Chen-Chih King's Town Bank International Leasing Co., Ltd. Representative: Tsai, Chiung-Ting King's Town Bank International Leasing Co., Ltd. Representative: Yang, Chien-Ko	1,000,000	100.00%

4. Business Performance of Affiliated Enterprises

Basis date: 2019.12.31

Unit: NTD thousand

Name of enterprise	Capital	Total assets	Total liabilities	Net value	Operating revenue	Operating profit	Current period profit (after tax)	Earnings per share (\$) (after tax)
King's Town Bank International Leasing Co., Ltd.	653,230	4,182,407	3,482,517	699,890	1,237,203	134,404	70,259	1.08
King's Town International Construction Company*	10,000	18,952	3,161	15,791	13,471	5,821	4,741	4.74

*Note: The company's profit and loss have been reflected in King's Town International Leasing Company.

(II) Consolidate financial statements of associate companies: Same as parent and subsidiary consolidated statements. Please refer to page 103 to 107 of the annual report.

(III) Relationship statement: Please refer to page 98 of the annual report.

B. Private placement of securities and Bank debentures: None.

C. Subsidiaries holding or disposing of the Company's stock: None.

D. Other supplementary notes

2019 key events:

Date	Conditions
01/01	Launched "Fees reduction for online application submitted by people with disabilities to apply for inter-bank ATM transactions" campaign with the Financial Supervisory Commission.
01/02	Added the "in-house card-less deposit" function to our ATMs.
03/18	Relocation of Beigang Branch (No. 80, Yimin Road, Beigang Township, Yunlin County)
03/31	Completed the replacement of 61 passbook entry machines of the Company.
04/30	Rated the top 5% among the publicly traded companies in the 5th Corporate Governance Evaluation.
07/01	In accordance with the regulatory requirements of the authority, we provide "Fees and rates of return for the past five year in investment trusts and overseas funds" documents available for investors to review and sign through our tellers or online channels.
07/24	Enabled our new version of ETF trading functions through personal online banking (Web) and mobile banking (App).
07/29	Relocation of Yongkang branch (No. 27, Section 2, Yongda Road, Yongkang District, Tainan City).
08/31	Completed the installation of the Company's 65 ATMs.
10/21	Launched the function of Western Union inward remittance to receive remittance in a US dollar accounts.
11/01	Launched the function of Western Union outward remittance to send payments directly home to Vietnam.

E. Events with material impact in accordance with Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act: None.

IX. Head office and branches of the Company

Name	Address	Tel. No.
Tainan region		
Head Office	No. 506, Section 1, Ximen Road, West Central District, Tainan City	886-6-213-9171
Trust Dept.	8F., No. 506, Section 1, Ximen Road, West Central District, Tainan City	886-6-213-9922
International Banking Dept.	9F., No. 506, Section 1, Ximen Road, West Central District, Tainan City	886-6-215-5238
Overseas Banking Branch	9F., No. 506, Section 1, Ximen Road, West Central District, Tainan City	886-6-215-5238
Operation Department at the head office	No. 506, Section 1, Ximen Road, West Central District, Tainan City	886-6-214-1271
Tainan Branch	1, 2F., No. 69, Sec. 2, Zhongyi Rd., West Central Dist., Tainan City	886-6-228-3155
Eastern Tainan branch	1, 2F., No. 98, Sec. 2, Linsen Rd., East Dist., Tainan City	886-6-238-5506
Zhonghua Branch	1F., No. 106, Renhe Rd., East Dist., Tainan City	886-6-260-3171
Xinxing Branch	No. 357, Xinxing Rd., South Dist., Tainan City	886-6-265-8511
Fucheng Branch	1F., No. 15, Sec. 4, Ximen Rd., North Dist., Tainan City	886-6-283-3046
Yunong Branch	1, 2F., No. 619, Yunong Rd., East Dist., Tainan City	886-6-235-0588
Kaiyuan Branch	No. 208, Kaiyuan Rd., North Dist., Tainan City	886-6-234-7302
Anhe Branch	1F., No. 241, Sec. 2, Anhe Rd., Annan Dist., Tainan City	886-6-355-9311
Annan Branch	No. 366, Sec. 1, Haidian Rd., Annan Dist., Tainan City	886-6-259-8153
Yen Hsin branch	No. 54, Zhongzheng N. Rd., Yongkang Dist., Tainan City	886-6-254-1839
Yongkang Branch	No. 27, Sec. 2, Yongda Rd., Yongkang Dist., Tainan City	886-6-272-9621
Guiren Branch	No. 29, Sec. 2, Zhongshan Rd., Guiren Dist., Tainan City	886-6-239-6185
Xinhua Branch	No. 586, Zhongshan Rd., Xinhua Dist., Tainan City	886-6-598-7103
Yujing Branch	No. 130, Zhongshan Rd., Yujing Dist., Tainan City	886-6-574-7673
Rende Branch	1, 2F., No. 365, Zhongshan Rd., Rende Dist., Tainan City	886-6-270-8056
Guanmiao Branch	No. 147, Wenheng Rd., Guanmiao Dist., Tainan City	886-6-596-1550
Madou Branch	1, 2F., No. 83, Zhongshan Rd., Madou Dist., Tainan City	886-6-572-1117
Jiali Branch	1, 2F., No. 203, Wenhua Rd., Jiali Dist., Tainan City	886-6-722-3152
Xigang Branch	No. 344, Zhongshan Rd., Xigang Dist., Tainan City	886-6-795-1949
Xuejia Branch	No. 111, Jisheng Rd., Xuejia Dist., Tainan City	886-6-783-1417
Xinying Branch	No. 148, Zhongshan Rd., Xinying Dist., Tainan City	886-6-632-4161
Baihe Branch	No. 7, Guoguang Rd., Baihe Dist., Tainan City	886-6-685-2085
Liuji Branch	No. 491, Zhongzheng Rd., Liuji Dist., Tainan City	886-6-698-7813
Yanshui Branch	No. 15, Zhongzheng Rd., Yanshui Dist., Tainan City	886-6-652-1677
Shanhua Branch	No. 452, Zhongshan Rd., Shanhua Dist., Tainan City	886-6-581-5658
Xinshi branch	No. 240, Zhongzheng Rd., Xinshi Dist., Tainan City	886-6-599-5631
Greater Taipei region		
Songshan Branch	8F., No. 167, Dunhua N. Rd., Songshan Dist., Taipei City	886-2-8712-6369
Taipei Branch	2F., No. 75, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City	886-2-2771-0922
Neihu Branch	1F., No. 384, Ruiguang Rd., Neihu Dist., Taipei City	886-2-2799-4599
Zhongxiao Branch	1F., No. 29, Ln. 743, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City	886-2-8785-2525
Banchiao Branch	B1, 1F., No. 3, Sec. 1, Zhongshan Rd., Banqiao Dist., New Taipei City	886-2-8951-5758
Shuanghe Branch	1F., No. 878, Zhongzheng Rd., Zhonghe Dist., New Taipei City	886-2-8221-7871
Xinzhuang Branch	1F., No. 146, Touqian Rd., Xinzhuang Dist., New Taipei City	886-2-2994-1213

IX.Head office and branches of the Company

Name	Address	Tel. No.
Luzhou Branch	1F., No. 232, Jixian Rd., Luzhou Dist., New Taipei City	886-2-2288-4988
Xindian Branch	9F., No. 190, Zhongzheng Rd., Xindian Dist., New Taipei City	886-2-8911-9298
Taoyuan and Hsinchu		
Taoyuan Branch	1~3 F., No. 106~108, Zhonghua Rd., Taoyuan Dist., Taoyuan City	886-3-347-2469
Jhongli Branch	1F., No. 175, Puyi Rd., Zhongli Dist., Taoyuan City	886-3-462-8989
Nan Kang Branch	No. 117, Sec. 1, Xinnan Rd., Luzhu Dist., Taoyuan City	886-3-352-1616
Hsinchu Branch	No. 180, Zhongzheng Rd., North Dist., Hsinchu City	886-3-528-0526
Eastern Hsinchu branch	No. 227, 229, 231, Guanxin Rd., East Dist., Hsinchu City	886-3-563-9998
Taichung and Changhua		
Taichung Branch	1F., No. 200, Zhongming Rd., North Dist., Taichung City	886-4-2329-3511
Wenxin Branch	1, 2F., No. 320, Sec. 1, Wenxin Rd., Nantun Dist., Taichung City	886-4-2328-8007
Dali Branch	1, 2F., No. 408, Daming Rd., Dali Dist., Taichung City	886-4-2406-8829
Changhua Branch	No. 134, 136, Huashan Rd., Changhua City, Changhua County	886-4-7288-998
Yunlin region		
Dounan Branch	No. 131, Zhongzheng Rd., Dounan Township, Yunlin County	886-5-597-3181
Huwei Branch	1F., No. 133, Gong'an Rd., Huwei Township, Yunlin County	886-5-632-3301
Lunbei Branch	No. 375, Zhongshan Rd., Lunbei Township, Yunlin County	886-5-696-6821
Douliu Branch	1F., No. 128, Minsheng Rd., Douliu City, Yunlin County	886-5-532-1561
Xiluo Branch	No. 166, Fuxing Rd., Xiluo Township, Yunlin County	886-5-586-9541
Beigang Branch	1F., No. 80, Yimin Rd., Beigang Township, Yunlin County	886-5-783-6181
Chiayi region		
Chiayi Branch	No. 175, Linsen W. Rd., West Dist., Chiayi City	886-5-224-2135
Xingye Branch	No. 754, Xinmin Rd., West Dist., Chiayi City	886-5-285-2171
Meishan Branch	No. 126, Zhongshan Rd., Meishan Township, Chiayi County	886-5-262-2131
Zhuqi Branch	No. 221-1, Zhongshan Rd., Zhuqi Township, Chiayi County	886-5-261-1941
Zhongpu Branch	No. 867, Sec. 5, Zhongshan Rd., Zhongpu Township, Chiayi County	886-5-239-0011
Shuishang Branch	No. 317, Zhongxing Rd., Shuishang Township, Chiayi County	886-5-268-9681
Taibao Branch	No. 166-17, Sec. 2, Beigang Rd., Taibao City, Chiayi County	886-5-238-1518
Puzi Branch	No. 43, Shantong Rd., Puzi City, Chiayi County	886-5-379-5181
Minghsiung Branch	No. 6, Minsheng Rd., Minxiung Township, Chiayi County	886-5-226-2372
Dalin Branch	1F., No. 291, Xianghe Rd., Dalin Township, Chiayi County	886-5-265-1541
Kaohsiung region		
Zhong Zheng Branch	1, 2F., No. 176, Qixian 1st Rd., Xinxing Dist., Kaohsiung City	886-7-235-2929
Kaohsiung Branch	No. 110, Yucheng Rd., Sanmin Dist., Kaohsiung City	886-7-345-7171
Northern Kaohsiung branch	1F., No. 150, Bo'ai 2nd Rd., Zuoying Dist., Kaohsiung City	886-7-550-7708
Gangshan Branch	No. 176, Zhongshan N. Rd., Gangshan Dist., Kaohsiung City	886-7-624-1766
Nanzi Branch	1F., No. 67, Yiqun Rd., Nanzi Dist., Kaohsiung City	886-7-362-6969

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Financial Statements and Independent Auditor's Report
January 1 to December 31 2019 and 2018

Address: No. 506, Section 1, Ximen Road, Xiancaoli, West Central District, Tainan
Tel. No.: (06)213-9171

Notice to Readers

The English version independent auditors' report and the financial statements are the translation of the Chinese version, not audited by accountants. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

Statement of Declaration

For the year ended December 31, 2018, pursuant to “Criteria Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the companies that are required to be included in the consolidated financial statements of affiliates, are the same as the companies required to be included in the consolidated financial statements under International Financial Reporting Standards 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare consolidated financial statements of affiliates.

Hereby declare

Company name: King's Town Bank Co., Ltd.

Responsible person: Chen-Chih Tai

February 24, 2020

Auditor's Report

To: King's Town Bank Co., Ltd.

Audit opinion

We have audited the accompanying consolidated balance sheet of King's Town Bank Co., Ltd. and its subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in shareholders equity, cash flows for the years then ended, and notes of the consolidated financial statements (including a summary of significant accounting policies).

In our opinion, the accompanying consolidated financial statements as referred to present fairly, in all material aspects financial position of Group as of December 31, 2019 and 2018, and the results of its operations and cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC interpretations, and SIC interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We have audited the accompanying consolidated financial reports as of December 31, 2019 for the year then ended in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Jin-Guan-Yin-Fa-Zi No. 10802731571 Letter and generally accepted auditing standards in the Republic of China. The accompanying consolidated financial reports as of December 31, 2018 were audited in accordance with the Rules Governing Auditing and Attestation of Banking Industry's Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the responsibilities of auditors for the audit of the consolidated financial statements. We are independent of King's Town Bank Co., Ltd. and its subsidiaries in accordance with the Code of Ethics for certified public accountants in the part relevant to the audit of the consolidated financial statements of King's Town Bank Co., Ltd., and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believed that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Remarks - application of new accounting standards

As stated in Note III in the consolidated financial statements, King's Town Bank Co., Ltd., and its subsidiaries have applied IFRS 16 "Leases" since January 1, 2019 and have chosen not to re-prepare the consolidated financial statements for the comparison periods. We did not revise the audit opinion as a result.

Key audit matters

Key audit matters are those matter that, in our professional judgment, were of most significant in our audit of the consolidated statements of King's Town Bank Co., Ltd. in 2019. These matters were addressed in the content of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

Financial instrument evaluation

King's Town Bank Co., Ltd., and its subsidiaries invest in different types of financial assets. As of December 31, 2019, the total financial assets measured at fair value were NT\$85,871,343 thousand, accounting for about 31% of total assets. Of which, for the investments classified in the Class II fair value hierarchy, including the derivative financial instruments of bonds and FX Swap contracts, there was a book value of NT\$38,004,133 thousand, accounting for 44% of the financial assets measured at fair value. Since the Class II investment evaluation is based on an internal evaluation model, the key input values are the yield rate and exchange rate, which have a significant impact on the estimation of fair value. Therefore, we consider it to be a "Key Audit Matter" by the accountants.

Our audit procedures include (but are not limited to) evaluating and testing the effectiveness of internal controls related to financial instrument evaluation, including the evaluation models and their assumptions managed and approved by the management. We have used the sampling basis to understand and evaluate the rationality of the key assumptions, perform an independent evaluation calculation, and adopt the assistance of internal evaluation experts to compare the differences against the evaluations made by the management in order to see whether they are within the tolerance range.

Please refer to Notes V, VI, XIII, and XIV of the financial statements for the disclosures of financial assets of King's Town Bank Co., Ltd., and its subsidiaries.

Appropriated allowance for bad debt from loans

As of December 31, 2019, the book value of the loans of King's Town Bank Co., Ltd., and its subsidiaries was NT\$155,350,678 thousand, accounting for 55% of the total assets, which was significant for the financial statements and was subject to the assessment of expected credit losses as stipulated in IFRS 9 "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The assumptions adopted by the management in estimating the expected credit losses include the conditions for determining whether the credit risk is significantly increased, whether credit impairment has occurred, the selection and evaluation of the forward-looking factors, the probability of default (PD), the loss given default (LGD) parameters, etc., and involve a high degree of professional judgment. Therefore, we consider them to be "Key Audit Matters".

Our audit procedures include (but are not limited to) evaluating and testing internal controls related to the calculation of expected credit losses, examining whether the expected credit loss assessment model has been approved by the management, assessing the source of expected credit losses, and having internal experts review the reasonableness of the expected credit loss model, the appropriateness and rationality of the input parameters of the expected credit loss model in the sampling test, including the probability of default (PD) and the loss given default (LGD). In addition, we also examine whether the management complies with the requirements of the relevant authority's written order to confirm that the loan classification and allowance for bad debts are in compliance with the statutory requirements.

Please refer to Notes V, VI, and XIV of the financial statements for the disclosure of the allowance for bad debt of King's Town Bank Co., Ltd., and its subsidiaries.

Responsibilities of Management and Those in Charge with Governance of the consolidated financial statements

The Management is responsible for the preparation and fair presentation of the consolidated

financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as the management determines is necessary to enable the preparation of the consolidated financial statements to be free from significant misstatement whether due to fraud or error.

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

The governance unit of King's Town Bank Co., Ltd., and its subsidiaries (including the Audit Committee or supervisors) is responsible for supervising the financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated financial statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design, and perform audit procedures responsive to those risks, and obtain evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a significant 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 internal control effective in King's Town Bank Co., Ltd. and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
4. Conclude the appropriateness of the use of the going concern basis of accounting by the management, and based on the audit evidence obtained, whether a significant uncertainty exists related to events or conditions that may cast significant doubt on King's Town Bank Co., Ltd. and its subsidiaries and its ability to continue as a going concern. If we conclude that a significant uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosure are

inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause King's Town Bank Co., Ltd. to cease to continue as a going concern.

5. Evaluate the overall expression, structure, and content of the consolidated financial statements (including related notes) and whether the consolidated financial statements include the relevant transactions and events expressed adequately.
6. Obtain sufficient and appropriate audit evidence for the consolidated financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for guiding, supervising, and implementing of the group audit. We remain solely responsible for our opinion.

We communicate the following events with the governance unit, including the planned scope and audit time, as well as major audit findings (including significant deficiencies of internal control identified during the audit process).

We also provide a statement to the governance unit that the personnel of the CPA Firm who are subject to the regulation of independence are indeed complying with the independence requirements in accordance with the Code of Professional Ethics. Also, they communicate to the governance unit all relationships and matters (including related protective measures) that may be considered as affecting our independence.

We use the matters communicated with the governance unit to decide the Key Audit Matters for the audit of the 2019 consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries. 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 communications.

Others

King's Town Bank Co., Ltd. has prepared 2019 and 2018 parent company only financial reports, and the audit report issued by us with an unqualified opinion and notes included is filed for future reference.

Ernst & Young Global Limited
The Securities and Futures Bureau of the Financial Supervisory Commission
approved the financial report of the public offering company
Auditing and Certification No.: Jin-Guan-Cheng-6-Zi No. 0950104133
Jin-Guan-Cheng-Shen-Zi No. 1030025503

Shih Chieh Huang

Certified CPA

Cheng Tao Chang

February 24, 2020

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Balance Sheet
December 31, 2019 and 2018

Unit: NTD thousand

Assets			December 31, 2019		December 31, 2018	
Code	Account titles	Additional notes	Amount	%	Amount	%
10000	Assets					
11000	Cash and cash equivalents	IV/ VI.1	\$3,548,667	1	\$4,342,341	2
11500	Due from Central Bank and lend to Banks	IV/ VI.2	11,162,682	4	13,844,758	5
12000	Financial assets at fair value through profit and loss	IV/ VI.3/ VIII	34,979,793	13	31,786,797	11
12100	Financial assets at fair value through other comprehensive income	IV/ VI.4, 26/ VIII	50,891,550	18	53,487,356	19
12200	Investment in debt instruments at amortised cost	IV/ VI.5, 26	17,698,135	6	17,597,996	6
12500	Bonds and securities sold under repurchase agreements	IV/ VI.6	150,022	-	624,167	-
13000	Receivables- net	IV/ VI.7	4,907,384	2	3,642,416	2
13500	Discounts and loans – net	IV/ V/ VI.8	155,350,678	55	152,229,752	54
15500	Other financial assets – net	IV/ VI.9	4,396	-	4,705	-
18500	Property, plant, and equipment – net	IV/ VI.10, 26	2,713,818	1	2,388,923	1
18600	Right-of-use assets	III/ IV/ VI.27	215,683	-	-	-
19300	Deferred income tax assets	IV/ VI.30	145,188	-	266,927	-
19500	Other assets – net	VI.11	974,912	-	878,581	-
	Total assets		<u>\$282,742,908</u>	<u>100</u>	<u>\$281,094,719</u>	<u>100</u>

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Balance Sheet (Continued)
December 31, 2019 and 2018

Unit: NTD thousand

Liabilities and equity			December 31, 2019		December 31, 2018	
Code	Account titles	Additional notes	Amount	%	Amount	%
20000	Liabilities					
21000	Deposits from Central Bank and other banks	IV/ VI.12	\$14,533,849	5	\$19,937,251	7
21500	Funds borrowed from Central Bank and other banks	VI.13	4,395,830	2	3,438,640	1
22000	Financial liabilities at fair value through profit and loss	IV/ VI.14	6,002	-	25,784	-
22500	Bills and bonds sold under repurchase agreements	IV/ VI.5	28,218,020	10	29,316,496	10
23000	Payables	VI.16	1,252,826	1	2,311,881	1
23200	Current Tax Liability	IV/ VI.30	78,459	-	404,846	-
23500	Customer deposits and remittances	VI.17	191,798,662	68	188,432,924	67
25500	Other financial liabilities	VI.18	500,000	-	1,230,000	1
25600	Provisions for liabilities	IV/ VI.19, 20, 26	383,414	-	420,427	-
26000	Lease liabilities	III/ IV/ VI.27	217,256	-	-	-
29300	Deferred tax liabilities	IV/ VI.30	135,832	-	59,890	-
29500	Other liabilities	VI.21	291,249	-	332,519	-
	Total liabilities		<u>241,811,399</u>	<u>86</u>	<u>245,910,658</u>	<u>87</u>
31000	Equity of the parent company	VI.22				
31100	Capital stock		11,312,343	4	11,512,343	4
31500	Capital surplus		56,095	-	99,585	-
32000	Retained earnings					
32001	Legal reserve		10,418,637	4	9,555,297	3
32003	Special reserve		538,481	-	100,930	-
32011	Undistributed earnings		14,596,680	5	14,699,482	6
32500	Other equity	IV	4,107,695	1	(468,711)	-
32600	Treasury stock	IV	(98,422)	-	(314,865)	-
	Total equity		<u>40,931,509</u>	<u>14</u>	<u>35,184,061</u>	<u>13</u>
	Total Liabilities and Equity		<u>\$282,742,908</u>	<u>100</u>	<u>\$281,094,719</u>	<u>100</u>

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Statements of Comprehensive Income
January 1 to December 31, 2019 and 2018

Unit: NTD thousand

Code	Account titles	Additional notes	2019		2018	
			Amount	%	Amount	%
41000	Interest revenue	IV	\$6,833,454	80	\$6,872,966	98
51000	Less: interest expense	IV	(2,078,065)	(24)	(1,855,473)	(26)
	Net interest income	VI.23	4,755,389	56	5,017,493	72
	Net income other than interest income					
49100	Service Fee, Net	IV/ VI.24	1,840,557	22	1,843,003	26
49200	Gain (loss) on financial assets and liabilities at fair value through profit and loss	IV/ VI.25	1,461,468	17	(206,416)	(3)
49310	Realized gain on financial assets at fair value through other comprehensive income	IV	128,683	1	53,747	1
49600	Net exchange gain	IV	181,050	2	161,600	2
49700	Gain (loss) on reversal of assets impairment	IV/ VI.26	(27,311)	-	59,109	1
49800	Net income other than interest income	IV	153,148	2	72,278	1
	Net revenue		8,492,984	100	7,000,814	100
58200	Bad debt expenses, commitments and guarantee liabilities reserve appropriation	IV/ VI.7, 8, 26	(2,655,404)	(32)	(1,643,112)	(23)
58400	Operating expenses					
58500	Employee benefits expenses	VI.20, 28	(1,024,169)	(12)	(932,445)	(13)
59000	Depreciation and amortization expenses	IV/ VI.10, 27, 28	(125,212)	(1)	(49,970)	(1)
59500	Business and administrative expenses	IV	(784,318)	(9)	(801,976)	(12)
61000	Net income before tax from continuing operations		3,903,881	46	3,573,311	51
61003	Income tax (expenses)	IV/ VI.30	(504,194)	(6)	(695,510)	(10)
64000	Current period net income after tax		3,399,687	40	2,877,801	41
65000	Other comprehensive income					
65200	Items not reclassified to income	IV/ VI.29, 30				
65201	Reevaluation of defined benefit plan		6,589	-	(8,950)	-
65204	Unrealized gain(loss) on valuation of equity instruments measured at fair value through other comprehensive income		430,495	5	(71,940)	(1)
65220	Incomes tax related to titles not subject to reclassification		(19,752)	-	8,632	-
65300	Items may be re-classified subsequently to income	IV/ VI.29, 30				
65301	Exchange differences from the translation of financial statements of foreign operations		(85,655)	(1)	64,596	1
65308	Unrealized gain(loss) of debt instruments measured at fair value through other comprehensive income		4,124,894	49	(3,283,825)	(47)
65320	Income tax related to items possibly be reclassified		13,122	-	(12,048)	-
	Current period other comprehensive income (after tax)		4,469,693	53	(3,303,535)	(47)
66000	Current period comprehensive income (after tax)		\$7,869,380	93	\$(425,734)	(6)
67100	Net income attributable to					
67101	Parent company		\$3,399,687		\$2,877,801	
67111	Non-controlling interest		\$ -		\$ -	
67300	Current period comprehensive income (after tax) attributable to					
67301	Parent company		\$7,869,380		\$(425,734)	
67311	Non-controlling interest		\$ -		\$ -	
	Earnings per share (NTD)	VI.31				
67500	Basic earnings per share		\$2.99		\$2.51	
67700	Diluted earnings per share		\$2.99		\$2.51	

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
January 1 to December 31, 2019 and 2018

Unit: NTD thousand

Item	Capital stock	Capital surplus	Retained earnings			Other equity		Treasury stock	Total equity
			Legal reserve	Special reserve	Undistributed earnings	Exchange differences from the translation of financial statements of foreign operations	Unrealize gain (loss) on financial assets at fair value through other comprehensive income		
Balance as of January 1, 2018	\$11,512,343	\$62,323	\$7,872,137	\$72,877	\$15,261,794	\$(24,117)	\$2,850,763	\$(129,640)	\$37,478,480
The 2017 appropriation and distribution of earnings									
Appropriation of legal reserve			1,683,160		(1,683,160)				-
Appropriation of special reserve				28,053	(28,053)				-
Common stock cash dividends					(1,720,722)				(1,720,722)
Other capital									
Share-based payment transaction	-	37,262	-	-	-	-	-	129,640	166,902
Net income for the period	-	-	-	-	2,877,801	-	-	-	2,877,801
Other comprehensive income for the period	-	-	-	-	(318)	52,548	(3,355,765)	-	(3,303,535)
Total comprehensive income for the period	-	-	-	-	2,877,483	52,548	(3,355,765)	-	(425,734)
Treasury stock repurchase								(314,865)	(314,865)
Equity instrument at fair value through other comprehensive income statement					(7,860)		7,860		-
Balance as of December 31, 2018	11,512,343	99,585	9,555,297	100,930	14,699,482	28,431	(497,142)	(314,865)	35,184,061
The 2018 appropriation and distribution of earnings									
Appropriation of legal reserve			863,340		(863,340)				-
Appropriation of special reserve				437,551	(437,551)				-
Common stock cash dividends					(1,711,852)				(1,711,852)
Net income for the period	-	-	-	-	3,399,687	-	-	-	3,399,687
Other comprehensive income for the period	-	-	-	-	(13,163)	(72,533)	4,555,389	-	4,469,693
Total comprehensive income for the period	-	-	-	-	3,386,524	(72,533)	4,555,389	-	7,869,380
Treasury stock repurchase								(410,080)	(410,080)
Deregistration of treasury stock	(200,000)	(43,490)			(383,033)			626,523	-
Equity instrument at fair value through other comprehensive income statement					(93,550)		93,550		-
Balance as of December 31, 2019	\$11,312,343	\$56,095	\$10,418,637	\$538,481	\$14,596,680	\$(44,102)	\$4,151,797	\$(98,422)	\$40,931,509

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Statements of Cash Flows
January 1 to December 31, 2019 and 2018

Unit: NTD thousand

Item	2019	2018	Item	2019	2018
	Amount	Amount		Amount	Amount
Cash flow from operating activities:			Cash flow from investing activities:		
Current year net profit before tax	\$3,903,881	\$3,573,311	Purchase of property, plant, and equipment	(396,868)	(44,755)
Adjustments:			Proceeds from disposal of property or equipment	41,921	80
Revenue, expense and loss that do not affect the cash flows			Net cash (outflow) from investing activities	(354,947)	(44,675)
Anticipated credit impairment/ Bad debt expense	2,655,404	1,643,112	Cash flows from financing activities:		
Assets impairment loss (reversal gain)	27,311	(58,692)	Funds borrowed from Central Bank and other banks increase (decrease)	957,190	(1,877,040)
Non-financial assets impairment (reversal gain)	-	(417)	Bills and bonds sold under repurchase agreements (decrease) increase	(1,098,476)	7,956,691
Depreciation and amortization expenses	125,212	49,970	Cash dividend released	(1,711,852)	(1,720,722)
Net interest income	(4,755,389)	(5,017,493)	Principal repayment of lease liability	(78,122)	-
Cost of share-based payment service	-	37,262	Treasury stock repurchase cost	(410,080)	(314,865)
Disposal and obsolescence loss (gain) of property and equipment	(19,291)	89	Treasury stock purchased by employees	-	129,640
Disposal (gain) loss of other assets	(1)	20	Net cash inflow (outflow) from financing activities	(2,341,340)	4,173,704
Changes in assets/liabilities relating to operating activities			Effect of changes in exchange rate on cash and cash equivalents	(85,655)	64,596
Due from Central Bank and lend to Banks (increase)	(172,399)	(292,920)	Current cash and cash equivalents (decrease)	(4,122,294)	(3,025,706)
Financial assets at fair value through profit and loss (increase)	(3,192,996)	(8,900,271)	Balance of cash and cash equivalents, beginning of period	13,496,670	16,522,376
Receivables (increase)	(1,473,729)	(924,494)	Balance of cash and cash equivalent, end of period	\$9,374,376	\$13,496,670
Discounts and loans (increase)	(5,679,720)	(10,957,924)	Composition of cash and cash equivalents		
Financial assets at fair value through other comprehensive income decrease	7,123,745	3,875,595	Cash and cash equivalents on the consolidated balance sheet	\$3,548,667	\$4,342,341
Investment of debt instruments at amortised cost (increase)	(100,000)	-	Comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	5,675,687	8,530,162
Other financial assets (increase)	(917)	(4,649)	Due from the Central Bank and call lend to banks		
Other assets (increase)	(96,331)	(127,567)	Comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	150,022	624,167
Deposits from Central Bank and other banks (decrease)	(5,403,402)	(2,332,177)	Bonds and securities sold under repurchase agreements		
Financial liabilities at fair value through profit and loss (decrease)	(19,782)	(102,118)	Balance of cash and cash equivalent, end of period	\$9,374,376	\$13,496,670
Payables (decrease)	(1,045,778)	(146,807)			
Customer deposits and remittances increase	3,365,738	8,044,523			
Other financial assets (decrease) increase	(730,000)	330,000			
Provisions for liabilities (decrease)	(37,660)	(43,538)			
Other liabilities (decrease)	(41,270)	(1,743)			
Interest received	6,954,067	6,806,625			
Interest paid	(2,087,515)	(1,828,596)			
Income tax paid	(639,530)	(840,432)			
Net cash (outflow) from operating activities	(1,340,352)	(7,219,331)			

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai Manager: Jih-Cheng Chang Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Notes to consolidated financial statement
2019 and 2018
(In Thousands of New Taiwan Dollars, unless otherwise specified)

I. Organization and operations

1. King's Town Bank Co., Ltd., (hereinafter referred to as the "Company") subsidiaries (hereinafter referred to as the "Group" and was restructured from Tainan District Joint Saving Co., Ltd, on January 1, 1978. The Group had applied for restructuring into a commercial bank according to the resolution reached in the extraordinary shareholders meeting on November 29, 2005 and was renamed as "King's Town Bank Co., Ltd." The Group started trading on the Taiwan Stock Exchange Corporation since July 1983. The place of registration and the general management office are located at No. 506, Section 1, Ximen Road, West Central District, Tainan City, and branches are setup nationwide.
2. The Group's main business services are: (1) accepting check deposits, (2) accepting other deposits, (3) issuing financial bonds, (4) handling loans, (5) handling bill discounts, (6) handling various investment businesses, (7) handling domestic and foreign exchange, (8) handling draft acceptance, (9) issuing domestic and foreign letters of credit, (10) handling domestic and foreign guarantees, (11) handling collections and advances, (12) handling the depository and agency services related to the various businesses listed above, and (13) other business chartered by the government.
3. The Company is also the ultimate controller of the Group to which it belongs.
4. The Group had 999 employees and 982 employees as of December 31, 2019 and 2018, respectively.

II. Financial reporting date and procedures

The consolidated financial statements of the Group for the period of January 1 to December 31, 2019 and 2018 were approved for publication by the Board of Directors on February 24, 2020.

III. Application of new and revised standards and interpretation

1. Changes in accounting policies resulting from the first-time application of International Financial Reporting Standards

The Group has adopted International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations or Notices that have been approved by the Financial Supervisory Commission (hereinafter referred to as the "FSC") for application after January 1, 2019. Except for the nature and impact of the new standards and amendments described below, the first-time application has no significant impact on the Group:

- (1) IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", International Financial Reporting Interpretations Committee (IFRIC) No. 4 "Determining whether an arrangement includes leases", IFRIC No. 15 "Business Leasing: Incentives", and IFRIC 27

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

“Assessing the substance of the transaction in the legal form involving the lease”.

The first-time application date of the Group as stipulated in the transitional provisions of IFRS 16 is on January 1, 2019. The impact of adopting IFRS 16 for the first time is as follows:

- A. Please refer to Note IV for the details of the accounting policies applicable to the Group starting from January 1, 2019, and before January 1, 2019.
- B. For the definition of lease, the Group chose not to have the contract re-assessed whether it was (or includes) a lease on January 1, 2019. The Group applies IFRS 16 in respect of the contracts that have been identified as leases in the previous application of IAS 17 and IFRIC 4. In addition, the contract that has been identified as not including the lease when IAS 17 and IFRIC 4 were previously applied does not apply to IFRS 16. That is, the Group only assesses whether the contract signed (or modified) after January 1, 2019, is (or includes) a lease after the application of IFRS 16. Compared with IAS 17, according to IFRS 16, if a contract is signed to have the control over the use of an identified asset transferred for a period of time in exchange for a consideration, it is (or includes) a lease. The Group concludes that it is subject to the definition of a new lease in most situations, and the contract is (or includes) an assessment of lease without any significant impact resulting.
- C. The Group is a lessee and chooses not to re-compile comparative information according to the transitional provisions of IFRS 16. The cumulative amount of the initial application was recognized on January 1, 2019 and it was adjusted to the beginning balance of the retained earnings (or other composition of equity, if applicable) on the first-time application date:

- (a) A lease that is classified as an operating lease

The Group expects to have the present value (discounted at the incremental borrowing interest rate of the lessee on January 1, 2019) of the remaining lease that was classified as an operating lease when applying IAS 17 measured and recognized as a lease liability on January 1, 2019. In addition, on the basis of individual leases, the Group chooses to measure and recognize the right-of-use assets according to the lease liability amount (but adjusting the lease payments amount that is prepaid or payable in relation to the lease).

The Company's right-of-use assets and lease liability will be increased by NT\$271,864 thousand and NT\$271,864 thousand on January 1, 2019, respectively.

The Group is subject to the transitional provisions of IFRS 16. The lease that was classified as operating lease previously is processed practically as follows on the basis of individual leases:

- i. Use a single discount rate for a lease portfolio with reasonably similar characteristics.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

- ii. The assessment of whether a lease is with loss before January 1, 2019, is used as an alternative for impairment assessment.
 - iii. The leases that ended within 12 months after January 1, 2019, are handled as short-term leases.
 - iv. The initial cost will not be included in the measurement of right-of-use assets on January 1, 2019.
 - v. As hindsight, such as, at the time of determining the lease term (if the contract includes the option of lease extension or lease termination).
- (b) Please refer to Note IV, Note V and Note VI for the addition of the notes and disclosures related to the lessee in accordance with IFRS 16.
- (c) The impact of the first-time application of IFRS 16 on January 1, 2019, on the financial statements as follows:
- i. For the lease liability recognized on the balance sheet on January 1, 2019, the lessee's incremental weighted average loan interest rate is 1.57%.
 - ii. The operating lease commitments disclosed in accordance with IAS 17 on December 31, 2018, were discounted at the incremental loan rate on January 1, 2019, and it is different from the lease liability recognized on the balance sheet on January 1, 2019, as follows:

The operating lease commitments (excluding the short-term lease due within one year) disclosed in accordance with IAS 17 on December 31, 2018.	<u>\$291,603</u>
The amount discounted at the incremental loan rate on January 1, 2019	<u>\$271,864</u>
Lease liabilities recognized on January 1, 2019.	<u>\$271,864</u>

2. The Group has not yet adopted the following new publication, revision, and amendments or interpretations announced by International Accounting Standards Board and approved by the FSC.

Item	New publication / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Definition of business (Amendment to IFRS 3)	January 1, 2020
2	Definitions of significance (Amendments to IAS 1 and 8)	January 1, 2020
3	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	January 1, 2020

- (1) Definition of business (Amendment to IFRS 3)

This amendment clarifies the definition of business as stipulated in IFRS 3 "Business Combinations" to help enterprises identify that transactions are handled in

(In Thousands of New Taiwan Dollars, unless otherwise specified)

accordance with the business combination or the assets acquisition approach. IFRS 3 continues to determine whether the acquisition activity or assets portfolio is a business from the viewpoint of the market participants, including clarifying the minimum requirements of the business, adding guidance to assist enterprises in assessing whether the process of acquisition is significance, and reducing the definition of the business and output.

(2) Definitions of "Significance" (Amendments to IAS 1 and 8)

It is mainly to re-define material information: If the omission, misrepresentation or ambiguity of information can be reasonably expected to affect the main users of the financial statement in making decisions, such information is material. This amendment clarifies that the definition of materiality depends on the nature or volume (or both) of the information. Companies assess the materiality of information on the financial statements taking as a whole.

(3) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments cover a number of exceptions for all hedges directly affected by the interest rate benchmark reform. Interest rate benchmark reform directly affect hedge as it would cause uncertainty in the timing or amount of cash flows based on indicators of hedged items or hedging instruments. Therefore, all hedges that are directly affected by the interest rate benchmark reform shall be subject to the exceptions.

Amendments include:

A. Highly probable requirement for forecast transactions

For determining whether a forecast transaction is highly probable, the company shall assume that the interest rate indicator based on the hedged cash flows will not be affected by the interest rate benchmark reform.

B. Assessing expectations

When assessing expectations, the company shall assume that the basis of the hedged item, evaded risk, and/or the hedging instrument will not be affected by changes in the interest rate benchmark reform.

C. Retrospective assessment under IAS 39

The company is not required to implement the retrospective assessment of IAS 39 (i.e. whether the actual result of the hedge is between 80% and 125%) for hedge that are directly affected by the interest rate benchmark reform.

D. Separately identified risks

When hedging for non-contracted indicator of interest rate risk, requirements for separate identification are only applicable at the start of a hedge.

The amendments also include requirements for the cancellation of applicable exceptions and the disclosure contained in Notes which are related to the amendments.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The above is the new publications, revisions, and amendments or interpretations announced by the International Accounting Standards Board and approved by the FSC and applied since January 1, 2020. The Group has assessed and concluded the remaining new announcements or amendments to the standards or interpretations have no material impact on the Group.

3. As of the date of the financial report published, the Group has not adopted the following new publication, revision, and amendment or interpretation of the standards announced by the International Accounting Standards Board but not yet approved by the FSC.

Item	New publication / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures" - Assets sold or invested in by investors and their associates or joint ventures.	To be determined by the "International Accounting Standards Board (IASB).
2	IFRS 17 "Insurance Contracts"	January 1, 2021
3	Liabilities are classified as current or non-current (amendments to IAS 1)	January 1, 2022

- (1) Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures" - Assets sold or invested in by investors and their associates or joint ventures.

This plan is to handle the inconsistency on the loss of control due to the investment in associates or joint ventures by subsidiaries according to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures". When investing in non-monetary assets to exchange for the equity of the associates or joint ventures according to IAS 28, the resulting profits or losses should be eliminated in accordance with the treatment of downstream transactions. According to IFRS 10, the profit or loss should be recognized fully when losing control over the subsidiaries. This amendment limits the foregoing provisions of IAS 28. When it is constituted as the sale or investment of business assets as stipulated in IFRS 3, the resulting profit or loss should be fully recognized.

This amendment also modifies IFRS 10 to enable investors and their associates or joint ventures to recognize the profit or loss to the extent of the portion that is not distributed to the investors when selling or investing in subsidiaries that do not meet the definition as stipulated in IFRS 3.

- (2) IFRS 17 "Insurance Contracts"

This standard provides a comprehensive model of insurance contract, including all accounting related parts (recognition, measurement, expression, and disclosure principles). The core of the standard is a general model. Regarding this model, the original recognition is based on the total amount of the contractual cash flow and contractual services margin to measure the insurance contracts, of which, the

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

contractual cash flow includes:

- A. Estimated value of future cash flow
- B. Discount rate: Adjustments that reflect the time value of money and the financial risks (within the estimation range of the future cash flow that does not include financial risk) associated with future cash flows; and
- C. Adjustment of non-financial risks

The book value of the insurance contracts at the end of each reporting period is the sum of the remaining security liabilities and the claims liabilities incurred.

In addition to the general model, it provides:

- A. Specific applicable method (variable fee approach) for the contracts with a direct participation characteristic
 - B. Simplification of short-term contracts (Premium Allocation Approach)
- (3) Liabilities are classified as current or non-current (amendments to IAS 1)

This is an amendment made to the classification of liabilities as current or noncurrent in paragraphs 69 to 76 of International Accounting Standard No. 1 "Presentation of Financial Statements."

The aforementioned standards or interpretations have been issued by the IASB but have not yet been approved by the FSC. The actual date of application is subject to the requirements of the FSC. The new announcement or amendment of the standard or interpretation has no significant impact on the Group.

IV. Summary of significant accounting policies

1. Compliance Statement

The consolidated financial statements of the Group for the period of January 1 to December 31, 2019 and 2018 are prepared according to the "Regulations Governing the Preparation of Financial Reports by Public Banks", "Regulations Governing the Preparation of Financial Reports by Securities Firms", and International Financial Reporting Standards, International Accounting Standards, International Financial Standards Interpretations, and Interpretations Notices that are approved and published by the Financial Supervisory Commission.

2. Basis of preparation

The consolidated financial statements are based on historical cost, except for financial instruments measured at fair value. Unless otherwise stated, the consolidated financial statements are prepared in the currency of New Taiwan Dollars (NT\$ Thousand).

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

3. Consolidation

The basis of preparation for consolidated financial statements

Control is achieved when the Company is exposed to variable returns due to the participation in the invested company or from the right in such variable returns, and through its ability over the invested company to influence such variable returns. In particular, the Company only controls the invested company when the Company has had the following three control elements:

- (1) The power over the invested company (i.e. having the vested rights to lead the relevant activities)
- (2) The risk exposure or right of the variable returns from participating in the invested company, and
- (3) The ability to influence the amount of returns of the invested company by exercising power over the invested company

When the Company directly or indirectly holds less than a majority of the voting rights or similar rights of the invested company, the Company considers all relevant facts and circumstances to assess whether it has power over the invested company, including:

- (1) Contractual agreements with other voting rights holders of the invested company;
- (2) Rights arising from other contractual agreements;
- (3) Voting rights and potential voting rights

When facts and circumstances indicate that one or more of the three control elements have changed, the Company reassesses whether it still has control over the invested company.

Subsidiaries are all compiled into the consolidated statements from the date of acquisition (i.e. the date on which the Company obtains control) until the date of losing control over the subsidiaries. The accounting period and accounting policies for the financial statements of the subsidiaries are consistent with that of the parent company. The Group's internal account balances, transactions, unrealized internal gains and losses, and dividends arising from intra-group transactions are fully written-off.

Changes in the shareholding of a subsidiary, if the control over the subsidiary is not lost, the change in the equity is treated as an equity transaction.

The total comprehensive income of the subsidiaries is attributable to the shareholders and non-controlling equity of the Company, even if the non-controlling equity results in a loss.

If the Company loses control over the subsidiary, then

- (1) The assets (including goodwill) and liabilities of the subsidiaries are derecognized.
- (2) The book value of any non-controlling equity is derecognized.
- (3) Recognize the fair value of the considerations obtained.
- (4) Recognize the fair value of any investment retained.
- (5) Recognize any gain or loss as current profit or loss.
- (6) The amount of items recognized in other comprehensive income previously by the parent company is reclassified in the profit or loss.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The main business entity of the consolidated financial statements is as follows:

Investor	Subsidiary name	Main business	Equity ratio held	
			2019.12.31	2018.12.31
The Company	Tainan Life Insurance Agency Co., Ltd.	Insurance agency business	(Note)	100.00%
The Company	Fuchen Property Insurance Agency Co., Ltd.	Insurance agency business	(Note)	100.00%
The Company	King's Town Bank International Leasing Co., Ltd.	Leasing	100.00%	100.00%
King's Town Bank International Leasing Co., Ltd.	King's Town International Real Estate Management Co., Ltd.	Real Estate Management	100.00%	100.00%

The total profit or loss of the subsidiaries in 2019 and 2018 was NT\$210,376 thousand and NT\$239,635 thousand, respectively.

(Note) In order to integrate resources, reduce operating costs, and exercise business synergy, the Company's Board of Directors had resolved on June 6, 2016, to merge with Tainan Life Insurance Agency Co., Ltd. and Fuchen Property Insurance Agency Co., Ltd. The Company is the continuing business entity after the merger. Tainan Life Insurance Agency Co., Ltd. and Fuchen Property Insurance Agency Co., Ltd. were discontinued. The said merge was approved by the competent authority on March 8, 2019. The Board of Directors had resolved on March 25, 2019, to schedule the merger base date on June 3, 2019.

4. Foreign currency transactions

The consolidated financial statements of the Group are expressed in the Company's functional currency (New Taiwan Dollars). Each subsidiary of the Group determines its own functional currency and measures its financial statements in that functional currency.

The foreign currency transactions of each subsidiary of the Group are converted to its functional currency according to the exchange rate on the transaction date. At the end of each reporting period, foreign currency monetary items are translated at the closing exchange rate of the day. The foreign currency non-monetary items measured at fair value are translated at the exchange rate on the date of fair value applied. The foreign currency non-monetary items measured at historical cost are translated at the exchange rate on the original trading day.

Except for the following, the exchange differences arising from the clearing or translation of monetary items are recognized as profit or loss in the period in which they are incurred:

- (1) For the foreign currency borrowings arising from acquiring assets that meet the requirements, the resulting exchange differences are treated as an adjustment to the interest cost and are capitalized as part of the borrowing cost.
- (2) Foreign currency projects subject to the provisions of IFRS 9 "Financial Instruments" are treated in accordance with the accounting policies of financial instruments.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

- (3) For the monetary items of the reporting entity that are an integral part of the net investment in the foreign operating institution, the resulting exchange differences were originally recognized in other comprehensive income and are reclassified from equity to profit or loss when the net investment is disposed.

When the profit or loss of a non-monetary item is recognized as other comprehensive income, any exchange profit or loss is recognized in other comprehensive income. When the profit or loss of a non-monetary item is recognized in profit or loss, any exchange profit or loss is recognized in profit or loss.

5. Conversion of financial statements in foreign currency

When preparing the consolidated financial statements, the assets and liabilities of foreign operating institutions are translated into New Taiwan Dollars at the closing exchange rate on the balance sheet date. The income and loss items are translated at the average exchange rate for the current period. The exchange difference arising from the conversion is recognized as other comprehensive income. When the foreign operating institution is closed, the accumulated exchange difference previously recognized in other consolidated profit or loss and included in the equity is reclassified from the equity to the profit or loss at the time of recognizing the disposal profit or loss.

6. Cash and cash equivalents

Cash and cash equivalents are cash on hand, demand deposits, and short-term and highly liquid time deposits or investments (including time deposits with a contract period within 12 months) that are readily convertible into fixed cash amount and have a very low risk of changes in value. For the consolidated cash flow statement, it also includes the deposits at the Central Bank, interbank lending, and resell (RS) bill and bond investments in accordance with the cash and cash equivalent stipulated in IAS 7 that is approved by the FSC.

7. Bonds Purchased under Resell/Notes Issued under Repurchase Agreements

The accounting process of RP/RS and bond transactions is as follows: (1) For an RP bill transaction, credit the RP bill and bond liability. The trade difference is booked as an interest expense; (2) For an RS bill transaction, debit the RS bill and bond investment. The trade difference is booked as interest income.

8. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the financial instrument contract.

Financial assets and financial liabilities subject to the provisions of IFRS 9 "Financial Instruments" at the time of original recognition, were measured at fair value. The acquisition or issuance transaction costs that are directly attributable to the financial assets and financial liabilities (except for financial assets and financial liabilities that are classified as measured at fair value through profit or loss) are added or subtracted from the fair value of the financial assets and financial liabilities.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

(1) Recognition and measurement of financial assets

The recognition and de-recognition of all the financial assets of the Group are handled with the trade date accounting.

The Group uses the following two items to have financial assets classified as subsequently measured at amortized cost, measured at fair value through other comprehensive income, or measured at fair value through profit or loss:

- A. Operating model of financial assets management
- B. Contractual cash flow characteristics of financial assets

Financial assets based on cost after amortization

Financial assets that meet the following two conditions are measured at amortized cost and booked in the balance sheet in terms of notes receivable, accounts receivable, financial assets measured at amortized cost, and other receivables.

- A. Operating model of financial assets management: hold financial assets to collect contractual cash flow
- B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

These financial assets (excluding those involved in hedging) are subsequently measured at the amortized cost [the amount measured at the time of original recognition, less the principal paid, plus or minus the cumulative amortization amount (with the effective interest method) between the original amount and the amount due), and adjusting the allowance for loss]. For de-recognition, the benefits or losses are recognized in profit or loss through amortization procedures or recognition of impairment profit or loss.

Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:

- A. For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
- B. Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of the financial assets.

Financial assets at fair value through other comprehensive income

Financial assets that meet the following two conditions are measured at fair value through other comprehensive income and are expressed on the balance sheet as financial assets measured at fair value through other comprehensive income:

- A. Operating model of financial assets management: Collect contractual cash flows and sell financial assets.
- B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

The recognition of the profit or loss related to such financial assets is as follows:

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- A. Before de-recognition or reclassification, except for the impairment profit or loss and foreign currency exchange gains and losses recognized in profit or loss, the profit or loss is recognized in other comprehensive income.
- B. At the time of de-recognition, the cumulative profit or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as reclassification adjustment.
- C. Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:
 - (a) For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
 - (b) Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of financial assets.

In addition, for an equity instrument that is subject to IFRS 9 and the equity instrument is neither held for trading nor is subject to the contingent considerations recognized by the acquirer as stipulated in IFRS 3 "Business Combinations", in the original recognition, the subsequent changes in fair value are booked in other comprehensive income (irrevocably). The amount included in other comprehensive income cannot be subsequently transferred to profit or loss (when the equity instruments are disposed of, the accumulated amounts included in other equity items are transferred directly to retained earnings). Also, it is booked as a financial asset measured at fair value through other comprehensive income on the balance sheet. Investment dividends are recognized in profit or loss unless such dividend clearly represents a recovery of the investment cost.

Financial assets at fair value through profit and loss

Financial assets are measured at fair value through profit or loss and are booked in the balance sheet as financial assets measured at fair value through profit or loss, except for the financial assets in the preceding paragraph that meet certain conditions and are measured at amortized cost or measured at fair value through other comprehensive income.

Such financial assets are measured at fair value, and the benefits or losses arising from the re-measurement are recognized as profit or loss. The benefits or losses recognized as profit or loss include any dividend or interest received on the financial asset.

(2) Impairment of Financial Assets

For the debt instrument investments measured at fair value through other comprehensive income, debt instrument investments measured at amortized cost, and off-balance sheet debt instrument, the Group has them recognized as expected credit loss and with the allowance for loss measured. The debt instrument investment measured at fair value through other comprehensive income has the allowance for loss recognized in other comprehensive income. Also, the book value of the investment is not decreased. Loans and receivables and off-balance sheet credit assets are recognized and measured in accordance with the expected credit losses.

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

Also, adequate allowances, guaranteed liability reserves, and financing commitment reserves are appropriated according to whichever is higher according to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans".

The Group measures expected credit losses to reflect the following:

- A. An amount that is unbiased and weighted by probability through evaluating each possible outcome
- B. Time value of money
- C. Reasonable and corroborative information (that can be obtained on the balance sheet date without excessive costs or inputs) relating to past events, current conditions, and future economic forecasts

The methods used for measuring allowance for loss are as follows:

- A. It is measured by the 12-month expected credit loss amount: Including the credit risk that has not increased significantly since the original recognition of the financial assets, or it is determined as low credit risk on the balance sheet date. In addition, it also includes the allowance for loss measured by the expected credit loss of the duration in the previous reporting period, but which no longer meets the condition that the credit risk has increased significantly since the original recognition on the balance sheet date.
- B. The expected credit loss amount for the duration: Includes the significant increase in credit risk of the financial assets since the original recognition, or the financial assets with credit impairment purchased or originated.
- C. For accounts receivable or contractual assets arising from transactions within the scope of IFRS 15, the Group measured the allowance for loss with the expected credit loss amount of the duration.
- D. For the rent receivables arising from the transactions as stipulated in IFRS 16 (or IAS 17 before January 1, 2019), the Group uses the expected credit losses for the duration of the period to measure the allowance for losses.

In addition to the aforementioned assessments, the Company also has the credit assets assessed and classified according to the following classification methods by referring to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". Regarding the classification methods, except for the normal credit assets classified in Category I, non-performing credit assets are evaluated according to the status of the loan collateral and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful" and Category V "Losses".

The allowance for bad debt is appropriated for a minimum amount equivalent to the total of 1% of net Category I credit assets of the obligation to Taiwanese government agencies, 2% of Category II credit assets, 10% of Category III credit assets, 50% of Category IV credit assets, and 100% of Category V credit assets.

On each balance sheet date, the Group assesses whether the credit risk of financial instruments after the original recognition has increased significantly by comparing the changes in the default risk of the financial instruments on the balance sheet date and the original recognition date. In addition, please refer to Note XIV for information related to credit risk.

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(3) Derecognized financial assets

Financial assets held by the Group are derecognized when one of the following conditions is met:

- A. The contractual right from the cash flow of financial assets is terminated.
- B. The financial asset has been transferred and almost all of the risks and rewards of asset ownership have been transferred to others.
- C. Almost all risks and rewards of asset ownerships have not been transferred or retained, but the control of assets has been transferred.

When a financial asset is derecognized entirely, the difference between the book value and the collected or collectible considerations plus any cumulative gain or loss recognized in other comprehensive gain or loss is recognized in profit or loss.

(4) Financial liabilities and equity instruments

Classification of liabilities or equity

The liability and equity instruments issued by the Group are classified as either financial liabilities or equity in accordance with the substance of the contractual agreements and the definition of financial liabilities and equity instruments.

Equity instruments

An equity instrument refers to any contract that recognizes the residual equity of the Group after the asset deducts the liabilities. The equity instruments issued by the Group are recognized at the amount obtained after deducting the direct issuance costs.

Compound instruments

The Group recognizes the financial liabilities and equity composition of the convertible corporate bonds issued according to its contractual terms. In addition, for the convertible corporate bonds issued, assess whether the economic characteristics and risks of the embedded call (put) option are closely related to the main debt instrument before distinguishing the equity elements.

For a liability that does not involve a derivative instrument, the fair value is assessed with the market interest rate of the equivalent and non-converting bond. Such liability before conversion or settlement is classified as a financial liability measured at the amortized cost. For the embedded derivative instrument (for example, the execution price of the embedded call (put) option cannot be equivalent to the amortized cost of the debt instrument on each execution date) that is not closely related to the economic characteristics of the principal contract, except for those classified as equity elements, it is classified as a liability and is measured at fair value through profit or loss in subsequent periods. The amount of the equity element is determined by the fair value of the convertible corporate bond net of the liability, and the book value will not be re-measured in the subsequent accounting period. If the issued convertible corporate bonds do not contain an equity element, they are handled in accordance with IFRS 9 hybrid financial instrument method.

The transaction costs are allocated to the liability and equity proportionally to the originally recognized convertible corporate bonds to the liability and equity elements.

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When the holder of the convertible corporate bond requests to exercise the conversion right before the maturity date, the book value of the liability is first adjusted to the book value at the time of conversion, as the basis for the issuance of common stock shares.

Financial liabilities

Financial liabilities subject to the provisions of IFRS 9 are classified, at the original recognition, as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost.

Financial liabilities at fair value through profit and loss

Financial liabilities measured at fair value through profits or losses include held-for-trade financial liabilities and financial liabilities designated to be measured at fair value through profit or loss.

Classified as held-for-trade when one of the following conditions is met:

- A. It is obtained mainly for the purpose of being sold in the short-term.
- B. It became part of the identified financial instrument portfolio managed comprehensively at initial recognition and there is evidence of the short-term profit-generating operation of the portfolio recently; or
- C. Derivatives (except for financial guarantee contracts or derivatives of the designated and effective hedging instruments).

For a contract that includes one or more embedded derivatives, an overall hybrid (combined) contract can be designated as a financial liability measured at fair value through profit or loss. When the relevant information is provided upon complying with one of the following factors, the original recognition is designated as measured at fair value through profit or loss:

- A. The designation can eliminate or significantly reduce the inconsistency of measurement or recognition; or
- B. The performance of a group of financial liabilities or a group of financial assets and financial liabilities is managed and assessed on a fair value basis according to the written risk management or investment strategies; also, the portfolio information provided to the management within the consolidated company is also based on the fair value.

The benefits or losses arising from the re-measurement of such financial liabilities are recognized in profit or loss. The gain or loss recognized in profit or loss includes any interest paid on the financial liability.

Financial liabilities measured at the amortized cost

Financial liabilities measured at the amortized cost, including payables and borrowings, are subsequently measured using the effective interest method after the original recognition. When a financial liability is derecognized and amortized through the effective interest method, its related profit or loss and amortization are recognized in profit or loss.

The calculation of the amortized cost takes into account the discount or premium and transaction costs at the time of acquisition.

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De-recognition of financial liabilities

When the obligation of a financial liability is discharged, canceled, or invalidated, the financial liability is derecognized.

When the Group and the creditors exchange opinions on a debt instrument with significant differences, or make major changes to all or part of the existing financial liabilities clauses (whether due to financial difficulties or not), it is handled by having the original liabilities derecognized and new liabilities recognized. When financial liabilities are derecognized, the difference between the book value and the total amount (including the transferred non-cash assets or liabilities assumed) of the considerations paid or payable is recognized in profit or loss.

(5) Financial assets and liabilities written-off against each other

Financial assets and financial liabilities can only be offset and presented with the net amount on the balance sheet only when the recognized amounts can be offset currently by law and are intended to be cleared on a net amount or having assets sold for cash and liability liquidated simultaneously.

9. Derivatives

Derivatives held or issued by the Group are used to hedge exchange rate risk and interest rate risk, of which, the designated and effective hedging items are reported as hedging assets or liabilities on the balance sheet. For those not designated but effective hedging, they are presented on the balance sheet as financial assets or financial liabilities measured at fair value through profit or loss.

The original recognition of a derivative is measured at the fair value on the derivative contract date and it is also measured at fair value subsequently. When the fair value of a derivative is positive, it is a financial asset. When the fair value of a derivative is negative, it is a financial liability. Changes in fair value of derivatives are recognized directly in profit or loss. In the case of valid cash flow hedging and foreign operating institutions net investment hedging, it is recognized in profit or loss or equity based on the type of hedging.

For the main contract that is a non-financial asset or non-financial liability, when it is embedded in the derivative of the main contract, its economic characteristics and risks are not closely related to the main contract; also, when the main contract is not measured at fair value through profit or loss, the embedded derivative should be treated as an independent derivative.

10. Fair value measurement

Fair value is the price that would be collected for the assets sold or the price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. Fair value measurement is with an assumption that the sale of the asset or the transfer of the liability occurs in one of the following markets:

- (1) The main market for the asset or liability, or
- (2) If there is no major market, the most favorable market for the asset or liability;

The primary or most favorable market must be available for the Group to conduct trades.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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The fair value measurement of an asset or liability is based on the assumption that the market participants used in pricing the assets or liabilities, assuming that such market participants will use the assumption the most economically practical way.

The fair value measurement of a non-financial asset takes into account the market participant's use of the asset for its highest and best utilization or sale of the asset to another market participant who will use the asset for its highest and best utilization in order to generate economic benefits.

The Group uses valuation techniques that are appropriate with sufficient data available in the relevant circumstances to measure fair value and maximize the use of observable inputs and minimize the use of unobservable inputs.

11. Impairment of non-financial assets

The Group at the end of each reporting period assesses whether all assets subject to IAS 36 "Impairment of Assets" are showing signs of impairment. If there is any indication of impairment or an impairment test is required for an asset on a regular basis each year, the Group tests the individual asset or the cash-generating unit to which the asset belongs. If the book value of an asset or the cash-generating unit to which the asset belongs is greater than the recoverable amount in an impairment test, the impairment loss is recognized. The recoverable amount is the higher of fair value net of the disposal cost or the value in use.

At the end of each reporting period, the Group assesses assets other than goodwill to see whether there are indications that the previously recognized impairment losses may no longer exist or may be decreased. In the event of such an indication, the Group estimates the recoverable amount of the asset or cash-generating unit. If the recoverable amount is increased due to the change in the estimated service potential of the asset, the impairment amount is reversed. However, the reversed book value shall not exceed the book value before recognizing impairment loss and after deducting depreciation or amortization.

The impairment loss and reversal amount of the continuing business unit are recognized in profit or loss.

12. Collateral accepted

The accepted collateral is booked at the cost of acceptance. Also, it is valued at the end of the period at the lower of cost or fair value net of selling cost (net realizable value).

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13. Property, plant, and equipment

Property, plant, and equipment are recognized at the acquisition net cost of accumulated depreciation and accumulated impairment. The aforementioned cost includes the cost of dismantling, removing, and restoring the location of the property, plant, and equipment and the necessary interest expense arising from the construction in progress. Depreciation is provided separately for the significant parts of the property, plant, and equipment. When major parts of property, plant, and equipment are subject to periodic replacement, the Group treats the parts as an individual asset and recognizes it separately with specific periods of durability and depreciation method. The book value of these replaced parts is derecognized in accordance with the provision of IAS 16 "Property, Plant, and Equipment". If the major repair and maintenance costs are in compliance with the recognition conditions, they are recognized as replacement costs and are recognized as part of the plant and equipment book value. Other repair and maintenance expenses are recognized in profit or loss.

Depreciation is calculated and appropriated in accordance with the declining balance method and the estimated useful life of the following assets:

Buildings and structures	3 ~60 years
Transport equipment	3 ~5 years
Other equipment	3 ~10 years

After the original recognition of the property, plant, and equipment or any significant parts, if it is disposed or no economic effect arising from the use or disposal is expected, it will be derecognized and recognized in profit or loss.

The residual value, years of useful life, and depreciation method of the property, plant, and equipment are assessed at the end of each financial year. If the expected value is different from the previous estimate, the change is considered as a change in accounting estimates.

14. Lease

The accounting treatment since January 1, 2019 is as follows:

The Group assesses whether the contract that was signed after January 1, 2019, is (or includes) a lease. If a contract is signed to have the control over the use of identified assets transferred for a period of time in exchange for a consideration, it is (or includes) a lease. In order to assess whether a contract is signed to have the control over the use of identified assets transferred for a period of time, the Group assesses whether there are the following two factors throughout the period of use:

- (1) Obtaining almost all economic benefits from the use of identified assets; and
- (2) Control the right-of-use of the identified assets.

The Group chose not to have the contract re-assessed whether it is (or includes) a lease on January 1, 2019. The Group applies IFRS 16 in respect of the contracts that have been identified as leases in the previous application of IAS 17 and IFRIC 4. In addition, the contract that has been identified as not including the lease when IAS 17 and IFRIC 4 were previously applied does not apply to IFRS 16.

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For a contract that is (or includes) a lease, the Group has each lease component of the contract treated as a separate lease and has it handled separately from the non-lease components of the contract. For a contract that includes one lease component and one or multiple additional lease or non-lease components, the Group has the consideration of the contract amortized to the lease components in accordance with the relative individual price of each lease component and the aggregated individual price of the non-lease components. The relative individual price of the lease and non-lease components is determined according to the price charged by the lessor (or similar supplier) for such components (or similar components). If the observable individual price is not readily available, the Group maximizes the use of observable information to estimate the individual price.

The Group is the lessee

Except for leases that meet and select short-term leases or low-value asset leases, when the Group is the lessee of the lease contract, the right-of-use assets and lease liabilities are recognized for all leases.

On the commencement date, the Group measures the lease liability according to the present value of the lease payments that have not yet been paid on that date. If the lease implied interest rate is easy to determine, the lease payment is discounted according to the said implied interest rate. If the lease implied interest rate is not easy to determine, the incremental loan rate of the lessee shall prevail. On the commencement date, the lease payments included in the lease liability include the following payments relating to the use-of-rights underlying asset in the lease term that is not yet paid on that date:

- (1) Fixed payments (including real fixed payments) net of any collectable lease incentives;
- (2) Lease payments depending on the change in an index or expense rate (measured at the index or expense rate on the commencement date);
- (3) The lessee's expected payment amount with the residual value guaranteed;
- (4) The exercise price of the purchase option, if the Group can reasonably assure that the option will be exercised; and
- (5) The penalty for the termination of the lease, if the lessee intends to exercise the option of having the lease terminated in the lease period.

After the commencement date, the Group measures the lease liability at the amortized cost, increases the book value of the lease liability by the effective interest method, and reflects the interest on the lease liability. The book value of the lease liability is reduced when the lease payment is made.

On the commencement date, the Group measures the right-of-use assets at cost. The cost of the right-of-use assets includes:

- (1) The originally measured amount of the lease liability;
- (2) Any lease payments paid on or before the commencement date, minus any lease incentives received;
- (3) Any original direct costs incurred to the lessee; and
- (4) The estimated cost for the lessee to have the underlying asset dismantled or removed and restore its location, or have the underlying asset restored to the form as stipulated in the clause and condition.

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Subsequent measurement of the right-of-use asset is presented at cost net of the accumulated depreciation and accumulated impairment losses, that is, the right-of-use asset should be measured at cost.

If the ownership of the underlying assets is transferred to the Group at the end of the lease term, or if the cost of the right-of-use asset reflects that the Group will exercise the purchase option, the depreciation of the right-of-use asset is appropriated from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group has the depreciation of the right-of-use asset appropriated from the commencement date to the end of the useful life of the right-of-use asset or the expiration of the lease term whichever is sooner.

The Group applies IAS 36 "Impairment of Assets" to determine whether the right-of-use asset is with impairment; also, handle the identified impairment losses.

Except for leases that meet and select short-term leases or low-value asset leases, the Group presents the right-of-use assets and lease liabilities on the balance sheet, and presents the depreciation expense and interest expense related to the lease separately in the comprehensive income statement.

For short-term leases and low-value asset leases, the Group chooses to have the related lease payments recognized as expenses over the lease period in accordance with the straight-line basis or a systematic basis.

The accounting treatment before January 1, 2019 is as follows:

The Group is the lessee

A financial lease is to have almost all the risks and remuneration related to the ownership of the leased property to the Group and is capitalized at the lower of the fair value of the leased asset or the present value of the minimum lease payments on the commencement date of the lease period. The rent payment is amortized to the financing expenses and the reduction of the lease liability, of which, the financing expense is determined by the remaining liability and the fixed interest rate and recognized in profit or loss.

The leased asset is depreciated over the useful life of the asset. However, if whether the Group can obtain the ownership of the asset at the end of the lease period cannot be reasonably determined, the depreciation is appropriated according to the estimated useful lives of the asset or the lease period, whichever is shorter.

Lease payments under operating leases are recognized as expenses according to a straight line method over the lease period.

15. Employee benefits

(1) Retirement benefits plan

The retirement method for employees of the Company and its domestic subsidiaries is applicable to all full-time employees. The employee retirement fund is fully appropriated to the Supervisory Committee of Business Entities' Labor Retirement Reserve and deposited in the pension fund account. The aforementioned pension is deposited in the name of the Supervisory Committee of Business Entities' Labor Retirement Reserve, which is completely separated from the Company and the domestic subsidiaries, so it is not included in the consolidated financial statements in the preceding paragraph.

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For the defined contribution pension plan, the monthly pension payable rate of the Company and its domestic subsidiaries shall not be less than 6% of the employee's monthly salary, and the amount of the provision shall be recognized in the profit or loss of the current period.

For the defined contribution pension plan, an appropriation is made according to the project unit credit method and the actuarial report at the end of the annual reporting period. The re-measurement of net defined benefit liabilities (assets) includes the return on the plan asset and changes in the ceiling of the assets, deducting the net interest amount of the net defined benefit liabilities (assets) and the actuarial gains and losses. The net defined benefit liability (asset) re-measurement is included in other comprehensive income when incurred and immediately recognized in the retained earnings.

The prior-period service cost is the change in the present value of the defined benefit obligation arising from the revision or reduction of the pension plan and is recognized as an expense on the earlier of the following two dates:

- A. When the plan revision or reduction occurs; and
- B. When the Group recognizes the relevant restructuring costs or resignation benefits;

The net interest of the net defined benefit liability (asset) is determined by having the net defined benefit liability (assets) multiplied by the discount rate, both of which are determined at the beginning of the annual reporting period, and then consider the changes which have occurred in the net defined benefit liabilities (assets) for the period arising from the appropriation amount and benefit payment.

(2) Employees preferential deposit benefit

The Group provides preferential deposits, which include the payment of fixed preferential deposits for current employees and for retired employees (before January 1, 2010). The difference between the interest rate of these preferential deposits and the market interest rate is within the scope of employee benefits.

According to Article 28 of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the excess interest arising from the retirement preferential deposit rate agreed upon with the employees over the general market interest rate shall be actuarially calculated according to the defined benefit plan as stipulated in IAS 19 that was approved by the Financial Supervisory Commission. However, the parameters of actuarial assumptions shall be handled in accordance with the provisions of the competent authority if it is available.

16. Treasury stock

When the Group obtains the shares (Treasury Stocks) of the parent company, it is recognized at the acquisition cost and is debited to the equity. The spread of treasury stock transactions is recognized in the equity.

17. Recognition of revenue

- (1) Interest income from loans is estimated on an accrual basis. The overdue payment transferred to the collection account will cease to bear interest from the date of transfer and will be recognized as income upon collection. The interest income

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agreed to be posted as receivable due to the bail-out and the extension agreement is recognized as income upon collection.

- (2) Service charge income is a fee charged for the various services provided to customers. The accounting treatment is as follows:

The service charge income of the Group is derived from the services provided at a specific point of time or for a certain period of time, or through the transaction services and it is recognized as income. When there is a transfer of services to the customer but without unconditional rights for collecting considerations, it is recognized as a contract asset. However, for some contracts, partial considerations are collected from the customers at the time of signing the contract, the Group must assume the obligation of providing services subsequently. Therefore, it is recognized as a contract liability.

The aforementioned contractual liabilities of the Group did not result in significant financial fluctuations.

18. Share-based payment transaction

The "share-based payment" transaction cost for the equity clearing between the Group and its employees is measured at the fair value on the equity instruments vested date. Fair value is measured by the appropriate pricing model.

The "share-based payment" transaction cost for the equity clearing is recognized on a period-by-period basis during the period in which the service conditions and performance conditions are fulfilled, and the increase in equity is recognized. The cumulative fees recognized for equity clearing transactions at the end of each reporting period prior to the vesting date reflect the process of the vested period and the best estimate of the ultimate vested equity instruments by the Group. The cumulative cost changes recognized for the share-based payment transactions at the beginning and end of each reporting period are recognized in profit or loss for the period.

If the share-based payment is not in compliance with the vested conditions, no expense will be recognized. However, if the vested conditions of the equity clearing transaction are related to the market price condition or the non-vested conditions, when all the service or performance conditions have been fulfilled, the relevant expenses will be recognized regardless of whether the market price condition or the non-vested condition is fulfilled.

19. Income tax

Income tax expense (profit) refers to the aggregated amount of current income tax and deferred income tax that is included in the current profit or loss.

Current income tax

The current income tax liabilities (assets) related to the current and prior periods are measured at the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The current income tax related to the items recognized in other comprehensive income or directly recognized in the equity is recognized in other comprehensive income or equity instead of being recognized in the profit or loss.

The additional business income tax levied on the undistributed earnings is recognized as income tax expense on the date when the distribution of earnings is resolved in the shareholders meeting.

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Deferred tax

The deferred income tax is calculated according to the temporary difference between the taxable amount of assets and liabilities and the book value on the balance sheet at the end of the reporting period.

All taxable temporary differences are recognized as deferred income tax liabilities except for the following two items:

- (1) The original recognition of goodwill, or the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted;
- (2) The taxable temporary difference arising from the investment in subsidiaries, associates, and joint equity. Also, the timing of reversal is controllable, and it is not likely to be reversed in the foreseeable future;

Except for the following two items, deductible temporary difference and deferred income tax assets arising from the taxable losses and income tax credit are recognized within the range of probable future taxable income:

- (1) It is related to the deductible temporary difference from the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted.
- (2) It is related to the deductible temporary differences arising from the investment in subsidiaries, associates, and the joint equity. It is recognized within the range of probable reversal in the foreseeable future and there is sufficient taxable income at the time the temporary difference occurred.

Deferred income tax assets and liabilities are measured at the tax rate of the expected asset realization or in the period in which the liability is settled. The tax rate is based on the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The measurement of deferred income tax assets and liabilities reflects the tax consequences arising from the manner in which the asset is expected to be recovered or the book value of the liability is settled at the end of the reporting period. If the deferred income tax is related to items that are not included in the profit or loss, it will not be recognized in profit or loss, but recognized in other comprehensive income according to the relevant transactions or directly recognized in equity. Deferred income tax assets are re-examined and recognized at the end of each reporting period.

Deferred income tax assets and liabilities can be offset against each other legally only in the current period, and the deferred income tax is related to the same taxation entity and is related to the income tax levied by the same taxation authority.

V. Main source of significant accounting judgment, estimates and assumptions uncertainty

When the consolidated financial statements are prepared by the Group, the management must make judgments, estimates, and assumptions at the end of the reporting period, which will affect the disclosure of income, expenses, assets and liabilities, and contingent liabilities. However, the uncertainty of these significant assumptions and estimates may result in a significant adjustment to the book value of an asset or liability in the future period.

Estimation and assumption

The main source of information on the estimation and assumption with uncertainty at the end

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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of the reporting period has significant risks that result in significant adjustments to the book value of assets and liabilities in the next financial year. The explanations are given as follows:

(1) Loan impairment loss

The estimation of the Group's loan impairment loss is based on whether or not the credit risk has increased significantly since the original recognition to determine if it is necessary to have the allowance for loss assessed according to the 12-month expected credit loss amount or the expected credit loss amount throughout the duration. In order to measure the expected credit loss, the Group considers the default probability with the default loss rate included and then multiplied by the default risk exposure amount, and it also considers the impact of the time value of money to estimate the expected credit loss for 12 months as well as the duration. The Group considers historical experiences, current market conditions and forward-looking estimates on each reporting date to determine the assumptions and inputs to be used for calculating the impairments. Please refer to Note XIV for details.

(2) The fair value of financial instruments

When the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from the active market, the fair value will be determined using evaluation techniques, including the income approach (such as, cash flow discount model) or market approach. The changes in the assumptions of the said approaches will affect the fair value of the financial instruments reported. Please refer to Note XIII.

(3) Retirement benefits plan

The present value of the defined benefit cost and the defined benefit obligations depends on the actuarial valuation. Actuarial valuation involves various assumptions, including: discount rate and changes in expected salary.

(4) Income tax

The uncertainty of income tax exists in the interpretation of complex tax regulations and the amount and timing of future taxable income. Due to a wide range of international business relationships and the long-term and complexity of contracts, the differences between actual results and assumptions made, or changes in such assumptions in the future, may cause the booked income tax benefits and expenses to be adjusted in the future. The appropriation of income tax is a reasonable estimation made according to the possible audit results of the local tax authorities of the countries in which the Group operates. The amount appropriated is based on different factors, such as: previous tax audit experience and the difference in tax law interpretation between the tax entity and the tax authority. The difference in interpretation may result in a variety of issues due to the local situation of the country where an individual enterprise of the Group operates.

The carryforwards of the taxable loss and income tax credit and deductible temporary differences are recognized as deferred income tax assets within the range of probable future taxable income or taxable temporary differences. The amount of the deferred income tax assets to be recognized is estimated according to the possible timing and level of the future taxable income and taxable temporary difference, and also, the future tax planning strategy.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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VI. Summary of significant accounting items

1. Cash and cash equivalents

	2019.12.31	2018.12.31
Cash on hand	\$1,790,442	\$1,366,471
Foreign currency on hand	223,202	230,888
Notes and checks for clearing	252,376	1,565,553
Due from Central Bank and other banks	1,282,647	1,179,429
Total	<u>\$3,548,667</u>	<u>\$4,342,341</u>

For the purpose of preparing the cash flow statement, cash and cash equivalents are the sum of the following items.

	2019.12.31	2018.12.31
Cash and cash equivalents on the consolidated balance sheet	\$3,548,667	\$4,342,341
The "Due from the Central Bank and call loans to banks" comply with IAS 7 "Definition of Cash and cash equivalents" approved by the FSC	5,675,687	8,530,162
The "Bonds and securities sold under re-purchase agreements" comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	150,022	624,167
Cash and cash equivalents on the Consolidated Statement of Cash Flows	<u>\$9,374,376</u>	<u>\$13,496,670</u>

2. Due from Central Bank and lend to Banks

	2019.12.31	2018.12.31
Reserve for deposits –Type A	\$2,267,322	\$2,939,644
Reserve for deposits –Type B	5,486,995	5,314,596
Reserve for deposits –Foreign currency	18,365	17,518
Call loans to banks	3,390,000	5,573,000
Total	<u>\$11,162,682</u>	<u>\$13,844,758</u>

The deposit reserve is calculated according to the monthly legal reserve appropriated for each type of deposit by law, the average daily amount and legal reserve ratio for the current period. Also, it is deposited with the Central Bank. Type A deposit reserve accounts and foreign currency depositor accounts do not bear interest and can be accessed at any time. Type B accounts bear interest, but they cannot be used except in compliance with the regulations.

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3. Financial assets at fair value through profit and loss

	2019.12.31	2018.12.31
Mandatorily measured at fair value through profit or loss:		
Stock	\$3,564,197	\$4,584,529
Equity securities	1,921,705	2,368,012
Domestic bond	29,056,073	24,111,160
Derivatives	8,805	39,017
Convertible corporate bonds	-	323,902
Real estate investment trust fund	429,013	360,177
Total	<u>\$34,979,793</u>	<u>\$31,786,797</u>

Please refer to Note VIII for details of the financial assets provided as collateral that the Group has them measured at fair value through profit or loss.

4. Financial assets at fair value through other comprehensive income

	2019.12.31	2018.12.31
Debt instrument investments measured at fair value through other comprehensive income:		
Bonds	\$8,850,669	\$15,622,987
Corporate bond	33,039,873	33,660,910
Financial bonds	3,283,306	4,264,717
Subtotal (total book value)	<u>45,173,848</u>	<u>53,548,614</u>
Evaluation adjustment	3,148,095	(952,250)
Subtotal	<u>48,321,943</u>	<u>52,596,364</u>
Equity instrument investments measured at fair value through other comprehensive income:		
Listed stocks	35,225	93,960
Non-TWSE/TPEX-listing companies stock	2,534,382	797,032
Subtotal	<u>2,569,607</u>	<u>890,992</u>
Total	<u>\$50,891,550</u>	<u>\$53,487,356</u>

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Please refer to Note VIII for details of the financial assets provided as collateral that the Group has them measured at fair value through other comprehensive income.

Please refer to Note VI.26 for information on allowance for loss for the debt instrument investments measured at fair value through other comprehensive income. Also, please refer to Note XIV for information related to credit risk.

For the Group's investment in financial assets and equity instruments that was measured at fair value through other comprehensive income, dividend income for an amount of NT\$77,143 thousand and NT\$33,744 thousand, was recognized in the period from January 1 to December 31, 2019 and 2018, respectively, which was entirely related to the investments still held on the balance sheet date.

The Group's investment in financial assets and equity measured at fair value through other comprehensive income was disposed in the period from January 1 to December 31, 2019 and 2018, the fair value at the time of disposition were NT\$72,467 thousand and NT\$698,266 thousand. Also, the accumulated unrealized loss in valuation at the time of disposal for an amount of NT\$93,550 thousand and NT\$7,860 thousand were transferred from other equity to retained earnings.

5. Financial assets based on cost after amortization

	2019.12.31	2018.12.31
Convertible certificate of deposit	\$17,700,000	\$17,600,000
Less: Allowance for losses	(1,865)	(2,004)
Total	<u>\$17,698,135</u>	<u>\$17,597,996</u>

The Group classifies certain financial assets into financial assets measured at amortized cost. Please refer to Note VI.26 for the information provided on allowances for loss. Also, refer to Note XIV for information related to credit risk and it is not provided as collateral.

6. Bonds and securities sold under repurchase agreements

	2019.12.31	2018.12.31
Bonds	<u>\$150,022</u>	<u>\$624,167</u>

The Group's bonds and securities sold under repurchase agreements were processed at the agreed price for an amount of NT\$150,031 thousand and NT\$624,260 thousand on December 31, 2019 and 2018, respectively.

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7. Receivables- net

	2019.12.31	2018.12.31
Accounts receivable and notes	\$3,732,458	\$2,652,762
Interests receivable	918,211	1,038,824
Clearing amount receivable	309,606	-
Other receivables	28,367	21,681
Subtotal (total book value)	4,988,642	3,713,267
Less: Allowance for losses	(81,258)	(70,851)
Net	<u>\$4,907,384</u>	<u>\$3,642,416</u>

The Group assesses impairments in accordance with International Financial Reporting Standard No. 9. Please refer to Note VI.26 for the allowance for loss related information in detail; also, refer to Note XIV for the credit risk related information in detail.

Please refer to Note VIII for details of the Group's collateral over the accounts receivables.

8. Discounts and loans, net

	2019.12.31	2018.12.31
Overdraft	\$202,095	\$74,653
Loans	157,395,540	154,496,563
Collections of overdue loans	20,791	25,759
Total amount	157,618,426	154,596,975
Less: allowance for bad debt	(2,267,748)	(2,367,223)
Net	<u>\$155,350,678</u>	<u>\$152,229,752</u>

The Group assesses impairments in accordance with International Financial Reporting Standard No. 9. Please refer to Note VI.26 for the allowance for loss related information in detail; also, refer to Note XIV for the credit risk related information in detail.

9. Other financial assets – net

	2019.12.31	2018.12.31
Delinquent loans not restated from loans	\$1,168	\$3,968
Others	4,396	2,037
Subtotal (total book value)	5,564	6,005
Less: allowance for bad debt	(1,168)	(1,300)
Total	<u>\$4,396</u>	<u>\$4,705</u>

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10. Property, plant, and equipment

The Group's booked property, plant, and equipment are owned and used by the Group. The application of IFRS 16 has no impact on the Group's property, plant and equipment.

Property, plant, and equipment (Subject to IFRS 16)

	Land	Buildings and structures	Transport equipment	Other equipment	Construction in progress	Total
Cost:						
2019.01.01	\$2,015,003	\$1,169,735	\$18,940	\$164,532	\$4,776	\$3,372,986
Additions	329,970	4,115	-	32,881	29,902	396,868
Disposition	(25,324)	(25,463)	(2,291)	(7,906)	-	(60,984)
Other changes	-	26,068	-	-	(26,068)	-
2019.12.31	\$2,319,649	\$1,174,455	\$16,649	\$189,507	\$8,610	\$3,708,870
2018.01.01	\$2,015,003	\$1,191,501	\$18,940	\$149,174	\$6,907	\$3,381,525
Additions	-	1,273	-	28,815	14,667	44,755
Disposition	-	(39,837)	-	(13,457)	-	(53,294)
Other changes	-	16,798	-	-	(16,798)	-
2018.12.31	\$2,015,003	\$1,169,735	\$18,940	\$164,532	\$4,776	\$3,372,986
Depreciation and impairment:						
2019.01.01	\$11,209	\$840,074	\$13,136	\$119,644	\$-	\$984,063
Depreciation	-	20,291	1,800	27,252	-	49,343
Disposition	(11,209)	(17,785)	(1,580)	(7,780)	-	(38,354)
2019.12.31	\$-	\$842,580	\$13,356	\$139,116	\$-	\$995,052
2018.01.01	\$11,209	\$859,657	\$10,087	\$106,682	\$-	\$987,635
Depreciation	-	20,670	3,049	26,251	-	49,970
Disposition	-	(39,836)	-	(13,289)	-	(53,125)
Other changes	-	(417)	-	-	-	(417)
2018.12.31	\$11,209	\$840,074	\$13,136	\$119,644	-	\$984,063
Net book value:						
2019.12.31	\$2,319,649	\$331,875	\$3,293	\$50,391	\$8,610	\$2,713,818
2018.12.31	\$2,003,794	\$329,661	\$5,804	\$44,888	\$4,776	\$2,388,923

The Group did not provide property, plan and equipment as collateral.

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

11. Other assets – net

	2019.12.31	2018.12.31
Prepayments	\$10,885	\$9,446
Inter-bank clearing fund	726,810	602,655
Other Prepayments	69,153	-
Refundable deposits	134,647	235,310
Others	33,417	31,170
Net	<u>\$974,912</u>	<u>\$878,581</u>

As of December 31, 2019 and 2018, the other asset – other accumulated impairment amounted to NT\$20,280 thousand.

12. Deposits from Central Bank and other banks

	2019.12.31	2018.12.31
Deposits of other banks	\$2,049	\$71
Interbank call loans	14,531,800	19,937,180
Total	<u>\$14,533,849</u>	<u>\$19,937,251</u>

13. Funds borrowed from Central Bank and other banks

	2019.12.31	2018.12.31
Funds borrowed from banks	<u>\$4,395,830</u>	<u>\$3,438,640</u>

14. Financial liabilities at fair value through profit and loss

	2019.12.31	2018.12.31
Available-for-sale financial liabilities:		
Derivatives	<u>\$6,002</u>	<u>\$25,784</u>

15. Bills and bonds sold under repurchase agreements

	2019.12.31	2018.12.31
Bonds	\$8,280,000	\$8,579,875
Corporate bond	19,411,343	19,992,978
Bank debentures	526,677	743,643
Total	<u>\$28,218,020</u>	<u>\$29,316,496</u>

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The Group's Bills and bonds sold under repurchase agreements were processed at the agreed price for an amount of NT\$28,267,625 thousand and NT\$29,388,277 thousand on December 31, 2019 and 2018, respectively.

16. Payables

	2019.12.31	2018.12.31
Accrued expenses	\$388,298	\$266,629
Interest payable	142,146	155,423
Notes and checks in clearing	252,376	1,565,553
Clearing amount payable	47,150	-
Others	422,856	324,276
Total	<u>\$1,252,826</u>	<u>\$2,311,881</u>

17. Customer deposits and remittances

	2019.12.31	2018.12.31
Check deposits	\$2,217,464	\$2,334,521
Current deposits	36,054,653	35,480,317
Time deposits	21,442,825	24,444,454
Savings deposit	132,078,219	126,173,193
Remittances	5,501	439
Total	<u>\$191,798,662</u>	<u>\$188,432,924</u>

18. Other financial liabilities

	Interest rate interval (%)	2019.12.31	2018.12.31
Chang Hwa Bank	1.1%~1.21%	\$500,000	\$500,000
China Bills Finance Corporation	1.44%~1.48%	-	100,000
International Bills	1.44%~1.54%	-	140,000
Taiwan Cooperative Bills Finance Corporation	1.40%	-	120,000
Taiwan Finance Cooperation	1.4%~1.46%	-	100,000
Mega Bills	1.48%~1.49%	-	100,000
Grand Bills Finance Corporation	1.42%~1.44%	-	120,000
Ta Ching Bills Finance Corporation	1.39%~1.44%	-	50,000
Total		<u>\$500,000</u>	<u>\$1,230,000</u>

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19. Provisions for liability

	2019.12.31	2018.12.31
Retirement benefits plan	\$248,385	\$292,615
Reserve for guarantee liability	115,711	105,994
Provision for commitment of financing	19,318	21,818
Total	<u>\$383,414</u>	<u>\$420,427</u>

The changes in the guarantee provision are as follows:

	2019	2018
Balance, beginning	\$105,994	\$146,533
Amount appropriated (reversed) for the period	9,735	(40,562)
Foreign exchange impact amount	(18)	23
Balance, ending	<u>\$115,711</u>	<u>\$105,994</u>

The changes in the financing commitment reserve are as follows:

	2019	2018
Balance, beginning	\$21,818	\$33,318
Amount (reversed) for the period	(2,500)	(11,500)
Foreign exchange impact amount	-	-
Balance, ending	<u>\$19,318</u>	<u>\$21,818</u>

20. Retirement benefits plan

Defined contribution pension plan

The Group has the employee retirement plan stipulated in accordance with the "Labor Pension Act", which is a defined contribution plan. According to the Labor Pension Act, the monthly pension contribution rate of the Group shall not be less than 6% of the employee's monthly salary. The Group has an amount equivalent to 6% of the employee's monthly salary appropriated every month to the personal pension account with the Bureau of Labor Insurance.

The Group had recognized the insurance expense of the defined contribution plan for an amount of NT\$32,248 thousand and NT\$31,855 thousand in 2019 and 2018, respectively.

Defined benefit plan

The employee pension plan stipulated by the Group according to the Labor Standards Act is a defined benefit plan. The employee's pension payment is based on the service points

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and the average monthly salary at the time of retirement. Two service points for each service year within the first 15 service years (inclusive) and one service point for each service year after the 15th service year with a maximum of 45 service points for each employee. The Group levied a pension fund on the total monthly salary every month according to the Labor Standards Law. The pension appropriation ratio has been changed from 8% to 15% since March 2012, and the fund is deposited in the designated account with the Company of Taiwan in the name of the Labor Pension Reserves Committee. In addition, the Group estimates the aforementioned labor retirement reserve account balance before the end of each year. If the balance is insufficient to pay the pension amount calculated in accordance with the aforementioned retirement conditions for the employees qualified for retirement in the next year, the amount of difference will be appropriated in a lump sum before the end of March in the next year.

The Ministry of Labor conducts asset allocation in accordance with the "Regulations for Revenues, Expenditures, Safeguarding, and Utilization of the Labor Retirement Fund". Fund investment is arranged with a self-operated and entrusted management method, which adopts a mid-term and long-term investment strategy with an active and passive management. Considering the risks of the market, credit, liquidity, etc., the Ministry of Labor sets the fund risk limit and control plan so that it can be flexible enough to achieve the target remuneration without bearing excessive risk. For the use of the fund, the minimum income of its annual settlement shall not be lower than the income calculated according to the local bank's two-year time deposit. If there is any deficiency, it shall be replenished by the state treasury upon approval by the competent authority. As the Group is not entitled to participate in the operation and management of the fund, it is not possible to disclose the classification of the fair value of the plan assets in accordance with paragraph 142 of IAS 19. As of December 31, 2019, the Group's defined benefit plan is expected to have an amount of NT\$ 38,232 thousand appropriated in the next year.

As of December 31, 2019 and 2018, the defined benefit plans of the Group are expected to expire in 2028 and 2027, respectively.

The cost of the defined benefit plan recognized in profit or loss is summarized as follows:

	2019	2018
Current service cost	\$1,271	\$2,055
Net interest of the net defined benefit liabilities	5,098	5,269
Expected return on plan assets	(2,359)	(2,191)
Total	<u>\$4,010</u>	<u>\$5,133</u>

The adjustments made to the present value of the defined benefit obligation and the fair value of the plan assets are as follows:

	2019.12.31	2018.12.31
Determined benefit obligation	\$535,820	\$541,147
The fair value of plan assets	(287,435)	(248,532)
Liability reserve - Net defined benefit liabilities amount booked	<u>\$248,385</u>	<u>\$292,615</u>

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Adjustments of net defined benefit liabilities (assets):

	Present value of the defined benefit obligations	The fair value of plan assets	Net defined benefit liabilities (assets)
2018.1.1	\$557,055	\$(229,829)	\$327,226
Current service cost	2,055	-	2,055
Interest expenses (income)	5,269	(2,191)	3,078
Subtotal	564,379	(232,020)	332,359
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	15,837	-	15,837
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(6,887)	(6,887)
Subtotal	15,837	(6,887)	8,950
Payment of benefits	(39,069)	31,299	(7,770)
Contributions of employer	-	(40,924)	(40,924)
2018.12.31	\$541,147	\$(248,532)	\$292,615
Current service cost	1,271	-	1,271
Interest expenses (income)	5,098	(2,359)	2,739
Subtotal	547,516	(250,891)	296,625
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	2,065	-	2,065
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(8,654)	(8,654)
Subtotal	2,065	(8,654)	(6,589)
Payment of benefits	(13,761)	11,814	(1,947)
Contributions of employer	-	(39,704)	(39,704)
2019.12.31	\$535,820	\$(287,435)	\$248,385

The following key assumptions are used to determine the Company's defined benefit plan:

	2019.12.31	2018.12.31
Discounted rate	1.000%	1.000%
Expected salary increase rate	2.000%	2.000%

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Sensitivity analysis of each major actuarial hypothesis:

	2019		2018	
	Increase of defined benefit obligations	Decrease of defined benefit obligations	Increase of defined benefit obligations	Decrease of defined benefit obligations
Discount rate increased by 0.25%	\$-	\$(6,422)	\$-	\$(7,459)
Discount rate decreased by 0.25%	6,627	-	7,707	-
Expected salary increase by 0.5%	13,510	-	15,641	-
Expected salary decrease by 0.5%	-	(12,823)	-	(14,804)

The foregoing sensitivity analysis is conducted to analyze the possible impact on the defined benefit obligations when single actuarial assumption (e.g., discount rate or expected salary) has a reasonable and possible change occurring, assuming other assumptions remain unchanged. Since some of the actuarial assumptions are correlated, the occurrence of changes in one single actuarial assumption is seldom in practice, so the analysis has its limitations.

The methods and assumptions used in the sensitivity analysis for this period are no different from those adopted in the previous period.

21. Other liabilities

	2019.12.31	2018.12.31
Deposits received	\$38,692	\$41,540
Advance income	213,300	264,973
Others	39,257	26,006
Total	\$291,249	\$332,519

22. Equity

(1) Common stock

As of December 31, 2019 and 2018, the authorized capital stock of the Company was NT\$30,000,000 thousand; also, the outstanding capital stock was NT\$11,312,343 thousand and NT\$11,512,343 thousand, with 1,131,234 thousand shares and 1,151,234 thousand shares issued at NT\$10 par, respectively. Each share is entitled to one voting right and the right to receive dividends.

(2) Capital surplus

	2019.12.31	2018.12.31
Common stock premium	\$53,509	\$54,455
Treasury stock transactions	-	42,544
Others	2,586	2,586
Total	\$56,095	\$99,585

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The various capital reserve balances on December 31, 2019 and 2018 are adjusted as follows:

	Common stock premium	Treasury stock Transaction	Stock option	Others	Total
Balance as of January 1, 2019	\$54,455	\$42,544	\$-	\$2,586	\$99,585
Share-based payment transaction	-	-	-	-	-
Transfer of Treasury Stock	-	-	-	-	-
Deregistration of treasury shares	(946)	(42,544)	-	-	(43,490)
Balance as of December 31, 2019	\$53,509	\$-	\$-	\$2,586	\$56,095
Balance as of January 1, 2018	\$54,455	\$5,282	\$-	\$2,586	\$62,323
Share-based payment transaction	-	-	37,262	-	37,262
Transfer of Treasury Stock	-	37,262	(37,262)	-	-
Deregistration of treasury shares	-	-	-	-	-
Balance as of December 31, 2018	\$54,455	\$42,544	\$-	\$2,586	\$99,585

According to the law, additional paid-in capital shall not be used for any purpose except for making up for the loss of the Company. When the Company has no loss, a certain percentage of the additional paid-in capital from the stock premium and the gift can be applied to replenish capital every year. The aforementioned additional paid-in capital can be allocated in cash to shareholders proportionally to their original shareholding ratio.

(3) Treasury stock

a. Changes in Treasury Stocks are as follows:

January 1 to December 31, 2019:

Cause	Number of shares- beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	-	3,000 thousand shares	-	3,000 thousand shares
Maintain corporate credit and shareholders' equity	10,000 thousand shares	10,000 thousand shares	20,000 thousand shares	-
Total	10,000 thousand shares	13,000 thousand shares	20,000 thousand shares	3,000 thousand shares

January 1 to December 31, 2018:

Cause	Number of shares- beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	5,000 thousand shares	-	5,000 thousand shares	-
Maintain corporate credit and shareholders' equity	-	10,000 thousand shares	-	10,000 thousand shares
Total	5,000 thousand shares	10,000 thousand shares	5,000 thousand shares	10,000 thousand shares

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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- b. As of December 31, 2019 and 2018, the amount of Treasury Stocks that are not yet canceled or distributed to employees was NT\$98,422 thousand and NT\$314,865 thousand, respectively, which was for 3,000 thousand shares and 10,000 thousand shares, respectively.
 - c. The Company transferred treasury stock to employees for 914 thousand shares and 4,086 thousand shares on March 16 and July 19, 2018, respectively.
 - d. The Company based on the resolution of the board of directors had scheduled January 21 and September 30, 2019 as the base date of de-capitalization, respectively, with 10,000 thousand shares of treasury stock bought back and cancelled for a total of NT\$200,000 thousand.
 - e. The treasury stocks held by the Company shall not be pledged, nor shall they be entitled to the distribution of dividends and voting rights according to the Securities and Exchange Act.
- (4) Earnings allocation and dividend policy

According to the Articles of Association of the Company, if there are earnings at the annual final accounts, it should be distributed in the following order:

- A. Withholding taxes
- B. Making up for the loss
- C. Appropriate 30% as the legal reserve
- D. Making appropriation according to other provisions of the law or the order of the competent authority, or reversing the special reserves
- E. The Board of Directors shall use the dividend policy to prepare an earnings distribution plan according to the remaining amount and present it in the shareholders meeting for resolutions.

The principle of dividend distribution of the Company is based on the business operation needs of the Company and the revision of major laws and regulations. The Board of Directors presents the proposal in the Shareholders Meeting for resolutions with the ratio of the cash dividend moderately adjusted, which shall not be less than 1% of the total dividends. If the cash dividend per share is less than NT\$0.1, it will not be distributed.

According to the Banking Act, the legal reserve should be appropriated until the total amount is equivalent to the paid-in shares capital. Before the legal reserve is equivalent to the total capital, the maximum distribution of a cash dividend shall not exceed 15% of the total capital. The legal reserve can be used to make up for the loss. When the Company has no loss, the portion of the legal reserve exceeds 25% of the paid-in capital should be applied to have stock shares or cash distributed to shareholders proportionally to their original shareholding ratio.

According to the provisions of the Securities and Exchange Act, when the competent authorities consider it necessary, it may request the listed companies to have a certain percentage of special reserve appropriated in addition to appropriating the legal reserve lawfully at the time of distributing earnings.

After adopting IFRSs, when the Company adopted IFRSs for the first-time according to the FSC. Fa.Zi No. 1010012865 Letter issued by the Financial Supervisory Commission on July 6, 2012, for the booked unrealized revaluation increments and the cumulative conversion adjustment benefits are transferred to the retained earnings due to the adoption of IFRS 1 "First-time Adoption of International Financial

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

Reporting Standards Data" exemption on the conversion date, a special reserve for the same amount is appropriated. After having the financial report prepared in accordance with IFRSs, when the distributable earnings are distributed, an additional special reserve is appropriated for an amount equivalent to the difference between the balance of the special reserve appropriated at the first-time adoption of IFRSs and the net debit of other equity. If the amount debited to the other shareholders' equity is reversed subsequently, the reversed amount can be distributed.

As of January 1, 2019 and 2018, the special reserve at the first-time adoption amounted to NT\$45,549 thousand. In addition, the Company did not use, dispose of, or reclassify the relevant assets in the period from January 1 to December 31, 2019 and 2018 that caused having the special reserve reversed to the undistributed earnings. As of December 31, 2019 and 2018, the special reserve for the first time was NT\$45,549 thousand.

The 2019 and 2018 earnings appropriation and distribution and the dividend per share was proposed and resolved in the board meeting on February 24, 2020 and the shareholders meeting on June 24, 2019 as follows:

	Distribution of retained earnings		Dividends per share (\$)	
	2019	2018	2019	2018
Legal reserve	\$1,019,906	\$863,340		
Special reserve	(423,162)	437,551		
Common stock cash dividends	1,692,351	1,711,852	\$1.5	\$1.5
Total	<u>\$2,289,095</u>	<u>\$3,012,743</u>		

Please refer to Note VI. 28 for the relevant information on the estimation basis and recognition amount of the employee compensation and the remuneration to directors and supervisors.

23. Net interest income

	2019	2018
<u>Interest revenue</u>		
Discount and loan interest income	\$4,194,505	\$4,289,864
Due from bank and interbank offered interest income	52,041	46,157
Security investment interest income	2,364,921	2,372,807
Other interest incomes	221,987	164,138
Subtotal	<u>6,833,454</u>	<u>6,872,966</u>
<u>Interest expenses</u>		
Deposits Interest expenses	(1,030,661)	(984,107)
Central Bank and interbank interest expense	(430,554)	(419,504)
Interest expense of the RP bonds	(613,021)	(451,828)
Others	(3,829)	(34)
Subtotal	<u>(2,078,065)</u>	<u>(1,855,473)</u>
Total	<u>\$4,755,389</u>	<u>\$5,017,493</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

24. Service Fee, Net

	2019	2018
Service fee income	\$1,888,143	\$1,889,836
Service fee expenses	(47,586)	(46,833)
Total	<u>\$1,840,557</u>	<u>\$1,843,003</u>

25. Gain (loss) on financial assets and liabilities at fair value through profit and loss

	2019	2018
Stock investment	\$814,531	\$(572,438)
Bond investment	601,153	385,140
Derivatives	(36,418)	(60,793)
Others	82,202	41,675
Total	<u>\$1,461,468</u>	<u>\$(206,416)</u>

26. Gain(loss) on reversal of assets impairment and bad debts, commitments, and guarantee reserve

	2019	2018
Financial assets at fair value through other comprehensive income	\$(27,450)	\$58,560
Financial assets based at amortized cost	139	132
Property, plant, and equipment	-	417
Subtotal	<u>(27,311)</u>	<u>59,109</u>
Loan and receivables bad debt (appropriation) reversed	(2,648,169)	(1,695,174)
Guarantee reserve reversed (appropriation)	(9,735)	40,562
Financing commitments reserve reversed	2,500	11,500
Subtotal	<u>(2,655,404)</u>	<u>(1,643,112)</u>
Total	<u>\$(2,682,715)</u>	<u>\$(1,584,003)</u>

Please refer to Note XIV for credit risk related information.

27. Lease

(1) The Group is a lessee (subject to the relevant disclosures as stipulated in IFRS 16).

The Group leases several assets, including real estate (buildings and structures) and other equipment. The lease period for each contract is for 3-10 years.

The impacts of the lease on the Group's financial position, financial performance, and cash flow are as follows:

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

A. Amount recognized on the balance sheet

(a) Right-of-use assets

The book value of the right-of-use assets

	2019.12.31	2018.12.31 (Note)
Buildings and structures	\$211,245	
Other equipment	4,438	
Total	<u>\$215,683</u>	

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

The Group had added right-of-use assets for an amount of NT\$19,868 thousand in 2019.

(b) Lease liabilities

	2019.12.31	2018.12.31 (Note)
Lease liabilities	<u>\$(217,256)</u>	
Current	<u>\$(217,256)</u>	

The interest expense of the Group's lease liabilities was NT\$3,827 thousand in 2019. For the maturity analysis of the lease liabilities on December 31, 2019, please refer to Note XIV.4 "Liquidity Risk Management."

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

B. Amount recognized in the statements of comprehensive income

Depreciation of the right-of-use assets

	2019	2018 (Note)
Buildings and structures	\$74,205	
Other equipment	1,664	
Total	<u>\$75,869</u>	

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

C. The lessee and the lease activity related income, expense, and loss

	<u>2019</u>	<u>2018 (Note)</u>
Short-term lease expense	\$1,738	
Low-value asset lease expense (excluding the low-value assets lease expense of the short-term leases)	2,056	

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

D. The lessee and the lease activity related cash outflow

The total cash outflow for the lease of the Group was NT\$78,122 thousand in 2019.

- (2) The Group is a lessee - operating lease (subject to the relevant disclosure as stipulated in IAS 17).

The Group has signed commercial lease contracts for building and equipment that is for an average period of 3-10 years and without any renewal right. No restrictions are imposed on the Group in these contracts.

According to the irrevocable operating lease contract, the total future minimum lease payments on December 31, 2019 and 2018 are as follows:

	<u>2019.12.31</u> (Note)	<u>2018.12.31</u>
No more than one year		\$78,068
Over 1 year but less than 5 years		188,529
Over 5 years		25,562
Total		<u>\$292,159</u>

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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28. Operating expenses

The employee benefits, depreciation, and amortization expenses is summarized by function as follows:

	2019	2018
Employee benefits expenses		
Salaries and wages	\$884,357	\$789,506
Labor insurance and national health insurance	66,503	65,400
Pension expenses	36,258	36,988
Other employee benefits expenses	37,051	40,551
Depreciation	125,212	49,970
Total	<u>\$1,149,381</u>	<u>\$982,415</u>

According to the Articles of Association, if the Company has earnings for the year, no less than 0.01% of the earnings should be appropriated to pay employees' remuneration and no more than 2% of the earnings should be appropriated as remuneration to directors and supervisors. However, when there are accumulated losses, an equivalent amount should be appropriated to make up for losses. The remuneration to employees is paid with stock dividend or cash; also, it must be with the consent of half of the presenting directors in the Board meeting that is with two thirds of the directors attended; also, the resolution should be reported in the shareholders' meeting. Please refer to the "Market Observation Post System" of the Taiwan Stock Exchange Corporation for information on employee remuneration and remuneration to directors and supervisors resolved by the Board of Directors.

In January 1 to December 31, 2019 and 2018, according to the profit generated, an amount equivalent to 0.01% of the earnings was appropriated for the employee's remuneration, NT\$400 thousand and NT\$360 thousand, respectively, which was listed in the "salary expense" account.

The Company's Board of Directors had resolved on February 24, 2020 to have the 2019 employees' compensation and the remuneration to directors and supervisors distributed for an amount of NT\$400 thousand and NT\$0, respectively, which was not significantly different from the expenses booked in the 2019 financial report.

The Company's Board of Directors had resolved on February 25, 2019 to have the 2018 employees' remuneration and the remuneration to directors and supervisors distributed for an amount of NT\$360 thousand and NT\$0, respectively, which was not significantly different from the expenses booked in the 2018 financial report.

There is no significant difference between the actual employees' remuneration and remuneration to directors and supervisors distributed in 2019 and the expenses booked in the 2018 financial report.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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29. Other comprehensive income

The other comprehensive income in January 1 to December 31, 2019 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income	Income tax benefit (expense)	After-tax amount
Items not reclassified to income:					
Unrealized gain(loss) on valuation of equity instruments measured at fair value through other comprehensive income	\$430,495	\$-	\$430,495	\$-	\$430,495
Reevaluation of defined benefit plan	6,589	-	6,589	(19,752)	(13,163)
Items may be re-classified subsequently to income:					
Exchange differences from the translation of financial statements of foreign operations	(85,655)	-	(85,655)	13,122	(72,533)
Unrealized gain(loss) of debt instruments measured at fair value through other comprehensive income	4,176,434	(51,540)	4,124,894	-	4,124,894
Total	<u>\$4,527,863</u>	<u>\$(51,540)</u>	<u>\$4,476,323</u>	<u>\$(6,630)</u>	<u>\$4,469,693</u>

The other comprehensive income on January 1 to December 31, 2018 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income	Income tax benefit (expense)	After-tax amount
Items not reclassified to income:					
Unrealized gain(loss) on valuation of equity instruments measured at fair value through other comprehensive income	\$(71,940)	\$-	\$(71,940)	\$-	\$(71,940)
Reevaluation of defined benefit plan	(8,950)	-	(8,950)	8,632	(318)
Items may be re-classified subsequently to income:					
Exchange differences from the translation of financial statements of foreign operations	64,596	-	64,596	(12,048)	52,548
Unrealized gain(loss) of debt instruments measured at fair value through other comprehensive income	(3,303,829)	20,004	(3,283,825)	-	(3,283,825)
Total	<u>\$(3,320,123)</u>	<u>\$20,004</u>	<u>\$(3,300,119)</u>	<u>\$(3,416)</u>	<u>\$(3,303,535)</u>

The Group's debt instrument investment measured at fair value through other comprehensive income in 2019 and 2018 are reclassified to profit or loss from the cumulative other comprehensive income at the time of de-recognition for an amount of NT\$51,540 thousand and NT\$20,004 thousand, respectively.

30. Income tax

According to the amended provisions of the Income Tax Law promulgated on February 7,

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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2018, the income tax rate of the profit-making enterprise applicable from the year of 2018 was changed from 17% to 20%, and the additional business tax rate for undistributed earnings was changed from 10% to 5%.

The main composition of income tax expenses (benefit) is as follows:

Income tax recognized in profit or loss

	<u>2019</u>	<u>2018</u>
Current income tax expenses (benefit):		
Payable income tax for the current period	\$310,376	\$695,827
The income tax of the previous years adjusted in the current period	810	(8,753)
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to the original generation of the temporary difference and its reversal	193,008	62,963
The tax losses, income tax credit, or temporary differences that were not recognized in previous years are recognized in the current year.	-	(5,994)
Deferred income tax related to changes in tax rates or new taxation	-	(48,533)
Income tax expenses	<u>\$504,194</u>	<u>\$695,510</u>

Income tax recognized in the other comprehensive income

	<u>2019</u>	<u>2018</u>
Deferred income tax expense (benefit):		
Exchange differences from the translation of financial statements of foreign operations	\$(13,122)	\$12,048
Defined benefit plan actuarial (loss)	19,752	(8,632)
The other comprehensive income related income tax	<u>\$6,630</u>	<u>\$3,416</u>

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The amount of income tax expense and accounting profit multiplied by the applicable income tax rate is adjusted as follows:

	2019	2018
Net income before tax of the continuing business units	\$3,903,881	\$3,573,311
Tax amount calculated according to the domestic tax rate applicable to the income of the country concerned	\$780,776	\$714,662
Income tax effect of the tax-free income	(627,990)	(362,593)
Income tax effect of non-deductible expenses on tax returns	44	323
Income tax effect of deferred income tax assets/liabilities	102,392	(9,063)
Basic tax adjustment	248,162	143,686
Additional 10% income tax on the undistributed earnings	-	217,248
The income tax of the previous years adjusted in the current period	810	(8,753)
Total income tax expense recognized in profit or loss	\$504,194	\$695,510

Deferred income tax assets (liabilities) balances related to the following items:

2019

	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Balance, ending
Temporary differences				
Financial assets measured at fair value through profit or loss	\$(2,647)	\$(83,050)	\$-	\$(85,697)
Allowance for bad debt	158,566	(76,028)	-	82,538
Impairment of Assets	23,234	(9,293)	-	13,941
Employees' leave benefits liabilities	5,726	(2,164)	-	3,562
Compensation payable	9,276	(8,114)	-	1,162
Reserve for guarantee liability	11,289	(4,230)	-	7,059
Net determined benefit liability-non-current	58,836	(9,090)	(19,752)	29,994
Investment profit or loss recognized according to the Equity Method	-	918	-	918
Conversion difference of the financial statements of foreign institutions	(7,108)	-	13,122	6,014
Deferred income tax benefit (expense)		\$(191,051)	\$(6,630)	
Net deferred income tax assets	\$257,172			\$59,491
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	\$266,927			\$145,188
Deferred tax liabilities	9,755			85,697
Deferred income tax liabilities - land value incremental tax reserve	50,135			50,135
Total	\$59,890			\$135,832

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2018

	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensi ve profit of loss	Balance, ending
Temporary differences				
Financial assets measured at fair value through profit or loss	\$17,971	\$(20,618)	\$-	\$(2,647)
Allowance for bad debt	142,681	15,885	-	158,566
Impairment of Assets	22,336	898	-	23,234
Employees' leave benefits liabilities	6,174	(448)	-	5,726
Compensation payable	7,250	2,026	-	9,276
Reserve for guarantee liability	17,736	(6,447)	-	11,289
Net determined benefit liability-non-current	55,895	(5,691)	8,632	58,836
Investment profit or loss recognized according to the Equity Method	35	(35)	-	-
Conversion difference of the financial statements of foreign institutions	4,940	-	(12,048)	(7,108)
Deferred income tax benefit (expense)		<u>\$(14,430)</u>	<u>\$(3,416)</u>	
Net deferred income tax assets	<u>\$275,018</u>			<u>\$257,172</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$275,018</u>			<u>\$266,927</u>
Deferred tax liabilities	-			9,755
Deferred income tax liabilities - land value incremental tax reserve	50,135			50,135
Total	<u>\$50,135</u>			<u>\$59,890</u>

Income tax declaration and audit

As of December 31, 2019, the income tax returns of the Company and its subsidiaries were assessed and approved as follows:

	<u>Income tax declaration and audit</u>
The Company	Audited up to the year of 2017
Subsidiary - King's Town Bank International Leasing Co., Ltd.	Audited up to the year of 2017
Sub-subsidiary - King's Town International Real Estate Management Co., Ltd.	Audited up to the year of 2017

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31. Earnings per share

The basic earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period.

The diluted earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period plus the weighted average number of common stock shares to be issued when all dilutive potential common stock shares were converted into common stock shares.

	2019	2018
(1) Basic earnings per share		
Net income attributable to the holders of common stock of the parent company (NT\$ Thousands)	\$3,399,687	\$2,877,801
Weighted average number of common stock shares (Thousand shares) of the earnings per share	1,137,777	1,147,757
Base earnings per share (In dollars)	<u>\$2.99</u>	<u>\$2.51</u>
(2) Diluted earnings per share		
Net income attributable to the holders of common stock of the parent company (NT\$ Thousands)	\$3,399,687	\$2,877,801
Weighted average number of common stock shares (Thousand shares) of the earnings per share	1,137,777	1,147,757
Dilution effect	-	-
Weighted average number of common stock shares (Thousand shares) after adjusting the dilution effect	1,137,777	1,147,757
Diluted earnings per share (In dollars)	<u>\$2.99</u>	<u>\$2.51</u>

There was no other transaction performed to cause significant changes to the outstanding common stock shares or the potential common stock shares after the reporting period and before the release of the financial statements.

VII. Related party transactions

1. Names of related parties and their relationship with the company

Name	Relationship with the Group
Chen-Chih Tai	Chairman of the Company
Chiung-Ting Tsai	Vice Chairman of the Company
Jih-Cheng Chang	President of the Company
Tiangang Investment Co., Ltd	Director of the Company

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Name	Relationship with the Group
Ming-Tai Chen	Independent Director of the Company
Chao-Lung Chen	Independent Director of the Company
Chih-Chieh Hsu	Independent Director of the Company (2018.5.16 resigned)
Hung-Liang Chiang	Independent Director of the Company (2018.11.2 took office)
Others	Representatives of the Company's managers, incorporated directors and supervisors, and second degree of kinship and substantive stakeholders

2. Significant transactions with related parties

(1) Deposit and loan

Account titles	Amount	% of the account balance
<u>2019.12.31</u>		
Deposits	\$216,702	0.11%
Loans	28,796	0.02%
<u>2018.12.31</u>		
Deposits	\$234,256	0.12%
Loans	33,496	0.02%

For the deposit interest rate between the Group and its related parties, except for when the bank clerk's savings deposit amount within the prescribed limit has interest calculated according to a preferential deposit interest rate, the amount exceeding the threshold and the deposit interest rate of the other related party are same as the interest rate of the general customers.

(2) Lease

The rental expenses paid to the related party for the lease of the office on January 1 to December 31, 2019 and 2018 were NT\$3,840 thousand.

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(3) Loans

December 31, 2019

Type	Number of accounts or name of stakeholder	Current period Maximum Balance	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	No-performing loans		
Consumer loan	12	\$5,601	\$5,374	\$5,374	\$-	None	None
Residential mortgage loans	4	13,264	13,147	13,147	-	Real estate	None
Other loans	Chou OO	3,000	3,000	3,000	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Yu OO	5,000	5,000	5,000	-	Real estate	None

December 31, 2018

Type	Number of accounts or name of stakeholder	Current period Maximum Balance	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	No-performing loans		
Consumer loan	8	\$4,586	\$4,413	\$4,413	\$-	None	None
Residential mortgage loans	4	23,503	23,308	23,308	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Lin OO	3,500	3,500	3,500	-	Real estate	None

(4) Guaranteed amount: None

(5) Derivative financial instrument transactions: None

(6) Sale of non-performing loan: None

(7) Remuneration of directors and key management personnel of the Group

	2019	2018
Short-term employee benefits	\$26,555	\$42,455
Retirement benefits	1,864	1,763
Total	<u>\$28,419</u>	<u>\$44,218</u>

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VIII. Pledged assets

The Group has the following assets provided as collateral:

Item	Book value		Guaranteed debt
	2019.12.31	2018.12.31	
Financial assets at fair value through profit and loss	\$6,563,455	\$6,737,446	RP transaction
Financial assets at fair value through profit and loss	705,688	11,203	Various business reserves and collateral
Financial assets at fair value through other comprehensive income	-	2,056,191	Various business reserves and collateral
Financial assets at fair value through other comprehensive income	25,086,282	25,914,862	RP transaction
Financial assets at fair value through other comprehensive income	6,540,073	8,752,307	Funds borrowed from banks
Accounts receivable	1,269,000	828,814	Funds borrowed from banks
Financial assets at fair value through profit and loss	49,400	-	Funds borrowed from banks
Total	<u>\$40,213,898</u>	<u>\$44,300,823</u>	

IX. Significant contingent liabilities and unrecognized contractual commitments

The Group has the following or various trust agents and guarantees:

	2019.12.31	2018.12.31
Receivable and collection	\$10,764,902	\$10,780,490
Receivable guarantees	5,619,363	5,092,739
Receivables from L/C	54,661	33,176
Trust and custody	31,605,353	27,652,280
Agreed financing amount	21,220,207	17,201,151

X. Contents and amount of trust business handled in accordance with the provisions of the Trust Enterprise Act

The Group provides the trust balance sheet, income statement, and property list to the Trust Department in accordance with Article 17 of the Enforcement Rules of the Trust Enterprise Act as follows:

Balance Sheet of Trust Accounts

Trust assets	2019.12.31	2018.12.31	Trust liabilities	2019.12.31	2018.12.31
Bank deposits	\$909,909	\$3,687,960	Mid-term borrowings	\$4,821,230	\$-
Stock	2,524,592	384,111	Payables	22,179	49,179
Fund	9,171,811	10,414,291	Other liabilities	31,402	1,769
Real estate	18,070,304	12,380,141	Trust capital	26,505,245	27,583,648
Other assets	866,230	723,777	Reserve		
			And accumulated earnings	162,790	(44,316)
Total trust assets	<u>\$31,542,846</u>	<u>\$27,590,280</u>	Total trust liabilities	<u>\$31,542,846</u>	<u>\$27,590,280</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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Income Statement of Trust Accounts

Item	2019	2018
Amount		
Interest revenue	\$1,105	\$751
Rent revenue	385,687	11,994
Dividend income	129,037	-
Unrealized capital gains	53,013	-
Other profits	16,158	-
Subtotal	585,000	12,745
Trust expenses		
Sales expenses	-	35,376
Administrative expenses	34,571	-
Tax expenses	22,850	-
Interest expenses	40,298	-
Unrealized capital loss	69,166	-
Appraisal expenses	3,000	6,612
Remuneration expense	1,200	8,418
Other Expenses	58,645	6,655
Subtotal	229,730	57,061
Net profit before tax (net loss)	355,270	(44,316)
Income tax expenses	(25)	-
Net income (net loss)	\$355,245	\$(44,316)

Property Catalogue of Trust Accounts

Investment	2019.12.31	2018.12.31
Bank deposits	\$909,909	\$3,687,960
Stock	2,524,592	384,111
Fund	9,171,811	10,414,291
Real estate		
Land	13,193,092	8,953,760
Buildings and structures	4,870,632	3,150,231
Construction in progress	6,580	276,150
Others	866,230	723,777
Total	\$31,542,846	\$27,590,280

XI. Significant disaster loss

No such event.

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XII. Significant subsequent events

No such event.

XIII. Fair value and grade information of financial instruments

1. Information on the fair value of financial instruments

Financial assets:

	2019.12.31		2018.12.31	
	Book value	Fair value	Book value	Fair value
Financial assets measured at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss	\$34,979,793	\$34,979,793	\$31,786,797	\$31,786,797
Financial assets at fair value through other comprehensive income	50,891,550	50,891,550	53,487,356	53,487,356
Financial assets at amortized cost				
Investment of debt instruments at amortized cost	17,698,135	17,698,135	17,597,996	17,597,996
Cash and cash equivalents (excluding cash on hand)	1,535,023	1,535,023	2,744,982	2,744,982
Due from Central Bank and lend to Banks	11,162,682	11,162,682	13,844,758	13,844,758
Bonds and securities sold under repurchase agreements	150,022	150,022	624,167	624,167
Receivables	4,907,384	4,907,384	3,642,416	3,642,416
Discounts and loans	155,350,678	155,350,678	152,229,752	152,229,752
Other financial assets	4,396	4,396	4,705	4,705

Financial liabilities:

	2019.12.31		2018.12.31	
	Book value	Fair value	Book value	Fair value
Financial liabilities based on cost after amortization:				
Deposits from Central Bank and other banks	\$14,533,849	\$14,533,849	\$19,937,251	\$19,937,251
Funds borrowed from Central Bank and other banks	4,395,830	4,395,830	3,438,640	3,438,640
Bills and bonds sold under repurchase agreements	28,218,020	28,218,020	29,316,496	29,316,496
Payables	1,252,826	1,252,826	2,311,881	2,311,881
Customer deposits and remittances	191,798,662	191,798,662	188,432,924	188,432,924
Lease liabilities	217,256	217,256	(Note)	(Note)
Financial liabilities at fair value through profit and loss:				
Held for transaction purposes	6,002	6,002	25,784	25,784

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Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

The derivative financial instrument transactions are detailed as follows:

Item	Contract amount	Fair value
2019.12.31		
Foreign exchange contracts	\$1,984,179	\$2,803
2018.12.31		
Foreign exchange contracts	\$4,176,667	\$13,233

2. Methods and assumptions used in the fair value of financial instruments

Fair value is the price that would be collected for the assets sold or price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. The methods and assumptions used by the Group to measure or disclose the fair value of financial assets and financial liabilities are as follows:

- (1) The fair value of short-term financial products is estimated according to the book value on the balance sheet. Because the maturity date of such products is very close or the current collection price is equal to the book value, so the book value is a reasonable basis for estimating the fair value. This method is applied to cash and cash equivalents, deposits with the Central Bank and inter-bank loan, RS bill and bond investments, receivables, deposits of the Central Bank and interbank, financing of the Central Bank and interbank, RP bill and bond liabilities, payables, deposits and remittances, and other financial liabilities.
- (2) For financial assets and liabilities measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, available-for-sale financial assets, and held-to-maturity financial assets, if there is a public market price available, such market price is the fair value, which refers to the closing price on the balance sheet date for the listed (OTC) equity security with a market price available, the net asset value on the balance sheet date for the fund, the closing price or reference price on the balance sheet date for the bond, and the settlement price or the counterparty's quote for the derivative financial products. If no market price is available for reference, the evaluation method is used for estimation. When the Group adopts the market price including the purchase price and the selling price, the Group will evaluate the selling (purchasing) position at the market buying (selling) price. If there is no market price available at the time of evaluation but there is the most recent market transaction price available, then the said transaction price is the fair value of such financial asset.
- (3) Discounts, loans, and deposits are all interest-bearing financial assets and liabilities, so their book value is similar to the current fair value. The book value of the collection is the estimated recovery amount net of the allowance for bad debt. Therefore, the book value is the fair value.
- (4) For debt-based instruments that are without an available market price, the fair value is

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determined by the counterparty's quotation or valuation technology. The determination of valuation technology is based on the discounted cash flow analysis. The assumptions of interest rate and discount rate are mainly based on information related to similar instruments (for example, Taipei Exchange reference yield curve, the Reuters commercial promissory interest rate average quotation, and credit risk information).

- (5) The fair value of derivatives (including forward foreign exchange and foreign exchange transactions) is the amount that the Group is expected to obtain or must pay if it terminates the contract at the agreed reporting date. The Group calculates the fair value of the position held with the parameters or quotation information disclosed by the Reuters Information System.
- (6) The fair value of the equity instruments (e.g.: private company's stock shares) that do not have a market price available is estimated with the market approach, which is with the fair value estimated with the price generated in market transactions of the same or comparable company's equity instruments and other relevant information (e.g. lack of liquidity discount factor, the profit ratio of the similar company's stock, and the input value of the similar company's stock price book ratio).

Please refer to Note XIII. 3 for the information on the fair value bracket of the Group's financial instruments.

3. Fair value hierarchy

(1) The definition of the Group's three-level fair value

① Level I

Refers to the public offer (unadjusted) of the same financial instrument available in the market on the measurement date. The fair value of the listed (OTC) stocks, beneficiary certificates, corporate bonds, financial bonds, convertible corporate bonds, and derivatives with a market price available invested in by the Group is classified as Level I.

② Level II

It refers to the observable prices other than the quote in an active market, including the observable input parameters directly (as prices) or indirectly (e.g. derived from prices) acquired from an active market. It includes the convertible corporate bonds, Taiwan Central Government bonds, and general derivatives invested by the Group.

③ Level III

It means that the input parameters for measuring fair value are not based on information available from the market or by the quotations provided by the counterparty. It includes the unlisted stocks invested by the Group.

For assets and liabilities that are recognized in the financial statements on a repetitive basis, the classification is re-evaluated at the end of each reporting period to

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determine whether there is a transfer between the fair value levels.

(2) Information on the fair value measurement levels:

The Group does not have non-repetitive assets measured at fair value. The information on the fair value level of repetitive assets and liabilities is shown below.

2019.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets at fair value through profit and loss				
Stock investment	\$3,564,197	\$3,564,197	\$-	\$-
Bond investment	29,056,073	-	29,056,073	-
Derivatives	8,805	-	8,805	-
Others	2,350,718	2,350,718	-	-
Financial assets at fair value through other comprehensive income				
Stock investment	2,569,607	21,386	13,839	2,534,382
Bond investment	48,321,943	39,382,688	8,939,255	-
<u>Liabilities measured at fair value</u>				
Financial liabilities at fair value through profit and loss				
Derivatives	6,002	-	6,002	-

2018.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets at fair value through profit and loss				
Stock investment	\$4,584,529	\$4,584,529	\$-	\$-
Bond investment	24,435,062	301,361	24,133,701	-
Derivatives	39,017	-	39,017	-
Others	2,728,189	2,728,189	-	-
Financial assets at fair value through other comprehensive income				
Stock investment	890,992	93,960	-	797,032
Bond investment	52,596,364	36,881,446	15,714,918	-
<u>Liabilities measured at fair value</u>				
Financial liabilities at fair value through profit and loss				
Derivatives	25,784	-	25,784	-

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(3) Transfer between Level I and Level II fair value

In the period of January 1 to December 31, 2019 and 2018, the Group's assets and liabilities measured at the Group's repetitive fair value was not transferred between Level I and Level II fair value.

(4) Changes in Repetitive Fair Value Level III Statement

If the assets measured with the Group's repetitive fair value that are classified as Level III fair value, the adjustment of the beginning balance and the ending balance is as follows:

	Financial assets measured at fair value through other comprehensive income - stocks
2019.1.1	\$797,032
Total benefits recognized in 2019:	
Recognized in other comprehensive income (reported in "Unrealized gain(loss) on valuation of equity instrument investments measured at fair value through other comprehensive income")	432,699
Achievements in the current period	1,304,651
2019.12.31	<u>\$2,534,382</u>
	Financial assets measured at fair value through other comprehensive income - stocks
2018.1.1	\$803,543
Total benefits recognized in 2018:	
Recognized in other comprehensive income (reported in "Unrealized gain(loss) on valuation of equity instrument investments measured at fair value through other comprehensive income")	(11,110)
Achievements in the current period	4,599
2018.12.31	<u>\$797,032</u>

Significant unobservable input value information of Level III fair value

For the Group's assets measured at Level III repetitive fair value, the significant unobservable input values for fair value measurement are as follows:

Financial assets at fair value through other comprehensive income	Valuation technique	Significant unobservable input value	Range	Relationship between input value and fair value
Stock	Market Approach	Lack of liquidity discount rate	20%~30%	The higher the lack of liquidity, the lower the estimated fair value

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Evaluation process for Level III fair value

The financial instrument evaluation team of the Group's Risk Management Department is responsible for independent fair value verification. The data from an independent source is used to bring the evaluation results close to the market, to confirm that the data sources are independent, reliable, consistent with other resources, and representing executable prices, and regularly calibrate and evaluate the valuation model, performing backtracking tests, updating the input values and information required for the evaluation model, and any other necessary fair value adjustments to ensure that the valuation results are reasonable.

(5) Not measured at fair value but must disclose fair value level information

Assets with only fair value disclosed:	Level I	Level II	Level III	Total
<u>2019.12.31</u>				
Investment of debt instruments at amortized cost				
Convertible certificate of deposit	\$17,698,135	\$-	\$-	\$17,698,135
<u>2018.12.31</u>				
Investment of debt instruments at amortized cost				
Convertible certificate of deposit	\$17,597,996	\$-	\$-	\$17,597,996

4. Transfer of financial assets

Transferred financial assets not being removed in all

In the daily trading activities of the Group, for the transferred financial assets that did not meet the overall de-recognizing conditions, most of them are RP debt securities as collateral held by the counterparty of the transaction. Such transactions are essentially secured borrowings and reflect the Group's liabilities from repurchasing the obligation of the transferred financial assets at a fixed price in the future. For such transactions, the Group is unable to use, sell, or pledge the transferred financial assets during the effective period of the transaction, but the Group still bears the interest rate risk and credit risk. Therefore, it has not been derecognized entirely.

The table below shows the financial assets not qualified under all conditions and related financial liabilities:

December 31, 2019					
Category of financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Net fair value position
Financial assets at fair value through profit and loss R/P agreement	\$6,563,455	\$6,957,000	\$6,563,455	\$6,957,000	\$(393,545)
Financial assets at fair value through other comprehensive income R/P agreement	25,086,281	21,261,020	25,086,281	21,261,020	3,825,261

XIV. Financial risk management

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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1. Overview

The Group uses the business growth scale to establish a capital adequacy assessment process that meets the risk profile in order to maintain adequate capital. Also, it considers the overall risk exposure, implements appropriate overall capital allocation, and establishes management mechanisms for various business risks in order to strengthen business performance. The risks involved in the businesses on and off the balance sheet, such as, credit risk, market risk, operational risk, liquidity risk, country risk, interest rate risk in the banking book, etc., are included in the risk management scope. Policies and methods are stipulated according to different risks, such as, "Credit Policy", "Rules Governing Credit Review and Authorization", "Rules Governing Risks", etc. Stipulate management guidelines according to the needs of the policies and methods, such as, stipulating "Regulations Governing Credit Risk", "Regulations Governing Market Risk", and "Regulations Governing Operational Risk" in accordance with the "Rules Governing Risks" that are reviewed and approved by the Board of Directors in order to effectively identify, measure, communicate, and monitor various risks.

2. Risk management organizational structure

The risk management of the Group is carried out by the Risk Management Department in accordance with the risk management policy approved by the Board of Directors. The Risk Management Department works closely with business units to identify, assess, and prevent risks. The Board of Directors has a written policy for risk management that covers specific risk exposure, such as, interest rate risk, credit risk, etc. In addition, the Audit Office regularly (at least once a year) and occasionally reviews the risk management and operating procedures of the Group to ensure that the Group's risk management mechanism can be operated effectively. Also, the audit records related to various risks, such as transaction records, statements, and valuations are kept for the review of the Audit Office.

(1) Risk Management Committee

For the purpose of upgrading the risk management mechanism, improving various risks management, avoiding all possible adverse effects on the Group, and seeking maximized profits with limited risks, the Risk Management Committee is established with the President acting as the Chief Commissioner. Also, the department head of the Finance Department, Digital Service and Business Department, Risk Management Department, Credit Review Department, Administration Office, International Sales Department, Compliance Department, and the Business Management Department and other personnel designated by the President act as the Members of the Committee. The chief auditor may attend the Committee meeting, but may not vote. The Committee has a meeting held once a month with the following missions to fulfill:

- ① Add and amend the Group's risk management policy.
- ② Coordinate the risk management issues of the Company, such as, credit risk, market risk, and operational risk.
- ③ Review the ratio of the Group's regulatory capital to risk assets (referred to as "capital adequacy ratio")
- ④ Handle and review the major risk exposure and unauthorized events which occur.
- ⑤ Major issues or discussions related to risk management proposed by each unit
- ⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman

The "Risk Management Department" is the execution unit of the Risk

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Management Committee and the risk management planning and management unit of the Bank. It independently monitors and manages the risks of the Bank. The department head of the Risk Management Department acts as the Executive Secretary who is appointed by the Board of Directors. The Risk Management Department is responsible for calculating and monitoring the capital adequacy, and comprehensively handles the risk management and reports to the competent authorities in accordance with various risks management guidelines. Submits a risk control report to the Committee on a quarterly basis and forwards it to the Board of Directors. Also, the Committee sets rules to control various investment positions and transaction quotas, and handles transaction clearing and settlement, such as, bank-wide fund scheduling and securities trading.

(2) Asset and Liability Management Committee

The President of the Group is the Chief Commissioner of the Group's Asset and Liability Management Committee. The members are composed of the personnel designated by the President and the department head of the Digital Service and Business Department, the Risk Management Department, the Finance Department, and the Administration Office. In response to the domestic and foreign financial situation, they are responsible for adjusting the business strategy in a timely manner, maintaining liquidity, safety, and profitability, and holding regular meetings at least once a month. The main tasks are as follows:

- ① Assess the impact of changes in domestic and foreign political and economic situations and the trend of government policies on financial business operations.
- ② Predict the impact of domestic and foreign funds, exchange rates, interest rate trends, and other relevant financial indicators on the Group's business operations.
- ③ Assess the Group's operating performance, capital position, asset and liability risk position, and interest rate sensitivity, as well as study and adjust the best ratio of various assets and liabilities.
- ④ Assess the Group's pricing strategy for deposit and loan interest rates.
- ⑤ Estimate the Group's future operating performance and moderately adjust the Group's business strategy.
- ⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman

(3) Credit Review Committee

The Credit Review Committee is chaired by the President and consists of the head of the Credit Review Department, the Risk Management Department, and the Digital Service and Business Department, and the personnel designated by the President to strengthen the review and risk control of the credit business and to ensure the Group's credits. In principle, a meeting will be held once a week to review the credit cases to be granted by the Board of Directors, and the results of the review will be presented to the Board of Directors for approval. The process and transfer of the proposals will be handled by the Credit Review Department.

(4) Investment Management Committee

In order to respond to changes in domestic and foreign financial situations, timely adjust investment strategies and control investment risks to maintain the safety and profitability of the Group's investment positions. The "Investment Management Committee" is established as the highest management unit responsible for the Group's investment business. The Investment Management Committee is chaired by the President, and the members include the head of the Finance Department and other

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personnel appointed by the President. The Committee has a meeting held once a month with the following missions to fulfill:

- ① Set the Bank's investment strategies and principles according to the changes in domestic and foreign political and economic situations and the trend of government policies.
 - ② Assess whether the performance of the investment portfolio meets the expected objectives, predict the impact of changes in domestic and foreign capital situation, exchange rate, interest rate, and other relevant financial indicators on the investment position of the Group, and study whether the investment strategy should be adjusted.
 - ③ Review the proportion, allocation, and reinvestment-orientation of various financial investment projects.
 - ④ Review the source of funds and cost structure of the investment.
- (5) Information Security Management Committee
- The "Information Security Management Committee" is formed to improve the information security management system, respond to all information security-related laws and regulations, and comply with the relevant government regulations in order to reduce the risk impact and influence on the Group due to information security. The Committee has one convener appointed who is the President or an individual appointed by the GM. The members are the head of the Risk Management Department, the Information Office, the Digital Service Department, the Compliance Department, and the department head or the designated individual of the department designated by the convener. The Audit Department may attend the Committee meeting, but may not vote. The Committee will hold meetings from time to time as needed. The main tasks are as follows:
- ① Propose the information security policy of the Group.
 - ② Promote the information security management system.
 - ③ Assess the infrastructure of the information security management system.
 - ④ Handle and review major information security incidents.
 - ⑤ Major issues or discussions related to information security proposed by each unit
 - ⑥ Discussion of other information security issues.

3. Credit Risk

(1) Source and definition of credit risk

Credit risk refers to the risk of default loss caused by the borrower or counterparty due to the deterioration of the company's business condition or other factors (such as, disputes between the company and its counterparty), resulting in the borrower or counterparty not fulfilling its contractual obligations. The sources of credit risk covered on and off balance sheet items. For the Group's credit risk exposure, the items on the balance sheet mainly come from discounts and loans, deposits and interbank lending, debt instrument investments and derivative financial instruments... etc. The off-balance sheet items are mainly guarantees, letters of credit, loan commitments, etc.

(2) Credit risk management policies:

The Group's written credit risk management strategy is prepared as a guideline for the credit operating procedure. Also, the relevant policies and operational guidelines are set up to ensure that the strategy can be implemented continuously and effectively

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in order to maintain rigorous loan granting standards, monitor credit risk, assess possible business opportunities, and identify and manage non-performing loans. The scope of management includes: ① Various credit risks (including individual credit cases, overall credit check, credit business, non-performing loans, etc.) and credit risk offset instruments, such as, collateral and guarantee, of the businesses on and off the balance sheet. ② A credit risk-related product or position of the banking book or transaction book.

In order to maintain a safe and sound credit business and control credit risk, the "Regulations Governing Credit Risk" are stipulated to establish a credit risk control mechanism when planning various businesses in order to implement the procedures of identification, measurement, communication, and monitoring. Under the credit management organization structure with decentralization of responsibility planned, each responsible unit is to review and discuss the cases within the authorization in accordance with the "Rules Governing Credit Review and Authorization" in order to ensure the quality of the credit assets. The "Directions for Credit Review and Implementation" are formulated. Also, the Credit Review Department at the head office is responsible for handling and strengthening post-loan management in order to effectively control credit risk.

The credit risk management procedures and measurement methods for each major business of the Group are described below:

① Credit business (including loan commitments and guarantees)

The classification of credit assets and credit quality rating are described as follows:

A. Credit asset classification

The Group's credit assets are classified into five categories. Except that the normal credit assets are classified as Category I, the non-performing credit assets are evaluated according to the loan guarantee status and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful", and Category V "Losses". The Group has formulated the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" to establish the internal processing systems and procedures for asset quality assessment, appropriation of loss reserve, collection of overdue loans, and liquidation of bad debts. Also, it is handled in accordance with the requirements of the competent authorities and the Group. In order to speed up the liquidation of non-performing loans and reduce overdue loans, the Group has the "Rules Governing Non-Performing Loans" formulated to realize a sound financial structure and to enhance asset and liability management.

B. Credit quality rating

The Group has formulated the "Corporate Finance and Consumer Finance Business Classification" according to the business characteristics and scales. The directions for credit rating are formulated for corporate account holders and individual account holders. The credit rating scores of the debtors are classified into 10 grades (C1~C10), which is an internal credit rating and it is used for risk management. The credit rating is used as criteria for credit approval and as reference in determining credit conditions, and those with a poor credit rating

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are subject to higher credit review frequency.

② Deposit and inter-bank lending

The Group evaluates the credit status of the counterparty before the transaction initiated. Also, it determines the ratio of loans in New Taiwan Dollars and foreign currency according to the domestic and foreign financial inter-bank credit rating before the end of each year, and submits it to the Credit Review Committee for review and reports it to the Board of Directors for approval.

③ Debt instrument investment and derivative financial instruments

The Group's credit risk management of debt instrument is to identify credit risk through the credit rating of debt instrument by domestic and international credit rating agencies, bond guarantee institutions, country risks, and counterparty risk. For the financial institutions that initiate investments in the Group's derivative financial product transactions, set the ceiling of the financial transaction amount by the nature of the counterparty and the credit rating in accordance with the "Regulations Governing Derivatives Transactions Quota".

(3) Credit risk hedge or mitigation policy

① Collateral

The Group adopts the methods of stipulating credit limit conditions, collection of collateral, and the guarantor or the transfer of the credit guarantee fund to reduce the credit risk for credit business in order to strengthen the credit of the Group. The Rules Governing Collateral Appraisal and related procedural guidelines and regulations for regulating acceptable types of collateral and the valuation, management, and disposal of collateral have been formulated to ensure credit. It also has a credit guarantee, a collateral clause, and an offset clause formulated. It clearly defines that upon the occurrence of a credit event, the credit amount can be reduced, the borrowing repayment period can be shortened or deemed as fully expired, and the various deposits of the debtors with the Group are applied to offset the liabilities in order to reduce credit risk.

For the verification of collateral appraisal and the collateral check on a regular or irregular basis, verify the credit and collateral revaluation according to the status quo of the debtors, and assess the degree of guarantee provided by the debtors and the legal effect of the guarantor in order to ensure the protection of credit.

② Credit risk limit and credit risk concentration control

The Group has the "Credit Policy" formulated to properly plan and control the credits of the same natural person, the same legal person, the same public enterprise, the same related party, the same associate, and the same group. Set the ceiling (the same public enterprise shall not exceed the net value of the Group, and the ceiling of the same group enterprise shall be adjusted and approved according to its credit rating and prospect) of the ratio to the net value of the Group for each entity in order to control the single credit risk and improve the efficiency of fund utilization. For the ratio of total credit balance of the same industry to the total credit balance of the Group, the ceiling will be approved according to the industry and the overall economy and by referring to the non-performing loan ratio of the industry and future economy. In order to strengthen the credit risk control of each industry overseas and in Mainland China, the respective limit is stipulated accordingly. For the ratio of the total credit

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balance secured by residential real estate to the total credit balance of the Group, it is divided into the categories of housing repair and working capital limit control by the intended use of funds. Also, the credit-orientation is dynamically adjusted to hedge the overall risk and to avoid excessive credit risk concentrations.

③ Master netting arrangement

The Group's transactions are usually cleared on a gross amount. Also, an agreement is reached with some counterparties for a net clearing method, or all transactions with the counterparty are terminated with a net amount clearing arranged in the event of default in order to further reduce the credit risk.

(4) Maximum credit risk exposure

The maximum credit risk exposure of the assets stated in the consolidated balance sheet without the consideration of collaterals or other reinforced credit instruments approximate their book value. The maximum credit risk exposure amount (excluding collateral or other credit enhancement instruments, and irrevocable maximum risk exposure amount) associated with off-balance sheet items is as follows:

Off-balance sheet items	Credit risk maximum risk exposure amount	
	2019.12.31	2018.12.31
Customer's developed and irrevocable loan commitments	\$21,220,207	\$17,201,151
Customer's outstanding letters of credit amount	207,684	668,933
Guarantee payments	5,619,363	5,092,739
Total	\$27,047,254	\$22,962,823

(5) The financial information of the collateral, total net cash clearing amount, and other credit enhanced finance effect related to the book value of the maximum credit risk exposure on and off the consolidated balance sheet is illustrated as follows.

December 31, 2019	Collateral	Master netting arrangement	Total
<u>Items on the statement</u>			
Discounts and loans	\$109,321,607	\$ -	\$109,321,607
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	11,707,019	-	11,707,019
Customer's outstanding letters of credit amount	3,000	-	3,000
Guarantee payments	2,287,112	-	2,287,112
Total	\$123,318,738	\$ -	\$123,318,738
<hr/>			
December 31, 2018	Collateral	Master netting arrangement	Total
<u>Items on the statement</u>			
Discounts and loans	\$102,787,532	\$-	\$102,787,532
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	10,067,432	-	10,067,432
Customer's outstanding letters of credit amount	203,359	-	203,359
Guarantee payments	1,843,473	-	1,843,473
Total	\$114,901,796	\$-	\$114,901,796

The Group's management assesses and believes that the credit risk exposure amount

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

of the off-balance sheet items could be controlled and minimized continuously because the Company and its subsidiaries have adopted a more stringent selection process during the credit approval and subsequent periodic review.

(6) Status of credit risk concentration

When a financial instrument counterparty is significantly concentrated on one person, or a financial instrument has several counterparties who are mostly engaging in similar business activities and have similar economic characteristics, so that their ability to perform contracts is affected by economic or other conditions in a similar manner, there is a significant concentration of credit risk.

The Group's credit risk concentration is derived from assets, liabilities, or off-balance sheet items, which are generated through transactions (regardless of products or services) performance or implementation, or a combination of cross-category risk exposure, including credit, deposit and inter-bank lending, marketable securities investments, receivables, and derivatives. The Group did not significantly concentrate on trading with single customers or single transaction counterparties. The total transaction amount with single customers or single transaction counterparties accounting for the Group's discounts and loans and collection amount is insignificant. The Group has the credit risk of the discount, loans, and collections illustrated by the industry, region, and collateral as follows:

2019 By industry

By industry	2019.12.31		2018.12.31	
	Amount	%	Amount	%
I. Private Enterprise	\$118,440,765	75	\$121,205,378	79
II. Government agencies	-	-	-	-
III. Non-profit groups	161,417		177,347	-
IV. Private	39,016,244	25	33,214,250	21
V. Financial institution	-	-	-	-
Total	\$157,618,426	100	\$154,596,975	100

② By region

The Group's main business is conducted in Taiwan and there is no significant concentration of credit risk by region.

③ By collateral

By collateral	2019.12.31		2018.12.31	
	Amount	%	Amount	%
Non-secured	\$48,296,819	31	\$51,809,444	34
Secured				
- Financial collateral	13,342,931	8	14,351,793	9
- Real estate	85,331,445	54	78,741,042	51
- Guarantee	2,932,494	2	1,963,499	1
- Other collaterals	7,714,737	5	7,731,197	5
Total	\$157,618,426	100	\$154,596,975	100

(7) Analysis of the Group's financial assets that is overdue but without impairment

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

The Group had no financial assets that were overdue without impairment as of December 31, 2019 and 2018.

- (8) Judgment of the Group's credit risk that has increased significantly since the original recognition

Credit business

The Group assesses the change in the risk of default in the expected duration of each type of credit asset on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Group considers the information that evidences the significant and reasonable increase of credit risk (including forward-looking information) since the original recognition. The main considerations include:

① Quantitative indicators:

If the contract is overdue for more than 30 days on the reporting date, it is concluded that the credit risk has increased significantly since the original recognition.

② Qualitative indicators:

Observe the following information on the reporting date. If the following conditions are met, it is concluded that the credit risk has increased significantly since the original recognition.

- a. The records of bounced checks of the debtors reported by the Company.
- b. The dishonored accounts announced by Taiwan Clearing House
- c. A specific performance is implemented by other banks against the collateral of the debtors held the Company.
- d. Acknowledged the debts of the debtors with reorganization requested by other financial institution when implementing the post-loan management procedures of review, tracking, and assessment.
- e. Listed as a collection or debited to bad debts
- f. Acknowledged that the public certified accountants had issued an opinion on the financial statements of the debtors with a concern over the continuing operation of the audited debtors when implementing the post-loan management procedures of review, tracking, and assessment.
- g. Acknowledged other non-performing loans of the debtors.

The Group's various types of credit assets are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

Debt instruments

The Group assesses the change in the risk of default in the expected duration of each type of debt instrument on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Group considers the changes in credit rating that indicates the main evaluation indicator is a quantitative indicator since the original recognition. When the credit rating on each reporting date is lower to an extent than the credit rating on the original recognition date, it is determined that the credit risk has increased significantly since the original recognition.

The Group's various types of debt instrument are not subject to the assumption that

(In Thousands of New Taiwan Dollars, unless otherwise specified)

the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

(9) Definition of the Group's default and credit impairment financial assets

Credit business

The Group's definition of default on various types of credit assets is the same as the default and credit impairment of each type of credit assets. If one or more of the following conditions are met, the Group determines that the various types of credit assets have been defaulted with credit impairment resulted:

① Quantitative indicators

If the contract is overdue for more than 90 days on the reporting date, it is concluded that default and credit impairment have occurred.

② Qualitative indicators

Observe the following information on the reporting date. If the objective evidence of impairment (such as agreement, bail-out, rehabilitated, etc.) is met, it is determined that default and credit impairment have occurred.

Debt instruments

The Group's definition of default on a debt instrument is the same as the credit impairment of a debt instrument. If one or more of the following conditions are met, the Group determines that the debt instrument has defaulted with credit impairment.

① Quantitative indicators

If the credit rating on each reporting date reaches the default level, it is determined as defaulted with credit impairment.

② Qualitative indicators

Observe the following information on the reporting date. If the following conditions are met, it is determined that default and credit impairment have occurred.

a. An event of default occurred

b. The issuer's significant financial difficulties

c. The issuer is likely to apply for bankruptcy or other financial restructuring.

The foregoing definition of default and credit impairment is applicable to all financial assets held by the Group and is consistent with the definitions used for the internal credit risk management purposes of the financial assets and are applied to the relevant impairment assessment model.

If the financial assets on the reporting date no longer meet the definition of default and credit impairment, they are concluded to be in the status of performance and are no longer regarded as financial assets that have defaulted with credit impairment.

(10) Write-off policy

When the Group cannot reasonably expect the financial assets to be recovered entirely or partially, it will write off the whole or part of the financial assets in a timely manner in accordance with the requirements of the competent authorities and in line with the Company's asset quality policy.

(11) Measurement of anticipated credit loss

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

For the purpose of assessing expected credit losses, the Group classifies financial assets into the following combinations according to the credit asset/debt instrument categories, credit ratings, and subject matter claim order:

Credit asset/ debt instrument category	Definition
Corporate banking loan	Grouped by risk characteristics, company size, and credit category
Consumer banking loan	Grouped by product category, loan type, etc.
Corporate bonds and financial bonds	Classified by long-term issuer rating (Moody's) and subject matter claim order
Government bonds and Central Bank's convertible certificate of deposit	Classified by sovereign rating (Moody's) and subject matter claim order

For the financial instruments that have not significantly increased in credit risk (Stage 1) after the original recognition, the Group measures the allowance for loss of the financial instrument according to the expected credit loss amount within 12 months. For the financial instruments with significant increase in credit risk after the original recognition (Stage 2) or with credit impairment (Stage 3), it is measured by the expected credit loss amount of the duration.

In order to measure the expected credit losses, the Group while considering the probability of default (PD) of the borrower/issuer in the next 12 months and the duration includes the loss given default (LGD) and has it multiplied by the exposure at default (EAD), taking into account the impact of the time value of money to calculate the expected credit losses for 12 months and the duration. However, for the off-balance sheet credit assets, it must be multiplied by the credit conversation factor (CCF) that is regulated with the "standardized approach" of Basel II.

The probability of default (PD) and loss given default (LGD) used in the impairment assessment of the Group's credit business/investment business are adjusted and calculated according to the internal and external information of each combination and based on current observable information and forward-looking macro-economic information (e.g. global economic growth rate, inflation rate, etc.).

The Group assesses the amount of financial asset default risk on the reporting date. In addition, based on internal and external information, the Group considers the financial assets to be used within 12 months after the reporting date and the amount expected to be used in order to determine the default risk exposure amount for the calculation of the expected credit loss.

There was no significant change in the estimation techniques or material assumptions that were used in 2019 to assess the expected credit loss.

(12) Consideration of prospective information

The Group uses historical data to analyze and identify the economic factors that affect the credit risk and expected credit losses of each asset portfolio, and estimates the impairment parameters after forward-looking adjustment according to the regression model or imputation adjustment method. The relevant economic factors and their impact on PD and LGD vary according to the type of financial instruments.

The relevant economic factors of credit assets identified by the Group in 2019 were the economic growth rate. The relevant economic factors of debt instrument identified by the Group in 2019 were the global economic growth rate and inflation rate.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(13) Allowance for loss

Changes in allowances for bad debts related to discount and loan

Changes in the allowances for bad debts related to discounts and loans for the period from January 1 to December 31, 2019 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Impairment appropriated according to IFRS 9	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance, beginning	\$392,388	\$41,994	\$-	\$146,477	\$-	\$580,859	\$1,786,364	\$2,367,223
Changes in financial instruments recognized at the beginning of the period:								
- Converted to expected credit losses of the duration	(1,188)	1,054	-	(795)	-	(929)		(929)
- Converted to financial assets with credit impairment	(20)	(18)	-	2,897,934	-	2,897,896		2,897,896
- Converted to 12-month expected credit loss	2	(19)	-	-	-	(17)		(17)
- Financial assets derecognized in the current period	(251,121)	(41,286)	-	(17,593)	-	(310,000)		(310,000)
Purchased or originated new financial assets	201,436	507	-	(250,573)	-	(48,630)		(48,630)
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"							20,475	20,475
Write-off bad debts	-	-	-	(2,986,217)	-	(2,986,217)		(2,986,217)
Recovered amount after write-off bad debts	-	-	-	332,203	-	332,203		332,203
Other changes	-	-	-	-	-	-		-
Changes in exchange	-	-	-	-	-	-	(4,256)	(4,256)
Balance, ending	\$341,497	\$2,232	\$-	\$121,436	\$-	\$465,165	\$1,802,583	\$2,267,748

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in the allowances for bad debts related to discounts and loans for the period from January 1 to December 31, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Impairment appropriated according to IFRS 9	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance, beginning	\$354,129	\$493	\$-	\$172,532	\$-	\$527,154	\$1,710,577	\$2,237,731
Changes in financial instruments recognized at the beginning of the period:								
- Converted to expected credit losses of the duration	(5,380)	5,570	-	(276)	-	(86)		(86)
- Converted to financial assets with credit impairment	(14)	(82)	-	1,607,364	-	1,607,268		1,607,268
- Converted to 12-month expected credit loss	4	(39)	-	-	-	(35)		(35)
- Financial assets derecognized in the current period	(200,627)	(129)	-	(23,225)	-	(223,981)		(223,981)
Purchased or originated new financial assets	244,276	36,181	-	(59,119)	-	221,338		221,338
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"							71,533	71,533
Write-off bad debts	-	-	-	(1,856,449)	-	(1,856,449)		(1,856,449)
Recovered amount after write-off bad debts	-	-	-	305,650	-	305,650		305,650
Other changes	-	-	-	-	-	-		-
Changes in exchange	-	-	-	-	-	-	4,254	4,254
Balance, ending	\$392,388	\$41,994	\$-	\$146,477	\$-	\$580,859	\$1,786,364	\$2,367,223

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in the total book value of discount and loan

Changes in the total book value for the period from January 1 to December 31, 2019 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Total
Balance, beginning	\$150,797,346	\$3,461,185	\$-	\$338,444	\$-	\$154,596,975
Converted as anticipated credit loss of the duration	(337,536)	258,937	-	(3,040)	-	(81,639)
Converted as financial assets with credit impairment	(13,200)	(5,907)	-	2,911,156	-	2,892,049
Transferred out from the financial assets with credit impairment	7,707	(9,194)	-	-	-	(1,487)
Discounts and loans assessed collectively	-	-	-	-	-	-
Originated or purchased discounts and loans	93,863,069	179,197	-	108,859	-	94,151,125
Write-off bad debts	-	-	-	(2,986,217)	-	(2,986,217)
de-recognition	(87,572,571)	(3,288,419)	-	(91,390)	-	(90,952,380)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance, ending	<u>\$156,744,815</u>	<u>\$595,799</u>	<u>\$-</u>	<u>\$277,812</u>	<u>\$-</u>	<u>\$157,618,426</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in the total book value for the period from January 1 to December 31, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Total
Balance, beginning	\$144,675,468	\$111,473	\$-	\$398,655	\$-	\$145,185,596
Converted as anticipated credit loss of the duration	(1,330,487)	804,648	-	-	-	(525,839)
Converted as financial assets with credit impairment	(13,054)	(17,307)	-	1,627,608	-	1,597,247
Transferred out from the financial assets with credit impairment	9,280	(10,138)	-	(1,130)	-	(1,988)
Discount and loan assessed collectively	-	-	-	-	-	-
Originated or purchased discounts and loans	90,115,786	2,597,645	-	274,402	-	92,987,833
Write-off bad debts	-	-	-	(1,856,449)	-	(1,856,449)
de-recognition	(82,659,647)	(25,136)	-	(104,642)	-	(82,789,425)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance, ending	<u>\$150,797,346</u>	<u>\$3,461,185</u>	<u>\$-</u>	<u>\$338,444</u>	<u>\$-</u>	<u>\$154,596,975</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in expected credit losses of the financial assets-debt instrument measured at fair value through other comprehensive income by the Group are as follows:

Financial assets-allowance for losses measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Expected credit losses on January 1, 2019	\$32,972	\$79,056	\$-	\$-	\$112,028
Changes arising from the recognition of financial instruments on January 1, 2019					
Converted as anticipated credit loss within the perpetuity of the financial assets	(486)	24,449	-	-	23,963
Converted as financial assets with credit impairment	-	-	-	-	-
Converted as anticipated credit loss in 12 months	-	-	-	-	-
Financial assets derecognized in current period	(5,698)	-	-	-	(5,698)
Originated or purchased new financial assets	5,388	8,794	-	-	14,182
Changes in model/risk parameters	909	(6,656)	-	-	(5,747)
Other changes and exchange rate changes	(539)	(1,613)	-	-	(2,152)
Expected credit losses on December 31, 2019	<u>\$32,546</u>	<u>\$104,030</u>	<u>\$-</u>	<u>\$-</u>	<u>\$136,576</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Financial assets-allowance for losses measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Expected credit losses on January 1, 2018	\$31,394	\$138,718	\$-	\$-	\$170,112
Changes arising from the recognition of financial instruments on January 1, 2018					
Converted as anticipated credit loss of the duration	(196)	14,861	-	-	14,665
Converted as financial assets with credit impairment	-	-	-	-	-
Converted as anticipated credit loss in 12 months	1,425	(63,994)	-	-	(62,569)
Financial assets derecognized in current period	(3,815)	(10,841)	-	-	(14,656)
Originated or purchased new financial assets	4,188	10,629	-	-	14,817
Changes in model/risk parameters	(286)	(10,670)	-	-	(10,956)
Other changes and exchange rate changes	262	353	-	-	615
Expected credit losses on December 31, 2018	<u>\$32,972</u>	<u>\$79,056</u>	<u>\$-</u>	<u>\$-</u>	<u>\$112,028</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
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Changes in the total book value of the Group's financial assets-debt instrument measured at fair value through other comprehensive income are further explained as follows:

Financial assets-total book value measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Total book value on January 1, 2019 (Note)	\$52,183,475	\$1,365,139	\$-	\$-	\$53,548,614
Converted as anticipated credit loss of the duration	(461,497)	452,009	-	-	(9,488)
Converted as financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	-	-	-	-	-
Financial assets assessed collectively	-	-	-	-	-
Originated or purchased new financial assets	7,900,013	139,884	-	-	8,039,897
Derecognized financial assets	(15,727,345)	-	-	-	(15,727,345)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-
Other changes and exchange rate changes	(650,165)	(27,665)	-	-	(677,830)
Total book value on December 31, 2019 (Note)	<u>\$43,244,481</u>	<u>\$1,929,367</u>	<u>\$-</u>	<u>\$-</u>	<u>\$45,173,848</u>

Note: The total book value does not include an evaluation adjustment

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Financial assets-total book value measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Total book value on January 1, 2018 (Note)	\$54,188,642	\$2,543,520	\$-	\$-	\$56,732,162
Converted as anticipated credit loss of the duration	(170,884)	176,206	-	-	5,322
Converted as financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	1,349,115	(1,303,150)	-	-	45,965
Financial assets assessed collectively	-	-	-	-	-
Originated or purchased new financial assets	4,447,269	122,186	-	-	4,569,455
Derecognized financial assets	(8,265,889)	(204,249)	-	-	(8,470,138)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-
Other changes and exchange rate changes	635,222	30,626	-	-	665,848
Total book value on December 31, 2018 (Note)	<u>\$52,183,475</u>	<u>\$1,365,139</u>	<u>\$-</u>	<u>\$-</u>	<u>\$53,548,614</u>

Note: The total book value does not include an evaluation adjustment

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

The allowance for loss of the Group's receivables is measured with the expected credit loss amount of the duration. The assessment of the allowance for loss on December 31, 2019 and 2018 is described as follows:

The Group's receivables are not overdue. Counterparties are groups with the considerations of their credit rating, regional, and industrial factors. Also, measure the allowance for loss with the provision matrix. For the total book value were NT\$4,988,642 thousand and NT\$3,713,267 thousand, respectively, the allowance for loss is measured with an expected credit loss rate of 0%~2%, so it is for an amount of NT\$81,258 thousand and NT\$70,851 thousand, respectively.

Changes in allowances or loss of notes and accounts receivables of the Group in 2019 and 2018 are as follows:

	<u>Receivables</u>
2019.1.1	\$70,851
Amount appropriated in current period	88,148
Write-off amount	(87,412)
Recovery of write-off amount	9,671
2019.12.31	<u>\$81,258</u>
2018.1.1	<u>\$75,968</u>
Amount appropriated in current period	17,837
Write-off amount	(32,264)
Recovery of write-off amount	9,310
2018.12.31	<u>\$70,851</u>

(14) The Group's financial assets with the maximum credit risk exposures as of December 31, 2019 and 2018 amounted to NT\$203,536,045 thousand and 204,714,088, thousand, respectively, which include financial assets measured at fair value through other comprehensive income and discounts and loans.

(15) The maximum credit risk exposure amount of the financial instruments that are not subject to impairment requirements is as follows:

	<u>2019.12.31</u>	<u>2018.12.31</u>
Financial assets measured at fair value through profit or loss		
- Debt instrument	\$29,056,073	\$24,435,062
- Derivatives	8,805	39,017

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

(16) Collateral and other credit enhancements

The Group adopts a series of policies and measures for the credit business to reduce credit risk, one of the commonly uses methods is to request the borrower to provide collateral. For the collateral assessment management and loan collateral value calculation, the Group has procedures for the range of collateral collected, the valuation, management, and disposal of collateral formulated to ensure loans. The main types of collateral for the Group's financial assets are as follows:

- Real estate mortgage: The loan amount is set separately according to the location of the real estate. For larger amount or special products, the public appraisers are entrusted to perform price evaluation.
- Stocks: The reasonable loan amount and evaluation criteria are formulated by the conditions of listing, OTC, emerging market, and unlisted stocks.
- Property: An appropriate loan amount is determined according to the nature of disposition and cost.
- Certificate of Deposit: Mainly refers to the Bank's certificate of deposit in foreign currency.
- Credit insurance: It is handled with credit insurance for small and medium-sized enterprises.
- Rights pledge: Special rights, such as, land rights and creditor's rights are judged separately on a case-by-case basis.

For the credit preservation and collateral clauses in the credit contract, it is clearly defined that upon the occurrence of a credit event, the borrowing amount can be reduced and the borrowing repayment period can be shortened or deemed as expired entirely in order to reduce credit risk.

The collateral of other non-credit business is subject to the nature of the respective financial instrument. Only asset-based securities and other similar financial instruments are secured by a group of asset-based financial instruments.

The Group's collateral policy has no significant change occurring on the balance sheet date and there has been no significant change in the quality of the overall collateral.

The Group closely observes the value of collateral for financial instruments and considers the impairment to be appropriated for the financial assets with credit impairment occurred. The financial assets with credit impairment are as follows:

	Total book value	Provision for impairment	Total exposure (cost after amortization)
	<u> </u>	<u> </u>	<u> </u>
Impaired financial assets:			
Discounts and loans	\$162,659	\$42,939	\$119,720
Total financial assets with impairment	<u>\$162,659</u>	<u>\$42,939</u>	<u>\$119,720</u>

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

4. Liquidity risk

(1) Sources and definitions of liquidity risk

The definition of the Group's liquidity risk refers to the possible financial losses due to the inability of having assets cashed or obtaining loans to have the funds needed to liquidate the financial liabilities, for example, depositors' terminating deposits before the maturity date, financing channels and conditions for inter-bank lending become worse or difficult due to specific market influences. Also, the debtor's credit default situation has deteriorated, which makes the recovery of funds abnormal and the realization of financial instruments difficult. The aforementioned circumstances may weaken the Group's source of cash for financial activities, such as, loans, trading, and investment. In an extreme situation, the lack of liquidity may result in a decline in the position of the balance sheet, the sale of the asset, or the failure in meeting the borrowing commitment. Liquidity risk exists in the inherent risks of all banking operations and may be affected by various industry-specific or market-wide events, including but not limited to: credit events, mergers or acquisitions, systemic impact, and natural disasters.

(2) Liquidity risk management policy

The liquidity management procedures of the Group are executed separately in the Finance Department and the Risk Management Department. However, the branches are required to notify the Finance Department of the funding gap for the unified control of the Finance Department and are monitored by the independent Risk Management Department. The procedures include:

Perform daily fund scheduling and monitor future cash flows to ensure the fulfillment of various needs.

- ① Maintain an appropriate amount of high liquidity assets that can be easily realized to buffer unforeseen and unexpected events that may interrupt cash flow.
- ② Monitor the liquidity ratio of the consolidated balance sheet in accordance with the internal management purposes and external regulatory requirements.
- ③ The monitoring process is based on the measurement and speculation of the future flow of funds for one day and one month (such timeframe is for the management of liquidity risk by the Group). The estimation of future cash flows begins with an analysis of the contractual maturity date of financial liabilities and the expected cash realization date of financial assets. The Risk Management Department of the Group also monitors the extent and pattern of contingent liabilities, such as mid-term and long-term borrowing commitments, discount quotas, and guarantee letters.

Relevant information is regularly reported to the Group's Risk Management Committee and the Board of Directors.

- (3) Regarding the financial liabilities held for the purpose of managing the liquidity risk, the due date of the Group's financial liability contracts is summarized in the table below. The amounts disclosed in the table are based on the contractual cash flows, so the amount disclosed in some of the projects does not correspond to the related items on the consolidated balance sheet.

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<u>2019.12.31</u>	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
<u>Non-derivative financial liabilities</u>					
Deposits from Central Bank and other banks	\$13,781,199	\$752,650	\$-	\$-	\$14,533,849
Funds borrowed from Central Bank and other banks	1,755,830	810,000	700,000	1,130,000	4,395,830
Bills and bonds sold under repurchase agreements	23,250,020	4,968,000	-	-	28,218,020
Customer deposits and remittances	14,546,478	17,853,339	74,421,043	84,977,802	191,798,662
Lease liabilities (Note)	6,286	12,572	53,825	157,609	230,292
Other financial liabilities	-	500,000	-	-	500,000
<u>Derivatives</u>					
Derivative financial liabilities measured at fair value through profit or loss					
Foreign exchange derivatives					
Cash outflow	\$2,084,482	\$-	\$-	\$-	\$2,084,482
Cash inflow	2,078,480	-	-	-	2,078,480
Net cash flow	<u>\$(6,002)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(6,002)</u>
<u>2018.12.31</u>	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
<u>Non-derivative financial instruments</u>					
Deposits from Central Bank and other banks	\$17,632,276	\$2,304,975	\$-	\$-	\$19,937,251
Funds borrowed from Central Bank and other banks	3,438,640	-	-	-	3,438,640
Bills and bonds sold under repurchase agreements	22,255,969	7,060,527	-	-	29,316,496
Customer deposits and remittances	17,554,755	22,386,111	67,842,625	80,649,433	188,432,924
Other financial liabilities	220,000	1,010,000	-	-	1,230,000
<u>Derivatives</u>					
Derivative financial instruments measured at fair value through profit or loss					
Foreign exchange derivatives					
Cash outflow	\$4,583,399	\$-	\$-	\$-	\$4,583,399
Cash inflow	4,557,615	-	-	-	4,557,615
Net cash flow	<u>\$(25,784)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(25,784)</u>

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Note: 1. The further information on the maturity analysis of the lease liabilities is provided in the following table:

	Expiry of duration				Total
	Less than 1 year	1~5 years	6~10 years	10~15 years	
Lease liabilities	\$ 72,683	\$ 134,397	\$ 23,212	\$-	\$ 230,292

5. Market Risk

(1) Source and definition of market risk

Market risk refers to the loss of the positions that may occur on and off the balance sheet due to the changes in market prices. The so-called market price refers to interest rate, exchange rate, stock price, and product price.

The Group shall classify the holding position into a trading book and a banking book according to its purpose. The market risks faced by each position can be divided into four risk categories: interest rate, equity securities, foreign exchange, and product.

① The “trading book” includes the position of the financial products (including goods and derivative financial products) and physical products held for the purpose of trading or for the risk hedging of the trading book position. The term “trading purpose” stated in the preceding paragraph refers to the intention of a short-term gain or to generate or secure the arbitrage from actual or expected short-term price fluctuations.

② Financial products and physical products that are not held for the aforementioned purpose are within the scope of the “banking book”.

③ Market risk management scope:

- I. For interest rates and equity securities, it is only necessary to compute the capital needed for market risk of the trading book.
- II. For foreign exchange and products, it is necessary to compute the capital needed for all market risks.

(2) Market risk management strategy

① Market risk management strategies should be documented to explain market risk management objectives and to ensure consistency in market risk management of the Company.

② The market risk management strategies are subject to appropriate adjustments in response to the Group's operating environment and changes in risk, maintain consistency with the Group's business strategies and objectives, and cover all key market risks associated with the business.

③ The market risk management strategies shall include at least the following:

- I. Market risk measurement methods: including qualitative and quantitative methods
- II. Market risk monitoring methods: such as limits management, stop-loss mechanism, etc.
- III. The Group shall establish an approval hierarchy and regulate the standard operating procedure for overrun

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(3) Market risk management process

The market risk management process includes risk identification, measurement, communication, and monitoring. The Group shall effectively identify, measure, communicate, and monitor market risks associated with all major trading products, trading activities, processes, and systems.

① Risk identification

- I. The so-called market risk factor refers to the market ratio and price that influence the price of the position. The Group's risk measurement system should have sufficient risk factors to measure the risks in the on- and off-balance sheet trading position.
- II. For any structured financial product, the market risk factors of each part should be identified in order to provide the basis for a correct measurement of the market risk exposure of the structured product.
- III. The selection of risk factors includes interest rates, exchange rates, equity securities prices, and product prices.
- IV. Each unit of the Group shall identify the market risk in business activities or financial products.

② Risk measurement

- I. The risk management personnel of the Group's business trading units shall establish reasonable verification and control procedures for the sources of market data, such as, product market price, interest rate, and exchange rate.
- II. When risk management personnel of the business transaction units measure market risk, they should consider the market liquidity risk caused by insufficient market depth, low market transparency, or market disorder.
- III. The risk management personnel of the financial transaction unit shall evaluate the trading position at least daily according to the market price. All model parameters should be evaluated daily if the model is used for evaluation.
- IV. The Group should develop a measure for measuring the overall position risk exposure according to the scale and complexity of the portfolio held. Also, avoid excessive concentration of the investment portfolio on a certain risk factor. When performing risk measurement, the individual risk of the subject matter of the transaction and the possible risk dispersion effect should be considered by evaluating the volatility and correlation of the subject matter of the transaction. And a position with poor liquidity or insufficient market price transparency should be evaluated conservatively in order to fully assess the market risks faced by the Group.

③ Risk communication

- I. Internal report
 - i. Market risk reports are to regularly provide accurate, consistent, and timely information to senior executives as a reference for their decisions.
 - ii. The Group should establish various operating procedures to ensure that overruns and exceptions (e.g. violations of policies and procedures) can be immediately reported to the governing management.

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

II. External disclosure

- i. The market risks faced by the Group should be fully disclosed.
- ii. The computed capital of the following risks should be disclosed:
Interest rate risk, equity securities risk, foreign exchange risk, and product risk.
- iii. The extent of information disclosure should be in line with the scale, risk profile, and complexity of the Group's sales operations.

④ Risk monitoring

- I. Each business unit of the Group shall establish a transaction limit system, which shall be controlled by the risk management personnel on a daily basis. If there is a lack of risk management, such as, overrun or other special circumstances, it shall be reported in due course to facilitate the adoption of the response measures.
- II. The status of the transaction shall be monitored immediately and comprehensively, such as whether the changes in position, changes in profit or loss, trading patterns, and subject matter of the transaction are within the scope of business authorization.
- III. Information needed for the review of financial products valuation should be obtained by the Group externally or through a channel other than the trading unit in order to avoid manipulation of price data due to conflicts of interest.
- IV. The Group shall stipulate the limits management, stop-loss mechanism, and overrun process to effectively monitor market risks.
 - i. Limits management
The responsible business department shall set the limits for financial product transactions according to the product characteristics and authorization hierarchy, such as, traders, risk category, counterparty's trading position limits, stop-loss limits, etc.
 - ii. Stop-loss mechanism
The responsible business department shall establish a clear stop-loss mechanism and implement it to effectively control the loss within the expected range.
 - iii. Overrun processing
The responsible business department shall clearly establish a defined limit and overrun mechanism and implement it to effectively handle the extraordinary cases.

(4) Trading book risk management policy

When handling various financial transactions, it should be divided into trading books and banking books according to the intention of holding, which are defined as follows:

- ① The scope and definition of the trading book: The trading book includes the position held for the purpose of trading or risk hedging of the trading book. The position must be free from any contractual restrictions in trade, or the risk can be completely hedged. The positions included in the trading book are summarized as follows:

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

- I. The positions held for earning a profit from the actual or expected spread.
- II. The positions held for earning a profit from other price changes.
- III. The position held due to engaging in the brokerage and trade business.
- IV. The position held to offset all or most of the risks of another asset position or portfolio on the trading book.
- V. All positions that can be traded within the predetermined investment amount.

② Trading Book Authorization Projects:

- I. Monetary market transactions: short-term bill (bond) within one year.
- II. Capital market transactions: More than one year government bonds, corporate bonds, financial bonds, beneficiary securities, asset securitization bonds, stocks, various types of fund beneficiary certificates, and convertible corporate bonds.
- III. Derivative financial product transactions: including exchange rates, interest rates and stocks, etc.
- IV. Foreign exchange market transactions: foreign exchange spot, swap, forward foreign exchange, and forward rate agreement.

③ Evaluation mechanism of the transaction book:

The evaluation mechanism of the Group's trading book position shall be handled by the risk management personnel who are independent of the trading desk. The trading book position shall be valued on a daily or weekly basis in accordance with the "Market to Market Method" with information from an independent source and readily available, such as, exchange prices, electronic screen quotes, or quotes from independent brokers, which should be presented to the Board of Directors for approval and future reference.

- ④ Management specifications and procedures for the position limits, monitoring, early warning, stop-loss, and reporting: It should be handled in accordance with the Group's "Regulations Governing Market Risk", "Regulations Governing Security Investment", "Regulations Governing Derivatives Transactions", "Regulations Governing Foreign Exchange Business", "Regulations Governing Loans Business", "Interest Rate Risk Management Policy", "Liquidity Risk Management Policy", and other relevant regulations.

(5) Management of interest rate risk in banking book

① Management strategy and process

Make adequate adjustment to respond to the changes in the Group's operating environment and the changes in risks. Maintain the Group's operational strategies and deepen the Group's operations. Enhance the performance of the Bank's asset portfolio. Assess the impact of changes in interest rate on economic value or earnings. Establish the interest rate risk in banking book control mechanism in accordance with the "Regulations Governing Interest Rate Risks in Banking Book", which is implemented in accordance with the procedures of identification, measurement, communication, and monitoring, so that the interest rate risk is maintained at an appropriate level. Consistency of objectives and coverage of all important interest rate risks in banking book associated with the business.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

② Management organization and structure

- A. The Board of Directors is the highest decision-making authority of the Group's interest rate risk in banking book management and bears ultimate responsibility for the Group's interest rate risk in banking book.
- B. The Asset and Liability Management Committee is responsible for assessing the Group's operating performance, capital position, asset and liability risk position and interest rate sensitivity, as well as researching and adjusting the best ratio of various assets and liabilities, and evaluating the Group's deposit and loan interest rate pricing strategy.
- C. The Risk Management Committee is responsible for implementing the interest rate risk in banking book management decisions approved by the Board of Directors, coordinating the interest rate risk in banking book management matters, and continuously monitoring the performance of risk management.
- D. The Risk Management Department is the exclusive unit for the Group's interest rate risk in banking book management. It is responsible for planning, establishing, and integrating the Group's interest rate risk in banking book management operations, and implementing the Bank's overall interest rate risk in banking book management and monitoring work in order to assess the impact of changes in interest rate on the economic value or earnings. Also, regularly aggregating the Bank's interest rate risk in banking book management information and then report it to the Risk Management Committee and the Board of Directors, and disclose risk management information according to the regulations of the competent authorities.
- E. The business units in the head office are responsible for setting and managing the respective regulations and operating procedures for the interest rate risks in banking book, and assisting the Risk Management Department to manage the interest rate risk position related to their business.
- F. All units (including business units) of the Company are responsible for identifying the interest rate risks in the banking book, cooperating with the implementation of the interest rate risk in banking book management decisions, and adopting the risk offset treatment method or response measures approved by the GM to operate and adjust the interest rate risk exposure position on and off the balance sheet.

③ Risk reporting/measurement system scope, characteristics, and frequency

The Group makes the "Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio" the monitoring and management index to control the Group's interest rate risk in the banking book within the tolerance, and reports it to the Risk Management Committee on a monthly basis. Analyze the changes and compare them to the conditions of the last month. Provide executives with correct, consistent, and prompt information as a reference for their decision-making and have it disclosed in the risk control report to the Board of Directors on a quarterly basis. The content and scope of the risk control report are as follows: (I) Measurement indicators: 1. Earnings perspective (interest rate risk warning and reporting) 2. Economic value (Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio); (II) Stress test: (1) the impact of changes in interest rate on the next year "earnings" (2) the impact of changes in interest rates on economic value. The

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Information Department and the business units are to provide the information of relevant electronic files or written materials to the Risk Management Department in order to effectively grasp the overall risk position and to provide appropriate risk measurement results in order to assist with the interest rate risk in banking book management.

④ Risk hedging/risk-reducing policies and strategies and processes for keeping the monitoring and hedging/reducing risk tools effective continuously

When handling banking book interest rate risk related businesses and transactions, assess the probability of occurrence of the event or transaction loss and the severity of the loss. Also, adopt countermeasures, such as, risk hedging, risk reduction or transfer, risk control, and risk endurance.

In case of special circumstances that may seriously affect the Group's earnings or economic value, the Risk Management Department or the business units in the head office shall report it to the GM and adopt appropriate risk offset methods or response measures to reduce the banking book interest rate sensitivity net impacted position or increase the Group's capital.

(6) Market risk assessment technology

① Stress test

The stress test is to assesses the Group's risk tolerance ability under a stress scenario so the Group can then develop specific and feasible hedging strategies and response plans in order to monitor possible changes in risk conditions under various scenarios. Also, the Board of Directors and the executives determine whether the Group's risk exposure is consistent with its risk appetite and it is one of the important tools for identifying, measuring, and controlling capital adequacy and liquidity planning decisions.

※ The Group has investments classified according to the investment classification principle:

A. Domestic and foreign bonds and bills and equity investments in banking books

- a. Domestic bond investment: The book value on the base date is treated as the exposure at default (EAD) and included for calculation. The default rate (PD) is calculated according to the risk linked indicator and referring to the default rate table, and the loss given default (LGD) is divided into with and without guarantee, which are estimated separately by referring to the experience of recovery.
- b. Domestic equity investment: The book value on the base date is treated as the exposure at default (EAD). The probability of default (PD) is estimated by referring to the stress test of the credit risk of the credit position, and the loss given default (LGD) is estimated at 100% since the probability of recovery is very small.
- c. Foreign bills and bonds and equity investments: The assets related to foreign bill and bond investments and equity investments has a fixed loss rate (PD*LGD) given to calculate the expected losses under stress scenario. Of which, the probability of default for national risk exposure is

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mainly based on the results of its external evaluation. Also, perform a stress test only on the more serious scenarios. The probability of default for other risks is given respectively depending on whether the counterparty is in the financial industry. For the calculation of the exposure at default, the investment position is calculated on the basis of the book value.

B. Securities and derivative products transactions in the trading book

Based on the current calculation of the market risk stress test of the second pillar, the Group uses market risk factor sensitivity analysis to calculate the impact on profit or loss arising from asset impairment due to the changes in risk factors, including equity security, interest rates, gold and exchange rates, products, and credit-derived products. The change in each risk factor produces different benefits and losses in proportion to minor and severe scenarios. In the interval between various risk factors and domestic and foreign scenarios, the amount of change in the same scenario may cause some positions with benefits generated and other positions with losses resulted. Choose those with greater fluctuations in each scenario for calculation, which become the estimated loss amount under the stress scenario.

② Sensitivity Analysis

Test items: For the main trading book positions in different markets, if the computed market risk capital of the position accounts for more than 5% of the total market risk capital, the listed scenario test is carried out.

A. Interest rate risk

Assume that all factors are given, if the yield curve of all markets in the world shifted downward/upward by 100 base points on December 31, 2019, the Group's net profit or loss would increase/decrease by NT\$2,009,633 thousand, respectively.

B. Exchange rate risk

The Group assumes that all other variable factors are given, if the major currency exchange rates on December 31, 2019 were relatively appreciated/depreciated by 3%, the Group's net profit or loss before tax would increase/decrease by NT\$8,486 thousand, respectively. Of which, the main currencies are the US dollar, euro, and yen.

C. Equity securities price risk

The Group assumes that all other variable factors are given, if the price of equity securities increased/decreased by 15% on December 31, 2019, the Group's net profit or loss before tax would increase/decrease by NT\$855,591 thousand, respectively.

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D. Sensitivity analysis is compiled as follows:
2019.01.01~2019.12.31

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	\$855,591	\$2,144,399	39.90%
	Major stock markets -15 %	(855,591)		-39.90%
Interest rate market	Main interest rate + 100bp	(2,009,633)		-93.72%
	Main interest rate - 100bp	2,009,633		93.72%
Foreign exchange market	Main currency +3%	8,486		0.40%
	Main currency -3 %	(8,486)		-0.40%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,856,738)		-133.22%

2018.01.01~2018.12.31

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	\$1,061,908	\$2,390,595	44.42%
	Major stock markets -15 %	(1,061,908)		-44.42%
Interest rate market	Main interest rate + 100bp	(1,888,496)		-79.00%
	Main interest rate - 100bp	1,888,496		79.00%
Foreign exchange market	Main currency +3%	8,871		0.37%
	Main currency -3 %	(8,871)		-0.37%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,941,533)		-123.05%

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(7) Exchange rate risk concentration information

The Group's foreign currency financial assets and liabilities with significant impact are as follows:

	2019.12.31			2018.12.31		
	Foreign currency (thousand)	Exchan ge rate	NTD	Foreign currency (thousand)	Exchan ge rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$1,574,328	30.11	\$47,396,726	\$1,464,767	30.73	\$45,016,674
HKD	96,000	3.87	371,138	101,591	3.92	398,642
AUD	16,974	21.10	358,111	3,735	21.68	80,953
JPY	2,481,013	0.28	687,241	2,960,152	0.28	823,810
EUR	4,136	33.73	139,517	4,576	35.22	161,170
RMB	649,292	4.32	2,807,344	721,785	4.48	3,230,639
<u>Non-Currency items</u>	-	-	-	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$1,438,479	30.11	\$43,306,861	\$1,547,009	30.73	\$47,544,224
HKD	10,835	3.87	41,890	10,940	3.92	42,928
AUD	53,336	21.10	1,125,285	45,089	21.68	977,341
JPY	1,197,931	0.28	331,827	1,484,524	0.28	413,143
EUR	4,179	33.73	140,951	4,491	35.22	158,168
RMB	297,901	4.32	1,288,033	319,247	4.48	1,428,918
<u>Non-Currency items</u>	-	-	-	-	-	-

Due to the wide variety of foreign currencies of the Group, it is impossible to disclose the exchange gains and losses information of monetary financial assets and financial liabilities by each foreign currency with significant impact. The Group's foreign currency exchange gains and losses from January 1 to December 31, 2019 and 2018 were NT\$181,050 thousand and NT\$161,600 thousand, respectively.

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XV. Capital management

1. Overview

In response to the trend of capital management, the Group's overall business monitoring indicators are established to match the business development strategy and to reflect the overall risk situation. The various capital management indicators of the Group are as follows:

- (1) The Bank's overall capital adequacy ratio shall not be less than 10.5%.
- (2) Category I capital shall not be less than 8.5% of the total risk assets.
- (3) The common stock equity shall not be less than 7.0% of the total risk assets.
- (4) The total business reserve and allowance for bad debt as stated in Category II capital with a credit risk standard adopted shall not exceed 1.25% of the total amount of credit risk and weighted risk assets.

2. Capital management procedure

- (1) The Group's capital management objectives are based on the "Legal Capital."
Legal Capital Management Objectives: To meet the legal capital requirements of the supervisory authority, set the Group's capital adequacy ratio target, and ensure that the Group can operate safely and steadily.

- (2) Legal capital management

- ① Demand legal capital

The Group uses the method prescribed by the supervisory authority to calculate the unanticipated losses arising from the credit risk, market risk, and operational risk under the existing assets and operating conditions, and compute the relative capital in response to the situation accordingly.

- ② Legal capital available

The Group's legal capital available is based on the rules published by the competent authorities to have the Group's capital classified by its source and characteristics as follows:

Category I capital: Refers to the common stock equity net of the intangible assets, the deferred income tax assets arising from the losses of previous years, the business reserve and the insufficient appropriation of the allowance for bad debt, the revaluation increments of real estate, the unamortized loss of the bad debts sold, and other legal adjustment items specified and stipulated according to the calculation methods.

Common stock equity: Includes common stock and its premium on capital stock, advance capital, additional paid-in capital, legal reserve, special reserve, accumulated profit or loss, non-controlling equity, and other equity items.

Other Category I capital other than common stock equity: Includes perpetual non-cumulative preferred stock and its premium on capital stock, non-cumulative subordinated bonds without a maturity date, perpetual non-cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and non-cumulative subordinated bonds without a maturity date.

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Category II capital: Includes perpetual cumulative preferred stock and its premium on capital stock, cumulative subordinate bonds without a maturity date, convertible subordinate bonds, long-term subordinate bonds, non-perpetual preferred stock and its premium on capital stock, real estate first-time subject to the application of International Accounting Standards, increase of retained earnings arising from the fair value or the revaluation value used as the cost, the valuation increments arising from the subsequent measurement of the investment real estate at the fair value and 45% of the unrealized benefits of the financial assets measured at fair value through other comprehensive income, business reserve and allowances for bad debts, perpetual cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and cumulative subordinated bonds without maturity date, convertible subordinate bonds, long-term subordinate bonds, and non-perpetual preferred stock and its premium on capital stock.

The allowance for bad debt included in Category II capital in the preceding paragraph refers to the amount that the bank's allowance for bad debt exceeds the estimated loss of the bank based on historical losses.

- ③ The management of legal capital is to convert the unanticipated losses of each risk to the total amount of risk assets, and then have the legal capital available divided by the total amount of the risk assets to calculate the capital adequacy ratio. The basic objective is to ensure that the Group's capital adequacy ratio is maintained above the mandatory legal ratio.

(3) Capital Adequacy

The Group's consolidated qualified regulatory capital ratio and risk assets ratio on December 31, 2019 and 2018 were 15.04% and 14.21%, respectively, which were in line with the capital management regulations of the competent authorities.

XVI. Notes of disclosure

1. Information related to material transactions

- (1) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (2) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (3) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (4) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
- (5) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (6) Information regarding sale of NPL: None.
- (7) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None
- (8) Business relationships or important transactions and amounts between the parent

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

company and subsidiary and among subsidiaries: Please refer to Attached table 1.

- (9) Other important transactions sufficient to affect the policy to use financial statements: None.
2. Transfer investment business-related information and total shareholding
- (1) Information regarding investees and total shareholdings: None.
 - (2) Loans to others: See Attached table 2.
 - (3) Endorsements/guarantees to others: None.
 - (4) Holding of marketable securities at the end of period: See Attached table 3.
 - (5) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
 - (6) Information on trading in derivative instruments: None
 - (7) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
 - (8) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
 - (9) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
 - (10) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
 - (11) Information regarding sale of NPL: None.
 - (12) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None
 - (13) Other important transactions sufficient to affect the policy to use financial statements: None.
3. Setting up branches and investments in Mainland China
No such event.
4. Disclosure of other supplementary information
- (1) Loans and receivables and allowance for bad debt assessment form: Please refer to XIV and 3 (13) for details.
 - (2) Quality of assets: Detailed in Attached table 4.
 - (3) NPL or non-performing receivable accounts exempted from report: See Attached table 5.
 - (4) Concentration of credit risk: Please refer to Attached table 6 and Attached table 6-1.
 - (5) Interest rate sensitivity assets and liabilities analysis data: See Attached table 7 and 7-1.
 - (6) Profitability: Please refer to Attached table 8 for details.
 - (7) Maturity date analysis: Please refer to Attached table 9 and Attached table 9-1 for details.
 - (8) Capital Adequacy: See Attached table 10.

XVII. Department information

1. For management purposes, the Group classifies operating units based on different products and services and is divided into the following two reporting and operations departments:
- (1) Branch business operation department: Handle deposits and loans, exchanges,

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

guarantees, discounts and cashiers, safe deposit boxes, trust business promotion, and assets, liabilities, income, and expenses that cannot be directly attributed or cannot be properly classified to an operating department.

- (2) Financial market operation department: Take charge of the Bank's fund scheduling and investment related work.

The management individually monitors the operational results of each operating department and has made decisions on resource allocation and performance evaluation. The performance evaluation of the department is based on the operating profit or loss. The accounting policies of the operating department are the same as the summary of the significant accounting policies described in Note 4.

2019

	Branch business	Financial market	Adjustments and elimination	Total
Interest revenue	\$3,369,165	\$1,386,224	\$-	\$4,755,389
Service fee income	1,840,557	-	-	1,840,557
Investment profit	5,124	1,656,839	-	1,661,963
Other income and expenditures	235,075	-	-	235,075
Total revenue	5,449,921	3,043,063	-	8,492,984
Depreciation and amortization	(67,562)	(57,650)	-	(125,212)
Other operating expenses	(1,623,012)	(185,475)	-	(1,808,487)
Other major non-cash accounts				
Bad debt appropriation	(2,655,404)	-	-	(2,655,404)
Segment profit/loss	\$1,103,943	\$2,799,938	\$-	\$3,903,881

2018

	Branch business	Financial market	Adjustments and elimination	Total
Interest revenue	\$3,469,344	\$1,548,149	\$-	\$5,017,493
Service fee income	1,843,003	-	-	1,843,003
Investment profit	(35,237)	26,692	-	(8,545)
Other income and expenditures	148,863	-	-	148,863
Total revenue	5,425,973	1,574,841	-	7,000,814
Depreciation and amortization	(28,202)	(21,768)	-	(49,970)
Other operating expenses	(1,607,924)	(126,497)	-	(1,734,421)
Other major non-cash accounts				
Bad debt appropriation	(1,643,112)	-	-	(1,643,112)
Segment profit/loss	\$2,146,735	\$1,426,576	\$-	\$3,573,311

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The information relating to the assets of the Group's operating department on December 31, 2019 and 2018 is shown in the following table:

	Branch business	Financial market	Adjustments and elimination	Total
2019.12.31 Department assets	\$179,217,564	\$103,380,156	\$145,188	\$282,742,908
2018.12.31 Department assets	\$176,278,426	\$104,549,366	\$266,927	\$281,094,719

2. Product information:

The Bank and its subsidiaries are divided into operating departments on the basis of business operations, so no further business information will be disclosed.

3. Regional information:

The revenues of the Company and its subsidiaries are entirely generated in Taiwan.

4. Important customer information

The Company and its subsidiaries did not generate revenues from one specific external customer for an amount more than 10% of the Company income.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 1

Business relationship and significant transactions between the parent company and subsidiaries:

Unit: NTD thousand

No. (Note 1)	Trader's name	Counterparty	Relationship with trader (Note 2)	2019.01.01~2019.12.31			
				Transactions			
				Title	Amount	Terms and conditions	Ratio of total combined revenue or total assets (Note 3)
0	The Company	Tainan Life Insurance Agency Co., Ltd. (Note 4)	1	Service fee income	\$26,574	General	0.31%
0	The Company	Tainan Life Insurance Agency Co., Ltd. (Note 4)	1	Other non-interest net profit or loss	480	General	0.01%
0	The Company	Fuchen Property Insurance Agency Co., Ltd. (Note 4)	1	Service fee income	587	General	0.01%
0	The Company	Fuchen Property Insurance Agency Co., Ltd. (Note 4)	1	Other non-interest net profit or loss	150	General	—
0	The Company	King's Town Bank International Leasing Co., Ltd.	1	Customer deposits and remittances	11,278	General	—
0	The Company	King's Town Bank International Leasing Co., Ltd.	1	Other non-interest net profit or loss	624	General	0.01%
0	The Company	King's Town International Real Estate Management Co., Ltd.	1	Customer deposits and remittances	2,374	General	—
0	The Company	King's Town International Real Estate Management Co., Ltd.	1	Other non-interest net profit or loss	120	General	—

Note 1: The information about transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:

1. 0 is for the Parent Company.
2. Subsidiaries are numbered from number 1.

Note 2: There are three types of relationships with traders, please mark the type intended.

1. Parent company vs. subsidiaries
2. Subsidiaries vs. parent company
3. Subsidiary vs. subsidiary

Note 3: For computing the ratio of trade amount to total sales revenue or total assets, if it is for asset and liability account, the computation is based on the ratio of ending balance to total consolidated assets; however, if it is for income and expense account, the computation is based on the ratio of interim cumulative amount to total consolidated revenue.

Note 4: The merger of these subsidiaries was approved by the competent authority on March 8, 2019, while the merger base date was set as June 3, 2019 by the board of directors on March 25, 2019.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 2
The Loaning of Funds

Unit: NTD thousand

No. (Note 1)	The lender of fund	The borrower of fund	Transaction title	Are they related parties	Maximum amount of the current period	Balance, ending	The actual amounts disbursed	Interest rate collars	Nature of loan (Note 4)	Business transaction amount (Note 5)	Reasons for the necessity of short-term financing (Note 6)	Allowance for loss appropriated	Collateral		Individual loan limit amount (Note 2)	Total loan limit amount (Note 3)
													Name	Value		
1	King's Town Bank International Leasing Co., Ltd.	Summary of other customers	Accounts receivable	No	\$1,834,063	\$1,596,381	\$1,500,781	5%~18%	1	\$1,027,952		\$17,669	No/real estate	\$2,600,835	\$934,224	\$3,736,897
1	King's Town Bank International Leasing Co., Ltd.	Summary of other customers	Accounts receivable	No	300,668	208,610	203,610	5%~18%	2	-	Business turnover	2,454	No/real estate	361,259	155,704	249,126

(Note 1) The financial information of the Company and its subsidiaries should be indicated in the corresponding column. The numbering method is as follows:

- (1) For the column of the issuer, please fill in with "0."
- (2) Investee is numbered from number 1.

(Note 2) Subsidiary's limit amount for each individual:

- (1) Business counterparty:

Unsecured: The individual loan amount shall not exceed 50% of the lending company's net value in the most recent financial report audited by the certified public accountant.

Total secured/unsecured amount: The individual loan amount shall not exceed 150% of the lending company's net value in the most recent financial report audited by the certified public accountant.

- (2) Those who need financial support: The individual loan amount shall not exceed 25% of the lending company's net value in the most recent financial report audited by the certified public accountant.

(Note 3) The subsidiary's loan amount may not exceed 40% of the lending company's net value in the most recent financial report audited by the certified public accountant. For the business counterparty, the loan amount may not exceed 6 times of the lending company's net value in the most recent financial report audited by the certified public accountant.

(Note 4) The nature of loan is illustrated as follows:

- (1) For the business counterparty, please fill in with "1."
- (2) For those who need a short-term loan, please fill in with "2."

(Note 5) If the nature of loan is as defined in alternative "1," please state the business transaction amount. The business transaction amount refers to the amount of business transactions conducted between the lending company and the borrower in the most recent year.

(Note 6) If the nature of loan is as defined in alternative "2," the reasons for the necessary loans and funds application of the borrower should be specified, such as repayment of loans, purchase of equipment, business turnover, etc.

(Note 7) The reinvested company – King's Town International Leasing Co., Ltd. has granted loans to 50 customers currently; however, a detailed list is not prepared since no individual loan amount exceeds 20% of the total loan.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 3

The securities held at the end of the period (excluding investment in subsidiaries, associates, and joint venture):

Unit: NTD thousand

Holding company	Types and names of securities (Note 1)	Relationship with the securities issuer	Account titles in book	At ending				Remarks
				Shares (Thousand Shares)	Book value	Ratio of Shareholding	Fair value	
King's Town Bank International Leasing Co., Ltd.	Bank of Panhsin	Financial assets at fair value through other comprehensive income	Financial assets at fair value through other comprehensive income	10,780	\$76,105	0.75%	\$76,105	
King's Town Bank International Leasing Co., Ltd.	Hoyii Life Co., Ltd.	Financial assets at fair value through other comprehensive income	Financial assets at fair value through other comprehensive income	526	5,300	2.49%	5,300	
King's Town Bank International Leasing Co., Ltd.	Forest Water Environmental Engineering Co., Ltd.	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	3,512	173,502	2.61%	173,502	
King's Town Bank International Leasing Co., Ltd.	Radium Life Tech Co., Ltd.	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	1,530	17,825	0.17%	17,825	
King's Town Bank International Leasing Co., Ltd.	Mirle Automation Corporation	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	696	27,631	0.36%	27,631	
King's Town Bank International Leasing Co., Ltd.	Hon Hai Precision Industry Co., Ltd.	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	300	27,240	-	27,240	

Note 1: Securities as stated in this table are the stocks, bonds, beneficiary certificates and the securities deriving from the above items within the scope of IFRS 9, "Financial Instruments".

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 4

Asset quality

Non-performing loans and overdue accounts

Unit: NTD thousand, %

Year and month		December 31, 2019					December 31, 2018				
Business category\Items		Non-performing loan amount (Note 1)	Total amount	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)	Non-performing loan amount (Note 1)	Total amount	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)
Corporate banking	Secured	\$14,290	\$89,267,889	0.02%	\$1,301,331	9106.59%	\$11,881	\$83,864,153	0.01%	\$1,311,246	11,036.50%
	Non-secured	-	48,127,976	-	657,645	-	-	51,749,234	-	745,687	-
Consumer banking	Residential mortgage loans (Note 4)	7,517	16,092,535	0.05%	252,526	3359.40%	21,920	14,907,763	0.15%	250,625	1,143.36%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small credit loans (Note 5)	1,059	126,260	0.84%	4,432	418.51%	310	91,104	0.34%	5,307	1,711.94%
	Others (Note 6)	Secured	-	3,862,417	-	49,526	-	380	3,924,877	0.01%	52,538
Non-secured		-	141,349	-	2,288	-	-	59,844	-	1,820	-
Total amount		\$22,866	\$157,618,426	0.01%	\$2,267,748	9917.55%	\$34,491	\$154,596,975	0.02%	\$2,367,223	6,863.31%
		NPL amount	Balance of receivable accounts	Overdue account Proportion	Allowance for bad debt Amount	Allowance for bad debt coverage rate	NPL amount	Balance of receivable accounts	Overdue account Proportion	Allowance for bad debt Amount	Allowance for bad debt coverage rate
Credit card		\$376	\$376	100.00%	\$376	100.00%	\$813	\$813	100.00%	\$700	86.10%
Non-recourse receivables factoring business (Note 7)		-	-	-	-	-	-	-	-	-	-

Note 1: The non-performing loan is the overdue amount reported in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The non-performing credit card amount is reported according to the FSC. Banking (IV).Tzi No. 0944000378 Letter dated July 6, 2005.

Note 2: Non-performing loan ratio = Non-performing loan/total loan amount. Non-performing credit card ratio = Non-performing amount/accounts receivable balance

Note 3: NPL Coverage Ratio = Allowance for bad debt appropriated for loans/Non-performing amount. Non-performing credit card receivables coverage ratio = Allowance for bad debt appropriated for credit card receivables/non-performing amount.

Note 4: The residential mortgage loan refers to the borrower providing the resident purchased (owned) by the borrower of his/her spouse or minors as collateral to financial institutions in exchange for funds in order to purchase or construct or decorate houses.

Note 5: Small credit loans refer to small credit loans other than credit cards and cash cards. Also, it is subject to the FSC. Banking (IV).Tzi No. 09440010950 Letter dated December 19, 2005.

Note 6: The "Other" consumer finance refers to the secured or unsecured consumer finance loans other than the "residential mortgage loans", "cash cards", and "small credit loans", excluding credit cards.

Note 7: The accounts receivable business without recourse is reported as non-performing loans within three months upon confirming that the accounts receivable factoring banks or insurance companies decline to compensate in accordance with the FSC. Banking (V). Tzi No. 094000494 Letter dated July 19, 2005.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 5

NPL or non-performing receivable accounts exempted from report

Unit: NTD thousand

	December 31, 2019		December 31, 2018	
	Total NPL exempted from report	Total non-performing receivable accounts exempted from report	Total NPL exempted from report	Total non-performing receivable accounts exempted from report
Exempted amount after a debt negotiation and contractual performance (Note 1)	\$3,847	\$76	\$5,658	\$105
Performance of debt clearance program and rehabilitation program (Note 2)	12,311	70	18,134	110
Total	\$16,158	\$146	\$23,792	\$215

Note 1: For the FSC. Banking (I) Tzi No. 09510001270 Letter dated April 25, 2006. It is regarding the matters to be disclosed additionally according to the credit reporting methods and information disclosure requirement of the cases approved according to the “Unsecured Debt Negotiation Mechanism for Consumer Finance Cases of the Bankers Association of the Republic of China”.

Note 2: For the FSC. Banking (I) Tzi No. 09700318940 Letter dated September 15, 2008, it is regarding the matters to be disclosed additionally according to the credit reporting and information disclosure requirements of the pre-negotiation, rehabilitation, and liquidation cases approved according to the “Consumer Debt Clearance Act”.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6

Concentration of credit risk

Unit: NTD thousand, %

Year	December 31, 2019		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A - Construction engineering business	7,308,896	18.69%
2	Company (Group) B - General product wholesale business	5,157,644	13.19%
3	Company (Group) C - Unclassified other financial service business	4,300,000	11.00%
4	Company (Group) D - Real Estate Development business	3,654,743	9.35%
5	Company (Group) E - Power supply business	3,522,363	9.01%
6	Company (Group) F - Unclassified other financial service business	2,897,635	7.41%
7	Company (Group) G - Real Estate Rental and Sale business	2,710,530	6.93%
8	Company (Group) H - Engineering services and related technical consultancy	2,541,028	6.50%
9	Company I - Wire & Cable manufacturing business	2,198,529	5.62%
10	Company (Group) J - Unclassified other financial service business	2,125,000	5.43%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of "code" + "industry" [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the "detailed category" according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings".

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6-1

Concentration of credit risk

Unit: NTD thousand, %

Year	December 31, 2018		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	7,471,822	21.24%
2	Company (Group) B - General product wholesale business	5,667,055	16.11%
3	Company (Group) C - Unclassified other financial service business	4,500,000	12.79%
4	Company (Group) D - Solar Cell Manufacturing business	4,265,540	12.12%
5	Company (Group) E - Real Estate Development business	3,815,217	10.84%
6	Company (Group) F - Power supply business	3,546,733	10.08%
7	Company G - Wire & Cable manufacturing business	2,914,198	8.28%
8	Company (Group) H - Unclassified other financial service business	2,817,115	8.01%
9	Company (Group) I - Real Estate Rental and Sale business	2,740,530	7.79%
10	Company J - Computers and peripheral equipment and software retailing business	2,384,967	6.78%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of “code” + “industry” [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the “detailed category” according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of “Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings”.

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7

Interest Rate Sensitive Assets and Liabilities Analysis Table (NTD)

2019.01.01~2019.12.31

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$170,626,899	\$782,638	\$3,570,507	\$37,098,495	\$212,078,539
Interest rate sensitivity liabilities	158,636,022	8,453,992	19,324,704	1,542,852	187,957,570
Interest rate sensitivity gap	11,990,877	(7,671,354)	(15,754,197)	35,555,643	24,120,969
Net value					35,703,714
Interest rate sensitivity assets and liabilities rate					112.83
Interest rate sensitivity gap and net value rate					67.56

2018.1.1~2018.12.31

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$166,900,620	\$3,528,581	\$9,675,400	\$31,557,092	\$211,661,693
Interest rate sensitivity liabilities	161,791,613	7,634,612	16,712,961	1,491,510	187,630,696
Interest rate sensitivity gap	5,109,007	(4,106,031)	(7,037,561)	30,065,582	24,030,997
Net value					34,212,235
Interest rate sensitivity assets and liabilities rate					112.81
Interest rate sensitivity gap and net value rate					70.24

- Note:
1. This form is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches
 2. Interest rate sensitivity assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
 3. Interest rate sensitivity gap=Interest rate sensitivity assets - Interest rate sensitivity liabilities.
 4. Interest rate sensitivity assets and liabilities rate=Interest rate sensitivity assets ÷ interest rate sensitivity liabilities (i.e. interest rate sensitivity assets and interest rate sensitivity liabilities in NTD)

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7-1

Interest rate sensitivity assets and liabilities analysis data (USD)

2019.01.01~2019.12.31

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$228,233	\$93,493	\$14,375	\$1,211,578	\$1,547,679
Interest rate sensitivity liabilities	1,345,955	35,740	48,025	407	1,430,127
Interest rate sensitivity gap	(1,117,722)	57,753	(33,650)	1,211,171	117,552
Net value					173,270
Interest rate sensitivity assets and liabilities rate					108.22
Interest rate sensitivity gap and net value rate					67.84

2018.1.1~2018.12.31

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$316,753	\$2,299	\$-	\$-	\$319,052
Interest rate sensitivity liabilities	1,478,069	23,770	39,615	-	1,541,454
Interest rate sensitivity gap	(1,161,316)	(21,471)	(39,615)	-	(1,222,402)
Net value					(1,202,842)
Interest rate sensitivity assets and liabilities rate					20.70
Interest rate sensitivity gap and net value rate					101.63

- Note:
1. This form is prepared to report the amount in USD of the head office and domestic branches, international financial business branches, and overseas branches, excluding contingent assets and contingent liabilities.
 2. Interest rate sensitivity assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
 3. Interest rate sensitivity gap=Interest rate sensitivity assets - Interest rate sensitivity liabilities.
 4. Interest Rate Sensitive Assets to Liabilities Ratio = Interest Rate Sensitive Assets ÷ Interest Rate Sensitive Liabilities (refers to USD interest rate sensitive assets and interest rate sensitive liabilities)

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 8

Profitability

Unit: %

Item		2019.12.31	2018.12.31
ROA	Before tax	1.38	1.29
	After tax	1.21	1.04
ROE	Before tax	10.26	9.91
	After tax	8.93	7.98
Net profit rate		40.03	41.11

- (Note):
1. ROA = Income before (after) tax/Average total assets
 2. ROE=Income before (after) tax / Average net value
 3. Profit rate = Income after tax/income-net.
 4. Income before (after) tax means the income accumulated from January of the current year until the current quarter

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Table 9

NTD maturity date structure analysis table

2019.12.31

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$229,723,828	\$65,056,959	\$12,354,584	\$21,256,940	\$36,124,994	\$94,930,351
Outward remittance of due fund	248,369,349	22,941,990	29,259,729	31,286,226	43,523,136	121,358,268
Period Difference	(18,645,521)	42,114,969	(16,905,145)	(10,029,286)	(7,398,142)	(26,427,917)

2018.12.31

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$229,760,884	\$64,571,579	\$9,767,412	\$19,047,650	\$47,042,010	\$89,332,233
Outward remittance of due fund	244,571,868	27,012,109	32,414,978	27,714,173	42,032,167	115,398,441
Period Difference	(14,810,984)	37,559,470	(22,647,566)	(8,666,523)	5,009,843	(26,066,208)

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 9-1

USD maturity date structure analysis table

2019.12.31

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$1,618,912	\$93,056	\$16,317	\$24,820	\$33,375	\$1,451,344
Outward remittance of due fund	1,663,610	1,127,780	174,587	52,830	82,193	226,220
Period Difference	(44,698)	(1,034,724)	(158,270)	(28,010)	(48,818)	1,225,124

2018.12.31

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$455,838	\$146,087	\$3,790	\$22,419	\$12,045	\$271,497
Outward remittance of due fund	1,545,463	1,224,689	163,136	43,281	78,583	35,774
Period Difference	(1,089,625)	(1,078,602)	(159,346)	(20,862)	(66,538)	235,723

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 10

Capital Adequacy (Explanation 1)

Unit: NTD thousand

Analytical items		Year (Explanation 2)	December 31, 2019	December 31, 2018
Total Self-owned Capital	Common stock equity		\$35,718,515	\$33,752,396
	Other Category I Capital		-	-
	Category II Capital		1,160,997	670,827
	Total Self-owned Capital		36,879,512	34,423,223
Total risk-weighted assets	Credit Risk	Standardized Approach	203,419,934	197,892,405
		Internal Ratings-Based Approach	-	-
		Asset Securitization	-	-
	Operation Risk	Basic Indicator Approach	14,518,830	13,772,518
		Standard Method /Optional Standard Method	-	-
		Advanced Measurement Approach	-	-
	Market Risk	Standardized Approach	27,297,382	30,537,017
		Internal Models Approach	-	-
	Total risk-weighted assets		245,236,146	242,201,940
	Capital adequacy ratio		15.04%	14.21%
Proportion of common stock equity to assets		14.56%	13.94%	
Proportion of Category I capital to risk assets		14.56%	13.94%	
Leverage ratio		11.81%	11.17%	

Explanation:

- The amount of the regulatory capital, weighted risk assets, and total risk exposure should be calculated in accordance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and "Description and Table of Calculation Methods for Capital and Risk Assets of Banks".
- The capital adequacy ratio for the current period and the previous period should be filled in the annual financial statement. The interim financial statements shall, in addition to disclosing the ratio of the current period and the previous period, also disclose the capital adequacy ratio at the end of the previous year.
- This table should demonstrate the following formula:
 - Total self-owned capital = Common stock equity + Other Category I Capital + Category II Capital
 - Total amount of risk-weighted-assets = Credit risk-weighted assets + Capital charge of (operational risk + market risk) x 12.5.
 - Capital Adequacy ratio = Total self-owned capital / Total amount risk-weighted assets.
 - Ratio of common stock equity to risk assets = Common stock equity / Total risk weighted assets.
 - Proportion of Category I capital to risk assets = (Common stock equity + Category I Capital) / Total risk-weighted asset.
 - Leverage ratio = Category I capital / Total exposure.
- This table may not be disclosed in the financial statements for Q1 and Q3.

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King's Town Bank Co., Ltd.
Financial Statements and Independent Auditor's Report
January 1 to December 31 2019 and 2018

Address: No. 506, Section 1, Ximen Road, Xiancaoli, West Central District, Tainan
Tel. No.: (06)213-9171

Notice to Readers

The English version independent auditors' report and the financial statements are the translation of the Chinese version, not audited by accountants. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

Auditor's Report

To: King's Town Bank Co., Ltd.

Audit opinion

We have audited the accompanying balance sheet of King's Town Bank Co., Ltd. as of December 31, 2019 and 2018, and the related statements of comprehensive income, changes in shareholders equity, cash flows, and notes of the financial statements (including significant accounting policies) for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all significant aspects the financial position of King's Town Bank Co., Ltd. as of December 31, 2019 and 2018, and the results of its financial performance and cash flows for the years then ended in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks and the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for opinion

We have audited the accompanying financial reports as of December 31, 2019 for the year then ended in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Jin-Guan-Yin-Fa-Zi. No. 10802731571 Letter and generally accepted auditing standards in the Republic of China. The accompanying financial reports as of December 31, 2018 were audited in accordance with the Regulations Governing Auditing and Attestation of Banking Industry's Financial Statements by Certified Public Accountants and generally accepted auditing standards in Republic of China. Our responsibilities under those standards are further described in the responsibilities of auditors for the audit of the financial statements. We are independent of King's Town Bank Co., Ltd. in accordance with the Code of Ethics for certified public accountants in the part relevant to the audit of the financial statements of King's Town Bank Co., Ltd., and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believed that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Remarks - application of new accounting standards

As stated in Note III in the financial statements, King's Town Bank Co., Ltd., has applied IFRS 16 "Leases" since January 1, 2019 and had chosen not to re-prepare the consolidated financial statements for the comparison periods. We did not revise the audit opinion as a result.

Key audit matters

Key audit matters are those matter that, in our professional judgment, were of most significant in our audit of the statements of King's Town Bank Co., Ltd. in 2019. These matters were addressed in the content 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 those matters.

Financial instrument evaluation

King's Town Bank Co., Ltd. invests in different types of financial assets. As of December 31, 2019, the total financial assets measured at fair value were NT\$85,543,741 thousand, accounting for about 31% of total assets. Of which, for the investments classified in the Class II fair value hierarchy, including the derivative financial instruments of bonds and FX Swap contracts, there was a book value of NT\$38,004,133 thousand, accounting for 44% of the financial assets measured at fair value. Since the Class II investment evaluation is based on an internal evaluation model, the key input values are the yield rate and exchange rate, which have a significant impact on the estimation of fair value. Therefore, we consider it to be a "Key Audit Matter".

Our audit procedures include (but are not limited to) evaluating and testing the effectiveness of internal controls related to financial instrument evaluation, including the evaluation models and their assumptions managed and approved by the management. We have used the sampling basis to understand and evaluate the rationality of the key assumptions, perform an independent evaluation calculation, and adopt the assistance of internal evaluation experts to compare the differences against the evaluations made by the management in order to see whether they are within the tolerance range.

Please refer to Notes V, VI, XIII, and XIV of the financial statements for the disclosures of financial assets of King's Town Bank Co., Ltd.

Appropriated allowance for bad debt from loans

As of December 31, 2019, the book value of the loans of King's Town Bank Co., Ltd. was NT\$155,350,678 thousand, accounting for 56% of the total assets, which was significant for the financial statements and was subject to the assessment of expected credit losses as stipulated in IFRS 9 "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The assumptions adopted by the management in estimating the expected credit losses include the conditions for determining whether the credit risk is significantly increased, whether credit impairment has occurred, the selection and evaluation of the forward-looking factors, the probability of default (PD), the loss given default (LGD) parameters, etc., and involve a high degree of professional judgment. Therefore, we consider them to be "Key Audit Matters".

Our audit procedures include (but are not limited to) evaluating and testing internal controls related to the calculation of expected credit losses, examining whether the expected credit loss assessment model has been approved by the management, assessing the source of expected credit losses, and having internal experts review the reasonableness of the expected credit loss model, the appropriateness and rationality of the input parameters of the expected credit loss model in the sampling test, including the probability of default (PD) and the loss given default (LGD). In addition, the accountants also examine whether the management complies with the requirements of the relevant authority's written order to confirm that the loan classification and allowance for bad debts are in compliance with the statutory requirements.

Please refer to Notes V, VI, and XIV of the financial statements for the disclosure of the allowance for bad debt of King's Town Bank Co., Ltd..

Responsibilities of Management and Those in Charge with Governance of the financial statements

The 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, Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as the management determines is necessary to enable the preparation of the separate financial statements to be free from significant misstatement whether due to fraud or error.

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

The governance unit of King's Town Bank Co., Ltd. (including the Audit Committee or supervisors) is responsible for supervising the financial reporting process.

Auditor's responsibility for financial statements

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

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

1. Identify and assess the risks of significant misstatement of the financial statements, whether due to fraud or error, design, and perform audit procedures responsive to risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a significant 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 internal control effective in King's Town Bank Co., Ltd.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
4. Conclude the appropriateness of the use of the going concern basis of accounting by the management, and based on the audit evidence obtained, whether a significant uncertainty exists related to events or conditions that may cast significant doubt on King's Town Bank Co., Ltd. and its ability to continue as a going concern. If we conclude that a significant

uncertainty exists, we are required to draw attention in auditor's report to the related disclosures in the financial statements or, if such disclosure are inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause King's Town Bank Co., Ltd. to cease to continue as a going concern.

5. Evaluate the overall expression, structure, and content of the financial statements (including related notes) and whether the financial statements include the relevant transactions and events expressed adequately.
6. Obtain sufficient and appropriate audit evidence for the individual financial information of the Group to express an opinion on the individual financial statements. We are responsible for guiding, supervising, and implementing the audit of the Group. We remain solely responsible for our opinion.

We communicate the following events with the governance unit, including the planned scope and audit time, as well as major audit findings (including significant deficiencies of internal control identified during the audit process).

We also provide a statement to the governance unit that the personnel of the CPA Firm who are subject to the regulation of independence are indeed complying with the independence requirements in accordance with the Code of Professional Ethics. Also, they communicate to the governance unit all relationships and matters (including related protective measures) that may be considered as affecting our independence.

We use the matters communicated with the governance unit to decide the Key Audit Matters for the audit of the 2019 individual financial statements of King's Town Bank Co., Ltd. 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.

Ernst & Young Global Limited

The Securities and Futures Bureau of the Financial Supervisory Commission approved the financial report of the public offering company

Auditing and Certification No.: Jin-Guan-Cheng-6-Zi No. 0950104133

Jin-Guan-Cheng-Shen-Zi No. 1030025503

Shih Chieh Huang

Certified CPA

Cheng Tao Chang

February 24, 2020

King's Town Bank Co., Ltd.
Balance Sheet
December 31, 2019 and 2018

Unit: NTD thousand

Assets			December 31, 2019		December 31, 2018	
Code	Account titles	Additional notes	Amount	%	Amount	%
10000	Assets					
11000	Cash and cash equivalents	IV/ VI.1	\$3,505,067	1	\$4,319,070	2
11500	Due from Central Bank and lend to Banks	IV/ VI.2	11,162,682	4	13,844,758	5
12000	Financial assets at fair value through profit and loss	IV/ VI.3/ VIII	34,733,596	13	31,459,508	11
12100	Financial assets at fair value through other comprehensive income	IV/ VI.4, 26/ VIII	50,810,145	18	53,412,766	19
12200	Investment in debt instruments at amortised cost	IV/ VI.5, 26	17,698,135	6	17,597,996	6
12500	Bonds and securities sold under repurchase agreements	IV/ VI.6	150,022	-	624,167	-
13000	Receivables- net	IV/ VI.7	1,270,450	1	1,028,136	1
13500	Discounts and loans – net	IV/ V/ VI.8	155,350,678	56	152,229,752	55
15000	Investments under the equity method- net	IV/ VI.9	699,890	-	988,643	-
15500	Other financial assets – net	IV/ VI.10	4,396	-	4,705	-
18500	Property, plant, and equipment – net	IV/ VI.11, 26	2,706,831	1	2,387,498	1
18600	Right-of-use assets	III/ IV/ VI.27	215,683	-	-	-
19300	Deferred income tax assets	IV/ VI.30	142,041	-	265,736	-
19500	Other assets – net	VI.12	956,932	-	870,298	-
	Total assets		<u>\$279,406,548</u>	<u>100</u>	<u>\$279,033,033</u>	<u>100</u>

(Refer to Note to financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Balance Sheet (Continued)
December 31, 2019 and 2018

Unit: NTD thousand

Liabilities and equity			December 31, 2019		December 31, 2018	
Code	Account titles	Additional notes	Amount	%	Amount	%
20000	Liabilities					
21000	Deposits from Central Bank and other banks	IV/ VI.13	\$14,533,849	5	\$19,937,251	7
21500	Funds borrowed from Central Bank and other banks	VI.14	1,655,830	1	2,458,640	1
22000	Financial liabilities at fair value through profit and loss	IV/ VI.15	6,002	-	25,784	-
22500	Bills and bonds sold under repurchase agreements	IV/ VI.16	28,218,020	10	29,316,496	11
23000	Payables	VI.17	1,223,956	-	2,299,446	-
23200	Current Tax Liability	IV/ VI.30	71,953	-	366,893	-
23500	Customer deposits and remittances	VI.18	191,812,314	69	188,677,300	68
25600	Provisions for liabilities	IV/ VI.19, 20, 26	383,414	-	420,427	-
26000	Lease liabilities	III/ IV/ VI.27	217,256	-	-	-
29300	Deferred tax liabilities	IV/ VI.30	135,832	-	59,890	-
29500	Other liabilities	VI.21	216,613	-	286,845	-
	Total liabilities		<u>238,475,039</u>	<u>85</u>	<u>243,848,972</u>	<u>87</u>
31000	Equity	VI.22				
31100	Capital stock		11,312,343	4	11,512,343	4
31500	Capital surplus		56,095	-	99,585	-
32000	Retained earnings					
32001	Legal reserve		10,418,637	4	9,555,297	3
32003	Special reserve		538,481	-	100,930	-
32011	Undistributed earnings		14,596,680	5	14,699,482	6
32500	Other equity	IV	4,107,695	2	(468,711)	-
32600	Treasury stock	IV	(98,422)	-	(314,865)	-
	Total equity		<u>40,931,509</u>	<u>15</u>	<u>35,184,061</u>	<u>13</u>
	Total Liabilities and Equity		<u>\$279,406,548</u>	<u>100</u>	<u>\$279,033,033</u>	<u>100</u>

(Refer to Note to the financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Statements of Comprehensive Income
January 1 to December 31, 2019 and 2018

Unit: NTD thousand

Code	Account titles	Additional notes	2019		2018	
			Amount	%	Amount	%
41000	Interest revenue	IV	\$6,649,901	80	\$6,729,884	98
51000	Less: interest expense	IV	(2,046,344)	(25)	(1,836,231)	(26)
	Net interest income	VI.23	4,603,557	55	4,893,653	72
	Net income other than interest income					
49100	Service Fee, Net	IV/ VI.24	1,647,842	20	1,580,817	23
49200	Gain (loss) on financial assets and liabilities at fair value through profit and loss	IV/ VI.25	1,456,344	18	(171,180)	(3)
49310	Realized gain on financial assets at fair value through other comprehensive income		128,683	2	53,748	1
49600	Net exchange gain	IV	181,050	2	161,600	3
47003	The profit in the subsidiary, affiliated company and joint ventures recognized under the equity method	IV	214,445	3	239,111	3
49700	Gain (loss) on reversal of assets impairment	IV/ VI.26	(27,311)	-	59,109	1
49800	Net income other than interest income	IV	75,647	-	22,097	-
	Net revenue		8,280,257	100	6,838,955	100
58200	Bad debts, commitments, and guarantees reserve (provision)	IV/ VI.7, 8, 26	(2,553,305)	(31)	(1,606,593)	(23)
58400	Operating expenses					
58500	Employee benefits expenses	VI.20, 28	(990,007)	(12)	(898,316)	(13)
59000	Depreciation and amortization expenses	IV/ VI.11, 28	(124,825)	(2)	(49,653)	(1)
59500	Business and administrative expenses	IV	(766,569)	(9)	(779,816)	(12)
61000	Net income before tax from continuing operations		3,845,551	46	3,504,577	51
61003	Income tax (expenses)	IV/ VI.30	(445,864)	(5)	(626,776)	(9)
64000	Current period net income after tax		3,399,687	41	2,877,801	42
65000	Other comprehensive income					
65200	Items not reclassified to income	IV/ VI.29, 30				
65201	Reevaluation of defined benefit plan		6,589	-	(8,950)	-
65204	Unrealized gain(loss) on valuation of equity instruments measured at fair value through other comprehensive income		423,680	5	(68,926)	(1)
65207	The proportion of other comprehensive incomes from subsidiaries, associates, and equity joint-ventures accounted for under the equity method – not reclassified as profit and loss		6,815	-	(3,014)	-
65220	Incomes tax related to titles not subject to reclassification		(19,752)	-	8,632	-
65300	Items may be re-classified subsequently to income	IV/ VI.29, 30				
65301	Exchange differences from the translation of financial statements of foreign operations		(85,655)	(1)	64,596	1
65308	Unrealized gain(loss) of debt instruments measured at fair value through other comprehensive income		4,124,894	50	(3,283,825)	(48)
65320	Income tax related to items possibly be reclassified		13,122	-	(12,048)	-
	Current period other comprehensive income (net, after tax)		4,469,693	54	(3,303,535)	(48)
66000	Current period comprehensive income (after tax)		\$7,869,380	95	\$(425,734)	(6)
	Earnings per share (NTD)	VI.31				
67500	Basic earnings per share		\$2.99		\$2.51	
67700	Diluted earnings per share		\$2.99		\$2.51	

(Refer to Note to the financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Statement of Changes in Shareholders' Equity
January 1 to December 31, 2019 and 2018

Unit: NTD thousand

Item	Capital stock	Capital surplus	Retained earnings			Other equity		Treasury stock	Total equity
			Legal reserve	Special reserve	Undistributed earnings	differences from the translation of financial	financial assets at fair value through other comprehensive income		
Balance as of January 1, 2018	\$11,512,343	\$62,323	\$7,872,137	\$72,877	\$15,261,794	\$(24,117)	\$2,850,763	\$(129,640)	\$37,478,480
The 2017 appropriation and distribution of earnings									
Appropriation of legal reserve			1,683,160		(1,683,160)				-
Appropriation of special reserve				28,053	(28,053)				-
Common stock cash dividends					(1,720,722)				(1,720,722)
Other capital									
Share-based payment transaction	-	37,262	-	-	-	-	-	129,640	166,902
Net income for the period	-	-	-	-	2,877,801	-	-	-	2,877,801
Other comprehensive income for the period	-	-	-	-	(318)	52,548	(3,355,765)	-	(3,303,535)
Total comprehensive income for the period	-	-	-	-	2,877,483	52,548	(3,355,765)	-	(425,734)
Treasury stock repurchase								(314,865)	(314,865)
Equity instrument at fair value through other comprehensive income statement					(7,860)		7,860		-
Balance as of December 31, 2018	11,512,343	99,585	9,555,297	100,930	14,699,482	28,431	(497,142)	(314,865)	35,184,061
The 2018 appropriation and distribution of earnings									
Appropriation of legal reserve			863,340		(863,340)				-
Appropriation of special reserve				437,551	(437,551)				-
Common stock cash dividends					(1,711,852)				(1,711,852)
Net income for the period	-	-	-	-	3,399,687	-	-	-	3,399,687
Other comprehensive income for the period	-	-	-	-	(13,163)	(72,533)	4,555,389	-	4,469,693
Total comprehensive income for the period	-	-	-	-	3,386,524	(72,533)	4,555,389	-	7,869,380
Treasury stock repurchase								(410,080)	(410,080)
Deregistration of treasury stock	(200,000)	(43,490)			(383,033)			626,523	-
Equity instrument at fair value through other comprehensive income statement					(93,550)		93,550		-
Balance as of December 31, 2019	\$11,312,343	\$56,095	\$10,418,637	\$538,481	\$14,596,680	\$(44,102)	\$4,151,797	\$(98,422)	\$40,931,509

(Refer to Note to the financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Statements of Cash Flows
January 1 to December 31, 2019 and 2018

Unit: NTD thousand

Item	2019	2018	Item	2019	2018
	Amount	Amount		Amount	Amount
Cash flow from operating activities:			Cash flow from investing activities:		
Current period net income before tax	\$3,845,551	\$3,504,577	Purchase of property, plant, and equipment	(390,919)	(44,511)
Adjustments:			Proceeds from disposal of property or equipment	41,921	80
Revenue, expense and loss that do not affect the cash flows			Cash inflows from mergers	212,281	-
Anticipated credit impairment/ Bad debt expense	2,553,305	1,606,593	Net cash (outflow) from investing activities	(136,717)	(44,431)
Assets impairment loss(reversal gain)	27,311	(58,692)			
Non-financial assets impairment (reversal gain)	-	(417)	Cash flows from financing activities:		
Depreciation and amortization expenses	124,825	49,653	Funds borrowed from Central Bank and other banks (decrease)	(802,810)	(2,317,040)
Net interest income	(4,603,557)	(4,893,653)	Bills and bonds sold under repurchase agreements increase (decrease)	(1,098,476)	7,956,691
The (profit) amount of subsidiaries under the equity method	(214,445)	(239,111)	Cash dividend released	(1,711,852)	(1,720,722)
Cost of share-based payment service	-	37,262	Treasury stock repurchase cost	(410,080)	(314,865)
Disposal and obsolescence (gain) loss of property and equipment	(19,291)	89	Principal repayment of lease liability	(78,122)	-
Disposal loss (gain) of other assets	(1)	20	Treasury stock purchased by employees	-	129,640
Changes in assets/liabilities relating to operating activities			Net cash inflow (outflow) from financing activities	(4,101,340)	3,733,704
Due from Central Bank and lend to Banks (increase)	(172,399)	(292,920)			
Financial assets at fair value through profit and loss (increase)	(3,142,934)	(8,927,828)	Effect of changes in exchange rate on cash and cash equivalents	(85,655)	64,596
Receivables decrease (increase)	(298,052)	6,952	Current cash and cash equivalents (decrease)	(4,142,623)	(3,009,164)
Discounts and loans (increase)	(5,679,720)	(10,957,924)	Balance of cash and cash equivalents, beginning of period	13,473,399	16,482,563
Financial assets at fair value through other comprehensive income decrease	7,123,745	3,875,594	Balance of cash and cash equivalent, end of period	\$9,330,776	\$13,473,399
Investment of debt instruments at amortised cost (increase)	(100,000)	-	Composition of cash and cash equivalents		
Other financial assets (increase)	(917)	(4,649)	Cash and cash equivalents on the balance sheet	\$3,505,067	\$4,319,070
Other assets (increase)	(83,382)	(124,540)	Comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	5,675,687	8,530,162
Deposits from Central Bank and other banks (decrease)	(5,403,402)	(2,332,177)	Due from the Central Bank and call lend to banks		
Financial liabilities at fair value through profit and loss (decrease)	(19,782)	(102,118)	Comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	150,022	624,167
Payables (decrease)	(1,063,044)	(146,897)	Bonds and securities sold under repurchase agreements		
Customer deposits and remittances increase	3,135,014	7,957,319	Balance of cash and cash equivalent, end of period	\$9,330,776	\$13,473,399
Provisions for liabilities (decrease)	(37,660)	(43,538)			
Other liabilities (decrease)	(70,269)	(6,254)			
Interest received	6,770,514	6,663,543			
Dividends received	143,002	271,620			
Interest paid	(2,055,794)	(1,809,354)			
Income tax paid	(577,529)	(796,183)			
Net cash inflow (outflow) from operating activities	181,089	(6,763,033)			

(Refer to Note to financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Note to the Financial Statements
2019 and 2018
(In Thousands of New Taiwan Dollars, unless otherwise specified)

I. Organization and operations

1. King's Town Bank Co., Ltd., (hereinafter referred to as the "Company") was restructured from Tainan District Joint Saving Co., Ltd, on January 1, 1978. The Company had applied for restructuring into a commercial bank according to the resolution reached in the extraordinary shareholders meeting on November 29, 2005 and was renamed as "King's Town Bank Co., Ltd." The Company started trading on the Taiwan Stock Exchange Corporation since July 1983. The place of registration and the general management office are located at No. 506, Section 1, Ximen Road, Xiancao Li, West Central District, Tainan City, and branches are setup nationwide.
2. The Company's main business services are: (1) accepting check deposits, (2) accepting other deposits, (3) issuing financial bonds, (4) handling loans, (5) handling bill discounts, (6) handling various investment businesses, (7) handling domestic and foreign exchange, (8) handling draft acceptance, (9) issuing domestic and foreign letters of credit, (10) handling domestic and foreign guarantees, (11) handling collections and advances, (12) handling the depository and agency services related to the various businesses listed above, and (13) other business chartered by the government.
3. The Company had 975 employees and 954 employees as of December 31, 2019 and 2018, respectively.

II. Financial reporting date and procedures

The financial statements of the Company for the period of January 1 to December 31, 2019 and 2018 were approved for publication by the Board of Directors on February 24, 2020.

III. Application of new and revised standards and interpretation

1. Changes in accounting policies resulting from the first-time application of International Financial Reporting Standards

The Company has adopted International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations or Notices that have been approved by the Financial Supervisory Commission (hereinafter referred to as the "FSC") for application after January 1, 2019. Except for the nature and impact of the new standards and amendments described below, the first-time application has no significant impact on the Company:

(1) IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", International Financial Reporting Interpretations Committee (IFRIC) No. 4 "Determining whether an arrangement includes leases", IFRIC No. 15 "Business Leasing: Incentives", and IFRIC 27 "Assessing the substance of the transaction in the legal form involving the lease".

The first-time application date of the Company as stipulated in the transitional

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

provisions of IFRS 16 is on January 1, 2019. The impact of adopting IFRS 16 for the first time is as follows:

- A. Please refer to Note IV for the details of the accounting policies applicable to the Company starting from January 1, 2019, and before January 1, 2019.
- B. For the definition of lease, the Company chose not to have the contract re-assessed whether it was (or includes) a lease on January 1, 2019. The Company applies IFRS 16 in respect of the contracts that have been identified as leases in the previous application of IAS 17 and IFRIC 4. In addition, the contract that has been identified as not including the lease when IAS 17 and IFRIC 4 were previously applied does not apply to IFRS 16. That is, the Company only assesses whether the contract signed (or modified) after January 1, 2019, is (or includes) a lease after the application of IFRS 16. Compared with IAS 17, according to IFRS 16, if a contract is signed to have the control over the use of an identified asset transferred for a period of time in exchange for a consideration, it is (or includes) a lease. The Company concludes that it is subject to the definition of a new lease in most situations, and the contract is (or includes) an assessment of lease without any significant impact resulting.
- C. The Company is a lessee: chooses not to re-compile comparative information according to the transitional provisions of IFRS 16. The cumulative amount of the initial application was recognized on January 1, 2019 and it was adjusted to the beginning balance of the retained earnings (or other composition of equity, if applicable) on the first-time application date:

- (a) A lease that is classified as an operating lease

The Company expects to have the present value (discounted at the incremental borrowing interest rate of the lessee on January 1, 2019) of the remaining lease that was classified as an operating lease when applying IAS 17 measured and recognized as a lease liability on January 1, 2019. In addition, on the basis of individual leases, the Group chooses to measure and recognize the right-of-use assets according to the lease liabilities amount (but adjusting the lease payments amount that is prepaid or payable in relation to the lease).

The Company's right-of-use assets and lease liabilities will be increased by NT\$271,864 thousand and NT\$271,864 thousand on January 1, 2019, respectively.

The Company is subject to the transitional provisions of IFRS 16. The lease that was classified as operating lease previously is processed practically as follows on the basis of individual leases:

- i. Use a single discount rate for a lease portfolio with reasonably similar characteristics.
- ii. The assessment of whether a lease is with loss before January 1, 2019, is used as an alternative for impairment assessment.
- iii. The leases that ended within 12 months after January 1, 2019, are handled as short-term leases.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

- iv. The initial cost will not be included in the measurement of right-of-use assets on January 1, 2019.
 - v. As hindsight, such as, at the time of determining the lease term (if the contract includes the option of lease extension or lease termination).
- (b) Please refer to Note IV, Note V and Note VI for the addition of the notes and disclosures related to the lessee in accordance with IFRS 16.
- (c) The impact of the first-time application of IFRS 16 on January 1, 2019, on the financial statements as follows:
- i. For the lease liabilities recognized on the balance sheet on January 1, 2019, the lessee's incremental weighted average loan interest rate is 1.57%.
 - ii. The operating lease commitments disclosed in accordance with IAS 17 on December 31, 2018, were discounted at the incremental loan rate on January 1, 2019, and it is different from the lease liabilities recognized on the balance sheet on January 1, 2019, as follows:

The operating lease commitments (excluding the short-term lease due within one year) disclosed in accordance with IAS 17 on December 31, 2018.	<u>\$291,603</u>
The amount discounted at the incremental loan rate on January 1, 2019	<u>\$271,864</u>
Lease liabilities recognized on January 1, 2019.	<u>\$271,864</u>

2. The Company has not yet adopted the following new publication, revision, and amendments or interpretations announced by International Accounting Standards Board and approved by the FSC.

Item	New publication / amendments / revisions of the standards and interpretations	The effective date announced by the International Accounting Standards Board
1	Definition of business (Amendment to IFRS 3)	January 1, 2020
2	Definitions of significance (Amendments to IAS 1 and 8)	January 1, 2020
3	Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	January 1, 2020

(1) Definition of business (Amendment to IFRS 3)

This amendment clarifies the definition of business as stipulated in IFRS 3 "Business Combinations" to help enterprises identify that transactions are handled in accordance with the business combination or the assets acquisition approach. IFRS 3 continues to determine whether the acquisition activity or assets portfolio is a business from the viewpoint of the market participants, including clarifying the minimum requirements of the business, adding guidance to assist enterprises in assessing whether the process of acquisition is significance, and reducing the definition of the business and output.

(2) Definitions of "Significance" (Amendments to IAS 1 and 8)

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

It is mainly to re-define material information: If the omission, misrepresentation or ambiguity of information can be reasonably expected to affect the main users of the financial statement in making decisions, such information is material. This amendment clarifies that the definition of materiality depends on the nature or volume (or both) of the information. Companies assess the materiality of information on the financial statements taking as a whole.

(3) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments cover a number of exceptions for all hedges directly affected by the interest rate benchmark reform. Interest rate benchmark reform directly affect hedge as it would cause uncertainty in the timing or amount of cash flows based on indicators of hedged items or hedging instruments. Therefore, all hedges that are directly affected by the interest rate benchmark reform shall be subject to the exceptions.

Amendments include:

A. Highly probable requirement for forecast transactions

For determining whether a forecast transaction is highly probable, the company shall assume that the interest rate indicator based on the hedged cash flows will not be affected by the interest rate benchmark reform.

B. Assessing expectations

When assessing expectations, the company shall assume that the basis of the hedged item, evaded risk, and/or the hedging instrument will not be affected by changes in the interest rate benchmark reform.

C. Retrospective assessment under IAS 39

The company is not required to implement the retrospective assessment of IAS 39 (i.e. whether the actual result of the hedge is between 80% and 125%) for hedge that are directly affected by the interest rate benchmark reform.

D. Separately identified risks

When hedging for non-contracted indicator of interest rate risk, requirements for separate identification are only applicable at the start of a hedge.

The amendments also include requirements for the cancellation of applicable exceptions and the disclosure contained in Notes which are related to the amendments.

The above is the new publications, revisions, and amendments or interpretations announced by the International Accounting Standards Board and approved by the FSC and applied since January 1, 2020. The Company has assessed and concluded the remaining new announcements or amendments to the standards or interpretations have no material impact on the Company.

3. As of the date of the financial report published, the Company has not adopted the following new publication, revision, and amendment or interpretation of the standards announced by the International Accounting Standards Board but not yet approved by the FSC.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Item	New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investment in Associates and Joint Ventures” - Assets sold or invested in by investors and their associates or joint ventures.	To be determined by the “International Accounting Standards Board (IASB).
2	IFRS 17 “Insurance Contracts”	January 1, 2021
3	Liabilities are classified as current or non-current (amendments to IAS 1)	January 1, 2022

- (1) Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investment in Associates and Joint Ventures” - Assets sold or invested in by investors and their associates or joint ventures.

This plan is to handle the inconsistency on the loss of control due to the investment in associates or joint ventures by subsidiaries according to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investment in Associates and Joint Ventures”. When investing in non-monetary assets to exchange for the equity of the associates or joint ventures according to IAS 28, the resulting profits or losses should be eliminated in accordance with the treatment of downstream transactions. According to IFRS 10, the profit or loss should be recognized fully when losing control over the subsidiaries. This amendment limits the foregoing provisions of IAS 28. When it is constituted as the sale or investment of business assets as stipulated in IFRS 3, the resulting profit or loss should be fully recognized.

This amendment also modifies IFRS 10 to enable investors and their associates or joint ventures to recognize the profit or loss to the extent of the portion that is not distributed to the investors when selling or investing in subsidiaries that do not meet the definition as stipulated in IFRS 3.

- (2) IFRS 17 “Insurance Contracts”

This standard provides a comprehensive model of insurance contract, including all accounting related parts (recognition, measurement, expression, and disclosure principles). The core of the standard is a general model. Regarding this model, the original recognition is based on the total amount of the contractual cash flow and contractual services margin to measure the insurance contracts, of which, the contractual cash flow includes:

- A. Estimated value of future cash flow
- B. Discount rate: Adjustments that reflect the time value of money and the financial risks (within the estimation range of the future cash flow that does not include financial risk) associated with future cash flows; and
- C. Adjustment of non-financial risks

The book value of the insurance contracts at the end of each reporting period is the sum of the remaining security liabilities and the claims liabilities incurred.

In addition to the general model, it provides:

- A. Specific applicable method (variable fee approach) for the contracts with a direct participation characteristic

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

B. Simplification of short-term contracts (Premium Allocation Approach)

(3) Liabilities are classified as current or non-current (amendments to IAS 1)

This is an amendment made to the classification of liabilities as current or noncurrent in paragraphs 69 to 76 of International Accounting Standard No. 1 "Presentation of Financial Statements."

The aforementioned standards or interpretations have been issued by the IASB but have not yet been approved by the FSC. The actual date of application is subject to the requirements of the FSC. The new announcement or amendment of the standard or interpretation has no significant impact on the Company.

IV. Summary of significant accounting policies

1. Compliance Statement

The individual financial statements of the Company for the period of January 1 to December 31, 2019 and 2018 are prepared according to the "Regulations Governing the Preparation of Financial Reports by Public Banks", and "Regulations Governing the Preparation of Financial Reports by Securities Firms".

2. Basis of preparation

The individual financial statements are based on historical cost, except for financial instruments measured at fair value. Unless otherwise stated, the individual financial statements are prepared in the currency of New Taiwan Dollars (NT\$ Thousand).

3. Foreign currency transactions

The individual financial statements of the Company are expressed in the Company's functional currency (New Taiwan Dollars). Each subsidiary of the Company determines its own functional currency and measures its financial statements in that functional currency.

The foreign currency transactions of each subsidiary of the Company are converted to its functional currency according to the exchange rate on the transaction date. At the end of each reporting period, foreign currency monetary items are translated at the closing exchange rate of the day. The foreign currency non-monetary items measured at fair value are translated at the exchange rate on the date of fair value applied. The foreign currency non-monetary items measured at historical cost are translated at the exchange rate on the original trading day.

Except for the following, the exchange differences arising from the clearing or translation of monetary items are recognized as profit or loss in the period in which they are incurred:

- (1) For the foreign currency borrowings arising from acquiring assets that meet the requirements, the resulting exchange differences are treated as an adjustment to the interest cost and are capitalized as part of the borrowing cost.
- (2) Foreign currency projects subject to the provisions of IFRS 9 "Financial Instruments" are treated in accordance with the accounting policies of financial instruments.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

- (3) For the monetary items of the reporting entity that are an integral part of the net investment in the foreign operating institution, the resulting exchange differences were originally recognized in other comprehensive income and are reclassified from equity to profit or loss when the net investment is disposed.

When the profit or loss of a non-monetary item is recognized as other comprehensive income, any exchange profit or loss is recognized in other comprehensive income. When the profit or loss of a non-monetary item is recognized in profit or loss, any exchange profit or loss is recognized in profit or loss.

4. Conversion of financial statements in foreign currency

When preparing the individual financial statements, the assets and liabilities of foreign operating institutions are translated into New Taiwan Dollars at the closing exchange rate on the balance sheet date. The income and loss items are translated at the average exchange rate for the current period. The exchange difference arising from the conversion is recognized as other comprehensive income. When the foreign operating institution is closed, the accumulated exchange difference previously recognized in other consolidated profit or loss and included in the equity is reclassified from the equity to the profit or loss at the time of recognizing the disposal profit or loss.

5. Cash and cash equivalents

Cash and cash equivalents are cash on hand, demand deposits, and short-term and highly liquid time deposits or investments (including time deposits with a contract period within 12 months) that are readily convertible into fixed cash amount and have a very low risk of changes in value. For the individual cash flow statement, it also includes the deposits at the Central Bank, interbank lending, and resell (RS) bill and bond investments in accordance with the cash and cash equivalent stipulated in IAS 7 that is approved by the FSC.

6. Bonds Purchased under Resell/Notes Issued under Repurchase Agreements

The accounting process of RP/RS and bond transactions is as follows: (1) For an RP bill transaction, credit the RP bill and bond liability. The trade difference is booked as an interest expense; (2) For an RS bill transaction, debit the RS bill and bond investment. The trade difference is booked as interest income.

7. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the financial instrument contract.

Financial assets and financial liabilities subject to the provisions of IFRS 9 "Financial Instruments" at the time of original recognition, were measured at fair value. The acquisition or issuance transaction costs that are directly attributable to the financial assets and financial liabilities (except for financial assets and financial liabilities that are classified as measured at fair value through profit or loss) are added or subtracted from the fair value of the financial assets and financial liabilities.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(1) Recognition and measurement of financial assets

The recognition and de-recognition of all the financial assets of the Company are handled with the trade date accounting.

The Company uses the following two items to have financial assets classified as subsequently measured at amortized cost, measured at fair value through other comprehensive income, or measured at fair value through profit or loss:

- A. Operating model of financial assets management
- B. Contractual cash flow characteristics of financial assets

Financial assets based at amortized cost

Financial assets that meet the following two conditions are measured at amortized cost and booked in the balance sheet in terms of notes receivable, accounts receivable, financial assets measured at amortized cost, and other receivables.

- A. Operating model of financial assets management: hold financial assets to collect contractual cash flow
- B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

These financial assets (excluding those involved in hedging) are subsequently measured at the amortized cost [the amount measured at the time of original recognition, less the principal paid, plus or minus the cumulative amortization amount (with the effective interest method) between the original amount and the amount due), and adjusting the allowance for loss]. For de-recognition, the benefits or losses are recognized in profit or loss through amortization procedures or recognition of impairment profit or loss.

Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:

- A. For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
- B. Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of the financial assets.

Financial assets at fair value through other comprehensive income

Financial assets that meet the following two conditions are measured at fair value through other comprehensive income and are expressed on the balance sheet as financial assets measured at fair value through other comprehensive income:

- A. Operating model of financial assets management: Collect contractual cash flows and sell financial assets.
- B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

The recognition of the profit or loss related to such financial assets is as follows:

- A. Before de-recognition or reclassification, except for the impairment profit or loss

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

and foreign currency exchange gains and losses recognized in profit or loss, the profit or loss is recognized in other comprehensive income.

- B. At the time of de-recognition, the cumulative profit or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as reclassification adjustment.
- C. Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:
 - (a) For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
 - (b) Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of financial assets.

In addition, for an equity instrument that is subject to IFRS 9 and the equity instrument is neither held for trading nor is subject to the contingent considerations recognized by the acquirer as stipulated in IFRS 3 "Business Combinations", in the original recognition, the subsequent changes in fair value are booked in other comprehensive income (irrevocably). The amount included in other comprehensive income cannot be subsequently transferred to profit or loss (when the equity instruments are disposed of, the accumulated amounts included in other equity items are transferred directly to retained earnings). Also, it is booked as a financial asset measured at fair value through other comprehensive income on the balance sheet. Investment dividends are recognized in profit or loss unless such dividend clearly represents a recovery of the investment cost.

Financial assets at fair value through profit and loss

Financial assets are measured at fair value through profit or loss and are booked in the balance sheet as financial assets measured at fair value through profit or loss, except for the financial assets in the preceding paragraph that meet certain conditions and are measured at amortized cost or measured at fair value through other comprehensive income.

Such financial assets are measured at fair value, and the benefits or losses arising from the re-measurement are recognized as profit or loss. The benefits or losses recognized as profit or loss include any dividend or interest received on the financial asset.

(2) Impairment of Financial Assets

For the debt instrument investments measured at fair value through other comprehensive income, debt instrument investments measured at amortized cost, and off-balance sheet debt instrument, the Company has them recognized as expected credit loss and with the allowance for loss measured. The debt instrument investment measured at fair value through other comprehensive income has the allowance for loss recognized in other comprehensive income. Also, the book value of the investment is not decreased. Loans and receivables and off-balance sheet credit assets are recognized and measured in accordance with the expected credit losses. Also, adequate allowances, guaranteed liability reserves, and financing commitment reserves are appropriated according to whichever is higher according to the

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

“Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”.

The Company measures expected credit losses to reflect the following:

- A. An amount that is unbiased and weighted by probability through evaluating each possible outcome
- B. Time value of money
- C. Reasonable and corroborative information (that can be obtained on the balance sheet date without excessive costs or inputs) relating to past events, current conditions, and future economic forecasts

The methods used for measuring allowance for loss are as follows:

- A. It is measured by the 12-month expected credit loss amount: Including the credit risk that has not increased significantly since the original recognition of the financial assets, or it is determined as low credit risk on the balance sheet date. In addition, it also includes the allowance for loss measured by the expected credit loss of the duration in the previous reporting period, but which no longer meets the condition that the credit risk has increased significantly since the original recognition on the balance sheet date.
- B. The expected credit loss amount for the duration: Includes the significant increase in credit risk of the financial assets since the original recognition, or the financial assets with credit impairment purchased or originated.
- C. For accounts receivable or contractual assets arising from transactions within the scope of IFRS 15, the Company measured the allowance for loss with the expected credit loss amount of the duration.
- D. For the rent receivables arising from the transactions as stipulated in IFRS 16 (or IAS 17 before January 1, 2019), the Company uses the expected credit losses for the duration of the period to measure the allowance for losses.

In addition to the aforementioned assessments, the Company also has the credit assets assessed and classified according to the following classification methods by referring to the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. Regarding the classification methods, except for the normal credit assets classified in Category I, non-performing credit assets are evaluated according to the status of the loan collateral and the length of time overdue, which are classified as Category II “Special Mention”, Category III “Expected to be recovered”, Category IV “Doubtful” and Category V “Losses”.

The allowance for bad debt is appropriated for a minimum amount equivalent to the total of 1% of net Category I credit assets of the obligation to Taiwanese government agencies, 2% of Category II credit assets, 10% of Category III credit assets, 50% of Category IV credit assets, and 100% of Category V credit assets.

On each balance sheet date, the Company assesses whether the credit risk of financial instruments after the original recognition has increased significantly by comparing the changes in the default risk of the financial instruments on the balance sheet date and the original recognition date. In addition, please refer to Note XIV for information related to credit risk.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(3) Derecognized financial assets

Financial assets held by the Company are derecognized when one of the following conditions is met:

- A. The contractual right from the cash flow of financial assets is terminated.
- B. The financial asset has been transferred and almost all of the risks and rewards of asset ownership have been transferred to others.
- C. Almost all risks and rewards of asset ownerships have not been transferred or retained, but the control of assets has been transferred.

When a financial asset is derecognized entirely, the difference between the book value and the collected or collectible considerations plus any cumulative gain or loss recognized in other comprehensive gain or loss is recognized in profit or loss.

(4) Financial liabilities and equity instruments

Classification of liabilities or equity

The liability and equity instruments issued by the Company are classified as either financial liabilities or equity in accordance with the substance of the contractual agreements and the definition of financial liabilities and equity instruments.

Equity instruments

An equity instrument refers to any contract that recognizes the residual equity of the Company after the asset deducts the liabilities. The equity instruments issued by the Company are recognized at the amount obtained after deducting the direct issuance costs.

Compound instruments

The Company recognizes the financial liabilities and equity composition of the convertible corporate bonds issued according to its contractual terms. In addition, for the convertible corporate bonds issued, assess whether the economic characteristics and risks of the embedded call (put) option are closely related to the main debt instrument before distinguishing the equity elements.

For a liability that does not involve a derivative instrument, the fair value is assessed with the market interest rate of the equivalent and non-converting bond. Such liability before conversion or settlement is classified as a financial liability measured at the amortized cost. For the embedded derivative instrument (for example, the execution price of the embedded call (put) option cannot be equivalent to the amortized cost of the debt instrument on each execution date) that is not closely related to the economic characteristics of the principal contract, except for those classified as equity elements, it is classified as a liability and is measured at fair value through profit or loss in subsequent periods. The amount of the equity element is determined by the fair value of the convertible corporate bond net of the liability, and the book value will not be re-measured in the subsequent accounting period. If the issued convertible corporate bonds do not contain an equity element, they are handled in accordance with IFRS 9 hybrid financial instrument method.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

The transaction costs are allocated to the liability and equity proportionally to the originally recognized convertible corporate bonds to the liability and equity elements.

When the holder of the convertible corporate bond requests to exercise the conversion right before the maturity date, the book value of the liability is first adjusted to the book value at the time of conversion, as the basis for the issuance of common stock shares.

Financial liabilities

Financial liabilities subject to the provisions of IFRS 9 are classified, at the original recognition, as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost.

Financial liabilities at fair value through profit and loss

Financial liabilities measured at fair value through profits or losses include held-for-trade financial liabilities and financial liabilities designated to be measured at fair value through profit or loss.

Classified as held-for-trade when one of the following conditions is met:

- A. It is obtained mainly for the purpose of being sold in the short-term.
- B. It became part of the identified financial instrument portfolio managed comprehensively at initial recognition and there is evidence of the short-term profit-generating operation of the portfolio recently; or
- C. Derivatives (except for financial guarantee contracts or derivatives of the designated and effective hedging instruments).

For a contract that includes one or more embedded derivatives, an overall hybrid (combined) contract can be designated as a financial liability measured at fair value through profit or loss. When the relevant information is provided upon complying with one of the following factors, the original recognition is designated as measured at fair value through profit or loss:

- A. The designation can eliminate or significantly reduce the inconsistency of measurement or recognition; or
- B. The performance of a group of financial liabilities or a group of financial assets and financial liabilities is managed and assessed on a fair value basis according to the written risk management or investment strategies; also, the portfolio information provided to the management within the consolidated company is also based on the fair value.

The benefits or losses arising from the re-measurement of such financial liabilities are recognized in profit or loss. The gain or loss recognized in profit or loss includes any interest paid on the financial liability.

Financial liabilities measured at the amortized cost

Financial liabilities measured at the amortized cost, including payables and borrowings, are subsequently measured using the effective interest method after the original recognition. When a financial liability is derecognized and amortized through the effective interest method, its related profit or loss and amortization are recognized

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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in profit or loss.

The calculation of the amortized cost takes into account the discount or premium and transaction costs at the time of acquisition.

De-recognition of financial liabilities

When the obligation of a financial liability is discharged, canceled, or invalidated, the financial liability is derecognized.

When the Company and the creditors exchange opinions on a debt instrument with significant differences, or make major changes to all or part of the existing financial liabilities clauses (whether due to financial difficulties or not), it is handled by having the original liabilities derecognized and new liabilities recognized. When financial liabilities are derecognized, the difference between the book value and the total amount (including the transferred non-cash assets or liabilities assumed) of the considerations paid or payable is recognized in profit or loss.

(5) Financial assets and liabilities written-off against each other

Financial assets and financial liabilities can only be offset and presented with the net amount on the balance sheet only when the recognized amounts can be offset currently by law and are intended to be cleared on a net amount or having assets sold for cash and liability liquidated simultaneously.

8. Derivatives

Derivatives held or issued by the Company are used to hedge exchange rate risk and interest rate risk, of which, the designated and effective hedging items are reported as hedging assets or liabilities on the balance sheet. For those not designated but effective hedging, they are presented on the balance sheet as financial assets or financial liabilities measured at fair value through profit or loss.

The original recognition of a derivative is measured at the fair value on the derivative contract date and it is also measured at fair value subsequently. When the fair value of a derivative is positive, it is a financial asset. When the fair value of a derivative is negative, it is a financial liability. Changes in fair value of derivatives are recognized directly in profit or loss. In the case of valid cash flow hedging and foreign operating institutions net investment hedging, it is recognized in profit or loss or equity based on the type of hedging.

For the main contract that is a non-financial asset or non-financial liability, when it is embedded in the derivative of the main contract, its economic characteristics and risks are not closely related to the main contract; also, when the main contract is not measured at fair value through profit or loss, the embedded derivative should be treated as an independent derivative.

9. Fair value measurement

Fair value is the price that would be collected for the assets sold or the price paid for the

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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liabilities transferred in an orderly transaction between market participants on the measurement date. Fair value measurement is with an assumption that the sale of the asset or the transfer of the liability occurs in one of the following markets:

- (1) The main market for the asset or liability, or
- (2) If there is no major market, the most favorable market for the asset or liability;

The primary or most favorable market must be available for the Group to conduct trades.

The fair value measurement of an asset or liability is based on the assumption that the market participants used in pricing the assets or liabilities, assuming that such market participants will use the assumption the most economically practical way.

The fair value measurement of a non-financial asset takes into account the market participant's use of the asset for its highest and best utilization or sale of the asset to another market participant who will use the asset for its highest and best utilization in order to generate economic benefits.

The Company uses valuation techniques that are appropriate with sufficient data available in the relevant circumstances to measure fair value and maximize the use of observable inputs and minimize the use of unobservable inputs.

10. Impairment of non-financial assets

The Company at the end of each reporting period assesses whether all assets subject to IAS 36 "Impairment of Assets" are showing signs of impairment. If there is any indication of impairment or an impairment test is required for an asset on a regular basis each year, the Company tests the individual asset or the cash-generating unit to which the asset belongs. If the book value of an asset or the cash-generating unit to which the asset belongs is greater than the recoverable amount in an impairment test, the impairment loss is recognized. The recoverable amount is the higher of fair value net of the disposal cost or the value in use.

At the end of each reporting period, the Company assesses assets other than goodwill to see whether there are indications that the previously recognized impairment losses may no longer exist or may be decreased. In the event of such an indication, the Company estimates the recoverable amount of the asset or cash-generating unit. If the recoverable amount is increased due to the change in the estimated service potential of the asset, the impairment amount is reversed. However, the reversed book value shall not exceed the book value before recognizing impairment loss and after deducting depreciation or amortization.

The impairment loss and reversal amount of the continuing business unit are recognized in profit or loss.

11. Collateral accepted

The accepted collateral is booked at the cost of acceptance. Also, it is valued at the end of the period at the lower of cost or fair value net of selling cost (net realizable value).

12. Investment under the equity method

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The Company's investment in subsidiaries is presented, valued and adjusted in accordance with the "Investment Accounted for using the equity method" as defined in Article 21 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers in order to have had the current profit and loss and other comprehensive profit and loss in the financial statements equivalent to the amortization amount of the current profit and loss and other comprehensive profit and loss in the consolidated financial statements that is attributable to the shareholders of the parent company; also, the shareholder's equity amount in the financial statements is same as the equity attributable to the shareholders of the parent company in the consolidated financial statements. Such adjustments are mainly based on the difference between having the "investment in subsidiaries" processed in accordance with IAS 27 "Consolidated Financial Statements" and IFRSs that is for different reporting entities; also, the said difference is debited or credited to the account of "Investment Accounted for using the equity method," "Profit and loss of the subsidiaries under the equity method, associates, and Joint Ventures" or "Other comprehensive profit and loss of the subsidiaries under the equity method, associates and Joint Ventures."

The Company's investment in associates, except for those classified as assets for sale, is processed in accordance with the equity method. Affiliates are business entities that are significantly influenced by the Company.

Under the equity method, the investment in associates is booked in the balance sheet for an amount equivalent to the cost plus the amount of the change in the associate's net assets recognized proportionally to the shareholding ratio. When the book value of the investment in associates and other related long-term equity under the equity method is with a zero balance, additional loss and liability is recognized within the scope of the statutory obligations, constructive obligations, or payments on behalf of associates incurred. Unrealized gains and losses arising from the transactions conducted between the Company and associates are written off proportionally to the equity ratio in associates.

When the change in the equity of an associate does not occur as a result of profit or loss and other comprehensive profit and loss; also, such change does not affect the Company's shareholding ratio, the Company recognizes the relevant changes in equity ownership proportionally to the shareholding ratio. Therefore, the recognized additional paid-in capital will be transferred to profit or loss proportionally to the disposal amount when the associate is subsequently disposed.

When the associate issued new shares, the Company did not subscribe it proportionally to the shareholding ratio, causing the Company's investment ratio and net asset ratio in the associate changed, so, such change is adjusted to the "additional paid-in capital" and "Investment accounted for using the equity method." When the change in the investment ratio is reduced, the relevant items previously recognized in other comprehensive profit or loss should be reclassified to "profit or loss" or other appropriate accounts proportionally to the reduction ratio. The previously recognized additional paid-in capital is transferred to the profit or loss proportionally to the disposal ratio when the associate is disposed.

The financial statements of associates are prepared for the same reporting period as the Company and adjusted to have its accounting policies in line with the Company's accounting policies.

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The Company confirms whether or not there is objective evidence indicating impairment of the investment in associates in accordance with the requirements of International Accounting Standards (IAS) No. 28 "Investment in Associates and Joint Ventures" at the end of each reporting period. If there is objective evidence of impairment, the Company shall calculate the impairment amount based on the difference between the recoverable amount and the book value of the associate in accordance with the requirements of IAS 36 "Impairment of Assets" and recognize such amount in the profit or loss from the associate. If the aforementioned recoverable amount is the investment value, the Company will determine the investment value according to the following estimates:

- (1) The present value of the estimated future cash flow of the associate attributable to the Company includes the cash flow generated by the associate in business operations and the proceeds from the investment disposed; or
- (2) The present value of the expected dividends and future cash flows generated from the investment disposed ultimately.

As the items that constitute the book value of the associate's goodwill are not separately recognized, it is not subject to the requirements of IAS 36 "Impairment of Assets" goodwill impairment test.

Upon the loss of significant impact on associates, the Company has the retained investment amount measured and recognized at fair value. Upon the loss of significant impact, the difference between the book value of the investment in associate and the fair value of the retained investment plus the proceeds from the disposal is recognized as profit or loss.

13. Property, plant, and equipment

Property, plant, and equipment are recognized at the acquisition net cost of accumulated depreciation and accumulated impairment. The aforementioned cost includes the cost of dismantling, removing, and restoring the location of the property, plant, and equipment and the necessary interest expense arising from the construction in progress. Depreciation is provided separately for the significant parts of the property, plant, and equipment. When major parts of property, plant, and equipment are subject to periodic replacement, the Company treats the parts as an individual asset and recognizes it separately with specific periods of durability and depreciation method. The book value of these replaced parts is derecognized in accordance with the provision of IAS 16 "Property, Plant, and Equipment". If the major repair and maintenance costs are in compliance with the recognition conditions, they are recognized as replacement costs and are recognized as part of the plant and equipment book value. Other repair and maintenance expenses are recognized in profit or loss.

Depreciation is calculated and appropriated in accordance with the declining balance method and the estimated useful life of the following assets:

Buildings and structures	3 ~60 years
Transport equipment	3 ~5 years
Other equipment	3 ~10 years

After the original recognition of the property, plant, and equipment or any significant parts, if it is disposed or no economic effect arising from the use or disposal is expected, it will be derecognized and recognized in profit or loss.

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The residual value, years of useful life, and depreciation method of the property, plant, and equipment are assessed at the end of each financial year. If the expected value is different from the previous estimate, the change is considered as a change in accounting estimates.

14. Lease

The accounting treatment since January 1, 2019 is as follows:

The Company assesses whether the contract that was signed after January 1, 2019, is (or includes) a lease. If a contract is signed to have the control over the use of identified assets transferred for a period of time in exchange for a consideration, it is (or includes) a lease. In order to assess whether a contract is signed to have the control over the use of identified assets transferred for a period of time, the Company assesses whether there are the following two factors throughout the period of use:

- (1) Obtaining almost all economic benefits from the use of identified assets; and
- (2) Control the right-of-use of the identified assets.

The Company chose not to have the contract re-assessed whether it is (or includes) a lease on January 1, 2019. The Company applies IFRS 16 in respect of the contracts that have been identified as leases in the previous application of IAS 17 and IFRIC 4. In addition, the contract that has been identified as not including the lease when IAS 17 and IFRIC 4 were previously applied does not apply to IFRS 16.

For a contract that is (or includes) a lease, the Company has each lease component of the contract treated as a separate lease and has it handled separately from the non-lease components of the contract. For a contract that includes one lease component and one or multiple additional lease or non-lease components, the Company has the consideration of the contract amortized to the lease components in accordance with the relative individual price of each lease component and the aggregated individual price of the non-lease components. The relative individual price of the lease and non-lease components is determined according to the price charged by the lessor (or similar supplier) for such components (or similar components). If the observable individual price is not readily available, the Company maximizes the use of observable information to estimate the individual price.

The Company is the lessee

Except for leases that meet and select short-term leases or low-value asset leases, when the Company is the lessee of the lease contract, the right-of-use assets and lease liabilities are recognized for all leases.

On the commencement date, the Company measures the lease liability according to the present value of the lease payments that have not yet been paid on that date. If the lease implied interest rate is easy to determine, the lease payment is discounted according to the said implied interest rate. If the lease implied interest rate is not easy to determine, the incremental loan rate of the lessee shall prevail. On the commencement date, the lease payments included in the lease liability include the following payments relating to the use-of-rights underlying asset in the lease term that is not yet paid on that date:

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- (1) Fixed payments (including real fixed payments) net of any collectable lease incentives;
- (2) Lease payments depending on the change in an index or expense rate (measured at the index or expense rate on the commencement date);
- (3) The lessee's expected payment amount with the residual value guaranteed;
- (4) The exercise price of the purchase option, if the Company can reasonably assure that the option will be exercised; and
- (5) The penalty for the termination of the lease, if the lessee intends to exercise the option of having the lease terminated in the lease period.

After the commencement date, the Company measures the lease liability at the amortized cost, increases the book value of the lease liability by the effective interest method, and reflects the interest on the lease liability. The book value of the lease liability is reduced when the lease payment is made.

On the commencement date, the Company measures the right-of-use assets at cost. The cost of the right-of-use assets includes:

- (1) The originally measured amount of the lease liability;
- (2) Any lease payments paid on or before the commencement date, minus any lease incentives received;
- (3) Any original direct costs incurred to the lessee; and
- (4) The estimated cost for the lessee to have the underlying asset dismantled or removed and restore its location, or have the underlying asset restored to the form as stipulated in the clause and condition.

Subsequent measurement of the right-of-use asset is presented at cost net of the accumulated depreciation and accumulated impairment losses, that is, the right-of-use asset should be measured at cost.

If the ownership of the underlying assets is transferred to the Company at the end of the lease term, or if the cost of the right-of-use asset reflects that the Company will exercise the purchase option, the depreciation of the right-of-use asset is appropriated from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company has the depreciation of the right-of-use asset appropriated from the commencement date to the end of the useful life of the right-of-use asset or the expiration of the lease term whichever is sooner.

The Company applies IAS 36 "Impairment of Assets" to determine whether the right-of-use asset is with impairment; also, handle the identified impairment losses.

Except for leases that meet and select short-term leases or low-value asset leases, the Company presents the right-of-use assets and lease liabilities on the balance sheet, and presents the depreciation expense and interest expense related to the lease separately in the comprehensive income statement.

For short-term leases and low-value asset leases, the Company chooses to have the related lease payments recognized as expenses over the lease period in accordance with the straight-line basis or a systematic basis.

The accounting treatment before January 1, 2019 is as follows:

The Company is the lessee

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A financial lease is to have almost all the risks and remuneration related to the ownership of the leased property to the Company and is capitalized at the lower of the fair value of the leased asset or the present value of the minimum lease payments on the commencement date of the lease period. The rent payment is amortized to the financing expenses and the reduction of the lease liabilities, of which, the financing expense is determined by the remaining liability and the fixed interest rate and recognized in profit or loss.

The leased asset is depreciated over the useful life of the asset. However, if whether the Company can obtain the ownership of the asset at the end of the lease period cannot be reasonably determined, the depreciation is appropriated according to the estimated useful lives of the asset or the lease period, whichever is shorter.

Lease payments under operating leases are recognized as expenses according to a straight line method over the lease period.

15. Employee benefits

(1) Retirement benefits plan

The retirement method for employees of the Company is applicable to all full-time employees. The employee retirement fund is fully appropriated to the Supervisory Committee of Business Entities' Labor Retirement Reserve and deposited in the pension fund account. The aforementioned pension is deposited in the name of the Supervisory Committee of Business Entities' Labor Retirement Reserve, which is completely separated from the Company, so it is not included in the individual financial statements in the preceding paragraph.

For the defined contribution pension plan, the monthly pension payable rate of the Company shall not be less than 6% of the employee's monthly salary, and the amount of the provision shall be recognized in the profit or loss of the current period.

For the defined contribution pension plan, an appropriation is made according to the project unit credit method and the actuarial report at the end of the annual reporting period. The re-measurement of net defined benefit liabilities (assets) includes the return on the plan asset and changes in the ceiling of the assets, deducting the net interest amount of the net defined benefit liabilities (assets) and the actuarial gains and losses. The net defined benefit liability (asset) re-measurement is included in other comprehensive income when incurred and immediately recognized in the retained earnings.

The prior-period service cost is the change in the present value of the defined benefit obligation arising from the revision or reduction of the pension plan and is recognized as an expense on the earlier of the following two dates:

- A. When the plan revision or reduction occurs; and
- B. When the Company recognizes the relevant restructuring costs or resignation benefits;

The net interest of the net defined benefit liability (asset) is determined by having the net defined benefit liability (assets) multiplied by the discount rate, both of which are determined at the beginning of the annual reporting period, and then consider the changes which have occurred in the net defined benefit liabilities (assets) for the period arising from the appropriation amount and benefit payment.

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(2) Employees preferential deposit benefit

The Company provides preferential deposits, which include the payment of fixed preferential deposits for current employees and for retired employees (before January 1, 2010). The difference between the interest rate of these preferential deposits and the market interest rate is within the scope of employee benefits.

According to Article 28 of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the excess interest arising from the retirement preferential deposit rate agreed upon with the employees over the general market interest rate shall be actuarially calculated according to the defined benefit plan as stipulated in IAS 19 that was approved by the Financial Supervisory Commission. However, the parameters of actuarial assumptions shall be handled in accordance with the provisions of the competent authority if it is available.

16. Treasury stock

When the Company obtains the shares (Treasury Stocks) of the company, it is recognized at the acquisition cost and is debited to the equity. The spread of treasury stock transactions is recognized in the equity.

17. Recognition of revenue

(1) Interest income from loans is estimated on an accrual basis. The overdue payment transferred to the collection account will cease to bear interest from the date of transfer and will be recognized as income upon collection. The interest income agreed to be posted as receivable due to the bail-out and the extension agreement is recognized as income upon collection.

(2) Service charge income is a fee charged for the various services provided to customers. The accounting treatment is as follows:

The service charge income of the Company is derived from the services provided at a specific point of time or for a certain period of time, or through the transaction services and it is recognized as income. When there is a transfer of services to the customer but without unconditional rights for collecting considerations, it is recognized as a contract asset. However, for some contracts, partial considerations are collected from the customers at the time of signing the contract, the Company must assume the obligation of providing services subsequently. Therefore, it is recognized as a contract liability.

The aforementioned contractual liabilities of the Company did not result in significant financial fluctuations.

18. Share-based payment transaction

The "share-based payment" transaction cost for the equity clearing between the Company and its employees is measured at the fair value on the equity instruments vested date. Fair value is measured by the appropriate pricing model.

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The "share-based payment" transaction cost for the equity clearing is recognized on a period-by-period basis during the period in which the service conditions and performance conditions are fulfilled, and the increase in equity is recognized. The cumulative fees recognized for equity clearing transactions at the end of each reporting period prior to the vesting date reflect the process of the vested period and the best estimate of the ultimate vested equity instruments by the Company. The cumulative cost changes recognized for the share-based payment transactions at the beginning and end of each reporting period are recognized in profit or loss for the period.

If the share-based payment is not in compliance with the vested conditions, no expense will be recognized. However, if the vested conditions of the equity clearing transaction are related to the market price condition or the non-vested conditions, when all the service or performance conditions have been fulfilled, the relevant expenses will be recognized regardless of whether the market price condition or the non-vested condition is fulfilled.

19. Income tax

Income tax expense (profit) refers to the aggregated amount of current income tax and deferred income tax that is included in the current profit or loss.

Current income tax

The current income tax liabilities (assets) related to the current and prior periods are measured at the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The current income tax related to the items recognized in other comprehensive income or directly recognized in the equity is recognized in other comprehensive income or equity instead of being recognized in the profit or loss.

The additional business income tax levied on the undistributed earnings is recognized as income tax expense on the date when the distribution of earnings is resolved in the shareholders meeting.

Deferred tax

The deferred income tax is calculated according to the temporary difference between the taxable amount of assets and liabilities and the book value on the balance sheet at the end of the reporting period.

All taxable temporary differences are recognized as deferred income tax liabilities except for the following two items:

- (1) The original recognition of goodwill, or the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted;
- (2) The taxable temporary difference arising from the investment in subsidiaries, associates, and joint equity. Also, the timing of reversal is controllable, and it is not likely to be reversed in the foreseeable future;

Except for the following two items, deductible temporary difference and deferred income tax assets arising from the taxable losses and income tax credit are recognized within the range of probable future taxable income:

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- (1) It is related to the deductible temporary difference from the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted.
- (2) It is related to the deductible temporary differences arising from the investment in subsidiaries, associates, and the joint equity. It is recognized within the range of probable reversal in the foreseeable future and there is sufficient taxable income at the time the temporary difference occurred.

Deferred income tax assets and liabilities are measured at the tax rate of the expected asset realization or in the period in which the liability is settled. The tax rate is based on the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The measurement of deferred income tax assets and liabilities reflects the tax consequences arising from the manner in which the asset is expected to be recovered or the book value of the liability is settled at the end of the reporting period. If the deferred income tax is related to items that are not included in the profit or loss, it will not be recognized in profit or loss, but recognized in other comprehensive income according to the relevant transactions or directly recognized in equity. Deferred income tax assets are re-examined and recognized at the end of each reporting period.

Deferred income tax assets and liabilities can be offset against each other legally only in the current period, and the deferred income tax is related to the same taxation entity and is related to the income tax levied by the same taxation authority.

V. Main source of significant accounting judgment, estimates and assumptions uncertainty

When the individual financial statements are prepared by the Company, the management must make judgments, estimates, and assumptions at the end of the reporting period, which will affect the disclosure of income, expenses, assets and liabilities, and contingent liabilities. However, the uncertainty of these significant assumptions and estimates may result in a significant adjustment to the book value of an asset or liability in the future period.

Estimation and assumption

The main source of information on the estimation and assumption with uncertainty at the end of the reporting period has significant risks that result in significant adjustments to the book value of assets and liabilities in the next financial year. The explanations are given as follows:

(1) Loan impairment loss

The estimation of the Company's loan impairment loss is based on whether or not the credit risk has increased significantly since the original recognition to determine if it is necessary to have the allowance for loss assessed according to the 12-month expected credit loss amount or the expected credit loss amount throughout the duration. In order to measure the expected credit loss, the Company considers the default probability with the default loss rate included and then multiplied by the default risk exposure amount, and it also considers the impact of the time value of money to estimate the expected credit loss for 12 months as well as the duration. The Company considers historical experiences, current market conditions and forward-looking estimates on each reporting date to determine the assumptions and inputs to be used for calculating the impairments. Please refer to Note XIV for details.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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(2) The fair value of financial instruments

When the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from the active market, the fair value will be determined using evaluation techniques, including the income approach (such as, cash flow discount model) or market approach. The changes in the assumptions of the said approaches will affect the fair value of the financial instruments reported. Please refer to Note XIII.

(3) Retirement benefits plan

The present value of the defined benefit cost and the defined benefit obligations depends on the actuarial valuation. Actuarial valuation involves various assumptions, including: discount rate and changes in expected salary.

(4) Income tax

The uncertainty of income tax exists in the interpretation of complex tax regulations and the amount and timing of future taxable income. Due to a wide range of international business relationships and the long-term and complexity of contracts, the differences between actual results and assumptions made, or changes in such assumptions in the future, may cause the booked income tax benefits and expenses to be adjusted in the future. The appropriation of income tax is a reasonable estimation made according to the possible audit results of the local tax authorities of the countries in which the Company operates. The amount appropriated is based on different factors, such as: previous tax audit experience and the difference in tax law interpretation between the tax entity and the tax authority. The difference in interpretation may result in a variety of issues due to the local situation of the country where an individual enterprise of the Company operates.

The carryforwards of the taxable loss and income tax credit and deductible temporary differences are recognized as deferred income tax assets within the range of probable future taxable income or taxable temporary differences. The amount of the deferred income tax assets to be recognized is estimated according to the possible timing and level of the future taxable income and taxable temporary difference, and also, the future tax planning strategy.

VI. Summary of significant accounting items

1. Cash and cash equivalents

	2019.12.31	2018.12.31
Cash on hand	\$1,790,402	\$1,366,431
Foreign currency on hand	223,202	230,888
Notes and checks for clearing	252,376	1,565,553
Due from Central Bank and other banks	1,239,087	1,156,198
Total	\$3,505,067	\$4,319,070

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For the purpose of preparing the cash flow statement, cash and cash equivalents are the sum of the following items.

	2019.12.31	2018.12.31
Cash and cash equivalents on the balance sheet	\$3,505,067	\$4,319,070
The "Due from the Central Bank and call loans to banks" comply with IAS 7 "Definition of Cash and cash equivalents" approved by the FSC	5,675,687	8,530,162
The "Bonds and securities sold under re-purchase agreements" comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	150,022	624,167
Cash and cash equivalents on the Statements of Cash Flows	<u>\$9,330,776</u>	<u>\$13,473,399</u>

2. Due from Central Bank and lend to Banks

	2019.12.31	2018.12.31
Reserve for deposits –Type A	\$2,267,322	\$2,939,644
Reserve for deposits –Type B	5,486,995	5,314,596
Reserve for deposits –Foreign currency	18,365	17,518
Call loans to banks	3,390,000	5,573,000
Total	<u>\$11,162,682</u>	<u>\$13,844,758</u>

The deposit reserve is calculated according to the monthly legal reserve appropriated for each type of deposit by law, the average daily amount and legal reserve ratio for the current period. Also, it is deposited with the Central Bank. Type A deposit reserve accounts and foreign currency depositor accounts do not bear interest and can be accessed at any time. Type B accounts bear interest, but they cannot be used except in compliance with the regulations.

3. Financial assets at fair value through profit and loss

	2019.12.31	2018.12.31
Mandatorily measured at fair value through profit or loss:		
Stock	\$3,318,000	\$4,257,240
Equity securities	1,921,705	2,368,012
Domestic bond	29,056,073	24,111,160
Derivatives	8,805	39,017
Convertible corporate bonds	-	323,902
Real estate investment trust fund	429,013	360,177
Total	<u>\$34,733,596</u>	<u>\$31,459,508</u>

Please refer to Note VIII for details of the financial assets provided as collateral that the Company has them measured at fair value through profit or loss.

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4. Financial assets at fair value through other comprehensive income

	2019.12.31	2018.12.31
Debt instrument investments measured at fair value through other comprehensive income:		
Bonds	\$8,850,669	\$15,622,987
Corporate bond	33,039,873	33,660,910
Financial bonds	3,283,306	4,264,717
Subtotal (total book value)	45,173,848	53,548,614
Evaluation adjustment	3,148,095	(952,250)
Subtotal	48,321,943	52,596,364
Equity instrument investments measured at fair value through other comprehensive income:		
Listed stocks	35,225	93,960
Non-TWSE/TPEX-listing companies stock	2,452,977	722,442
Subtotal	2,488,202	816,402
Total	\$50,810,145	\$53,412,766

Please refer to Note VIII for details of the financial assets provided as collateral that the Company has them measured at fair value through other comprehensive income.

Please refer to Note VI.26 for information on allowance for loss for the debt instrument investments measured at fair value through other comprehensive income. Also, please refer to Note XIV for information related to credit risk.

For the Company's investment in financial assets and equity instruments that was measured at fair value through other comprehensive income, dividend income for an amount of NT\$77,143 thousand and NT\$33,744 thousand, was recognized in the period from January 1 to December 31, 2019 and 2018, respectively, which was entirely related to the investments still held on the balance sheet date.

The Company's investment in financial assets and equity measured at fair value through other comprehensive income was disposed in the period from January 1 to December 31, 2019 and 2018, the fair value at the time of disposition were NT\$72,467 thousand and NT\$698,266 thousand. Also, the accumulated unrealized loss in valuation at the time of disposal for an amount of NT\$93,550 thousand and NT\$7,860 thousand were transferred from other equity to retained earnings.

5. Financial assets based at amortized cost

	2019.12.31	2018.12.31
Convertible certificate of deposit (total book value)	\$17,700,000	\$17,600,000
Less: Allowance for losses	(1,865)	(2,004)
Total	\$17,698,135	\$17,597,996

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

The Company classifies certain financial assets into financial assets measured at amortized cost. Please refer to Note VI.26 for the information provided on allowances for loss. Also, refer to Note XIV for information related to credit risk and it is not provided as collateral.

6. Bonds and securities sold under repurchase agreements

	2019.12.31	2018.12.31
Bonds	<u>\$150,022</u>	<u>\$624,167</u>

The Company's bonds and securities sold under repurchase agreements transactions were processed at the agreed price for an amount of NT\$150,031 thousand and NT\$624,260 thousand on December 31, 2019 and 2018, respectively.

7. Receivable- net

	2019.12.31	2018.12.31
Accounts receivable and notes	\$44,284	\$4,926
Interests receivable	918,211	1,038,824
Clearing amount receivable	309,606	-
Other receivables	28,367	19,073
Subtotal (total book value)	<u>1,300,468</u>	<u>1,062,823</u>
Less: Allowance for losses	<u>(30,018)</u>	<u>(34,687)</u>
Net	<u>\$1,270,450</u>	<u>\$1,028,136</u>

The Company assesses impairments in accordance with International Financial Reporting Standard No. 9. Please refer to Note VI.26 for the allowance for loss related information in detail; also, refer to Note XIV for the credit risk related information in detail.

8. Discounts and loans, net

	2019.12.31	2018.12.31
Overdraft	\$202,095	\$74,653
Loans	157,395,540	154,496,563
Collections of overdue loans	20,791	25,759
Total amount	<u>157,618,426</u>	<u>154,596,975</u>
Less: allowance for bad debt	<u>(2,267,748)</u>	<u>(2,367,223)</u>
Net	<u>\$155,350,678</u>	<u>\$152,229,752</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

The Company assesses impairments in accordance with International Financial Reporting Standard No. 9. Please refer to Note VI.26 for the allowance for loss related information in detail; also, refer to Note 14 for the credit risk related information in detail.

9. Investment under the equity method

	2019.12.31		2018.12.31	
	Book value	Shareholding (%)	Book value	Shareholding (%)
Investment in subsidiaries:				
Tainan Life Insurance Agency Co., Ltd.	(Note)		\$363,699	100.00
Fuchen Property Insurance Agency Co., Ltd.	(Note)		6,197	100.00
King's Town Bank International Leasing Co., Ltd.	\$699,890	100.00	618,747	100.00
Total	<u>\$699,890</u>		<u>\$988,643</u>	

The gains and losses of the investment in subsidiaries under the equity method in 2019 and 2018 was recognized for an amount of NT\$214,445 thousand and NT\$239,111 thousand, respectively.

Note: In order to integrate resources, reduce operating costs, and exercise business synergy, the Company's Board of Directors had resolved on June 6, 2016, to merge with Tainan Life Insurance Agency Co., Ltd. and Fuchen Property Insurance Agency Co., Ltd. The Company is the continuing business entity after the merger. Tainan Life Insurance Agency Co., Ltd. and Fuchen Property Insurance Agency Co., Ltd. were discontinued. The said merge was approved by the competent authority on March 8, 2019. The Board of Directors had resolved on March 25, 2019, to schedule the merger base date on June 3, 2019.

10. Other financial assets – net

	2019.12.31	2018.12.31
Delinquent loans not restated from loans	\$1,168	\$3,968
Others	4,396	2,037
Subtotal (total book value)	<u>5,564</u>	<u>6,005</u>
Less: Allowance for losses	(1,168)	(1,300)
Total	<u>\$4,396</u>	<u>\$4,705</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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11. Property, plant, and equipment

The Company's booked property, plant, and equipment are owned and used by the Company. The application of IFRS 16 has no impact on the Company's property, plant and equipment.

	Land	Buildings and structures	Transport equipment	Other equipment	Construction in progress	Total
Cost:						
2019.01.01	\$2,015,003	\$1,169,735	\$17,708	\$163,223	\$4,776	\$3,370,445
Additions	326,470	1,765	-	32,782	29,902	390,919
Disposition	(25,324)	(25,463)	(2,290)	(7,320)	-	(60,397)
Other changes	-	26,068	-	-	(26,068)	-
2019.12.31	<u>\$2,316,149</u>	<u>\$1,172,105</u>	<u>\$15,418</u>	<u>\$188,685</u>	<u>\$8,610</u>	<u>\$3,700,967</u>
2018.01.01	\$2,015,003	\$1,191,501	\$17,708	\$148,109	\$6,907	\$3,379,228
Additions	-	1,273	-	28,571	14,667	44,511
Disposition	-	(39,837)	-	(13,457)	-	(53,294)
Other changes	-	16,798	-	-	(16,798)	-
2018.12.31	<u>\$2,015,003</u>	<u>\$1,169,735</u>	<u>\$17,708</u>	<u>\$163,223</u>	<u>\$4,776</u>	<u>\$3,370,445</u>
Depreciation and impairment:						
2019.01.01	\$11,209	\$840,074	\$12,845	\$118,819	\$-	\$982,947
Depreciation	-	20,242	1,595	27,119	-	48,956
Disposition	(11,209)	(17,785)	(1,579)	(7,194)	-	(37,767)
Other changes	-	-	-	-	-	-
2019.12.31	<u>\$-</u>	<u>\$842,531</u>	<u>\$12,861</u>	<u>\$138,744</u>	<u>\$-</u>	<u>\$994,136</u>
2018.01.01	\$11,209	\$859,657	\$10,001	\$105,969	\$-	\$986,836
Depreciation	-	20,670	2,844	26,139	-	49,653
Disposition	-	(39,836)	-	(13,289)	-	(53,125)
Other changes	-	(417)	-	-	-	(417)
2018.12.31	<u>\$11,209</u>	<u>\$840,074</u>	<u>\$12,845</u>	<u>\$118,819</u>	<u>\$-</u>	<u>\$982,947</u>
Net book value:						
2019.12.31	<u>\$2,316,149</u>	<u>\$329,574</u>	<u>\$2,557</u>	<u>\$49,941</u>	<u>\$8,610</u>	<u>\$2,706,831</u>
2018.12.31	<u>\$2,003,794</u>	<u>\$329,661</u>	<u>\$4,863</u>	<u>\$44,404</u>	<u>\$4,776</u>	<u>\$2,387,498</u>

The Company did not provide property, plant, and equipment as collateral.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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12. Other assets – net

	2019.12.31	2018.12.31
Prepayments	\$9,934	\$7,415
Inter-bank clearing fund	726,810	602,655
Other Prepayments	69,153	-
Refundable deposits	119,434	230,569
Others	31,601	29,659
Net	\$956,932	\$870,298

As of December 31, 2019 and 2018, the other asset – other accumulated impairment amounted to NT\$20,280 thousand.

13. Deposits from Central Bank and other banks

	2019.12.31	2018.12.31
Deposits of other banks	\$2,049	\$71
Interbank call loans	14,531,800	19,937,180
Total	\$14,533,849	\$19,937,251

14. Funds borrowed from Central Bank and other banks

	2019.12.31	2018.12.31
Funds borrowed from banks	\$1,655,830	\$2,458,640

15. Financial liabilities at fair value through profit and loss

	2019.12.31	2018.12.31
Available-for-sale financial liabilities:		
Derivatives	\$6,002	\$25,784

16. Bills and bonds sold under repurchase agreements

	2019.12.31	2018.12.31
Bonds	\$8,280,000	\$8,579,875
Corporate bond	19,411,343	19,992,978
Bank debentures	526,677	743,643
Total	\$28,218,020	\$29,316,496

The Company's bills and bonds sold under repurchase agreements were processed at the agreed price for an amount of NT\$28,267,625 thousand and NT\$29,388,277 thousand on December 31, 2019 and 2018, respectively.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

17. Payables

	2019.12.31	2018.12.31
Accrued expenses	\$375,010	\$256,086
Interest payable	142,146	155,423
Notes and bills in clearing	252,376	1,565,553
Clearing amount payable	47,150	-
Others	407,274	322,384
Total	\$1,223,956	\$2,299,446

18. Customer deposits and remittances

	2019.12.31	2018.12.31
Check deposits	\$2,217,464	\$2,334,725
Current deposits	36,068,305	35,574,489
Time deposits	21,442,825	24,594,454
Savings deposit	132,078,219	126,173,193
Remittances	5,501	439
Total	\$191,812,314	\$188,677,300

19. Provisions liabilities

	2019.12.31	2018.12.31
Retirement benefits plan	\$248,385	\$292,615
Provision for guarantee liability	115,711	105,994
Provision for commitment of financing	19,318	21,818
Total	\$383,414	\$420,427

The changes in the guarantee provision are as follows:

	2019	2018
Balance, beginning	\$105,994	\$146,533
Amount appropriated (reversed) for the period	9,735	(40,562)
Foreign exchange impact amount	(18)	23
Balance, ending	\$115,711	\$105,994

The changes in the financing commitment reserve are as follows:

	2019	2018
Balance – beginning (in accordance with IFRS 9)	\$21,818	\$33,318
Amount (reversed) for the period	(2,500)	(11,500)
Foreign exchange impact amount	-	-
Balance, ending	\$19,318	\$21,818

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

20. Retirement benefits plan

Defined contribution pension plan

The Company has the employee retirement plan stipulated in accordance with the "Labor Pension Act", which is a defined contribution plan. According to the Labor Pension Act, the monthly pension contribution rate of the Company shall not be less than 6% of the employee's monthly salary. The Company has an amount equivalent to 6% of the employee's monthly salary appropriated every month to the personal pension account with the Bureau of Labor Insurance.

The Company had recognized the insurance expense of the defined contribution plan for an amount of NT\$31,170 thousand and NT\$30,757 thousand in 2019 and 2018, respectively.

Defined benefit plan

The employee pension plan stipulated by the Company according to the Labor Standards Act is a defined benefit plan. The employee's pension payment is based on the service points and the average monthly salary at the time of retirement. Two service points for each service year within the first 15 service years (inclusive) and one service point for each service year after the 15th service year with a maximum of 45 service points for each employee. The Company levied a pension fund on the total monthly salary every month according to the Labor Standards Law. The pension appropriation ratio has been changed from 8% to 15% since March 2012, and the fund is deposited in the designated account with the Company of Taiwan in the name of the Labor Pension Reserves Committee. In addition, the Company estimates the aforementioned labor retirement reserve account balance before the end of each year. If the balance is insufficient to pay the pension amount calculated in accordance with the aforementioned retirement conditions for the employees qualified for retirement in the next year, the amount of difference will be appropriated in a lump sum before the end of March in the next year.

The Ministry of Labor conducts asset allocation in accordance with the "Regulations for Revenues, Expenditures, Safeguarding, and Utilization of the Labor Retirement Fund". Fund investment is arranged with a self-operated and entrusted management method, which adopts a mid-term and long-term investment strategy with an active and passive management. Considering the risks of the market, credit, liquidity, etc., the Ministry of Labor sets the fund risk limit and control plan so that it can be flexible enough to achieve the target remuneration without bearing excessive risk. For the use of the fund, the minimum income of its annual settlement shall not be lower than the income calculated according to the local bank's two-year time deposit. If there is any deficiency, it shall be replenished by the state treasury upon approval by the competent authority. As the Company is not entitled to participate in the operation and management of the fund, it is not possible to disclose the classification of the fair value of the plan assets in accordance with paragraph 142 of IAS 19. As of December 31, 2019, the Company's defined benefit plan is expected to have an amount of NT\$ 38,232 thousand appropriated in the next year.

As of December 31, 2019 and 2018, the Company's defined benefit plan is expected to expire in 2028 and 2027, respectively.

The cost of the defined benefit plan recognized in profit or loss is summarized as follows:

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

	2019	2018
Current service cost	\$1,271	\$2,055
Net interest of the net defined benefit liabilities	5,098	5,269
Expected return on plan assets	(2,359)	(2,191)
Total	<u>\$4,010</u>	<u>\$5,133</u>

The adjustments made to the present value of the defined benefit obligation and the fair value of the plan assets are as follows:

	2019.12.31	2018.12.31
Determined benefit obligation	\$535,820	\$541,147
The fair value of plan assets	(287,435)	(248,532)
Liability reserve - Net defined benefit liabilities amount booked	<u>\$248,385</u>	<u>\$292,615</u>

Adjustments of net defined benefit liabilities (assets):

	Present value of the defined benefit obligations	The fair value of plan assets	Net defined benefit liabilities (assets)
2018.1.1	\$557,055	\$(229,829)	\$327,226
Current service cost	2,055	-	2,055
Interest expenses (income)	5,269	(2,191)	3,078
Subtotal	<u>564,379</u>	<u>(232,020)</u>	<u>332,359</u>
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	15,837	-	15,837
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(6,887)	(6,887)
Subtotal	<u>15,837</u>	<u>(6,887)</u>	<u>8,950</u>
Payment of benefits	(39,069)	31,299	(7,770)
Contributions of employer	-	(40,924)	(40,924)
2018.12.31	<u>\$541,147</u>	<u>\$(248,532)</u>	<u>\$292,615</u>
Current service cost	1,271	-	1,271
Interest expenses (revenue)	5,098	(2,359)	2,739
Subtotal	<u>547,516</u>	<u>(250,891)</u>	<u>296,625</u>
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	2,065	-	2,065
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(8,654)	(8,654)
Subtotal	<u>2,065</u>	<u>(8,654)</u>	<u>(6,589)</u>
Payment of benefits	(13,761)	11,814	(1,947)
Contributions of employer	-	(39,704)	(39,704)
2019.12.31	<u>\$535,820</u>	<u>\$(287,435)</u>	<u>\$248,385</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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The following key assumptions are used to determine the Company's defined benefit plan:

	2019.12.31	2018.12.31
Discounted rate	1.000%	1.000%
Expected salary increase rate	2.000%	2.000%

Sensitivity analysis of each major actuarial hypothesis:

	2019		2018	
	Increase of defined benefit obligations	Decrease of defined benefit obligations	Increase of defined benefit obligations	Decrease of defined benefit obligations
Discount rate increased by 0.25%	\$-	\$(6,422)	\$-	\$(7,459)
Discount rate decreased by 0.25%	6,627	-	7,707	-
Expected salary increase by 0.5%	13,510	-	15,641	-
Expected salary decrease by 0.5%	-	(12,823)	-	(14,804)

The foregoing sensitivity analysis is conducted to analyze the possible impact on the defined benefit obligations when single actuarial assumption (e.g., discount rate or expected salary) has a reasonable and possible change occurring, assuming other assumptions remain unchanged. Since some of the actuarial assumptions are correlated, the occurrence of changes in one single actuarial assumption is seldom in practice, so the analysis has its limitations.

The methods and assumptions used in the sensitivity analysis for this period are no different from those adopted in the previous period.

21. Other liabilities

	2019.12.31	2018.12.31
Deposits received	\$6,711	\$4,184
Advance income	205,166	259,579
Others	4,736	23,082
Total	<u>\$216,613</u>	<u>\$286,845</u>

22. Equity

(1) Common stock

As of December 31, 2019 and 2018, the authorized capital stock of the Company was NT\$30,000,000 thousand; also, the outstanding capital stock was NT\$11,312,343 thousand and NT\$11,512,343 thousand, with 1,131,234 thousand shares and 1,151,234 thousand shares issued at NT\$10 par, respectively. Each share is entitled to one voting right and the right to receive dividends.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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(2) Capital surplus

	2019.12.31	2018.12.31
Common stock premium	\$53,509	\$54,455
Treasury stock transactions	-	42,544
Others	2,586	2,586
Total	<u>\$56,095</u>	<u>\$99,585</u>

The various capital reserve balances on December 31, 2019 and 2018 are adjusted as follows:

	Common stock premium	Treasury stock transactions	Stock option	Others	Total
Balance as of January 1, 2019	\$54,455	\$42,544	\$-	\$2,586	\$99,585
Share-based payment transaction	-	-	-	-	-
Transfer of Treasury Stock	-	-	-	-	-
Deregistration of treasury shares	(946)	(42,544)	-	-	(43,490)
Balance as of December 31, 2019	<u>\$53,509</u>	<u>\$-</u>	<u>\$-</u>	<u>\$2,586</u>	<u>\$56,095</u>
Balance as of January 1, 2018	\$54,455	\$5,282	\$-	\$2,586	\$62,323
Share-based payment transaction	-	-	37,262	-	37,262
Transfer of Treasury Stock	-	37,262	(37,262)	-	-
Deregistration of treasury shares	-	-	-	-	-
Balance as of December 31, 2018	<u>\$54,455</u>	<u>\$42,544</u>	<u>\$-</u>	<u>\$2,586</u>	<u>\$99,585</u>

According to the law, additional paid-in capital shall not be used for any purpose except for making up for the loss of the Company. When the Company has no loss, a certain percentage of the additional paid-in capital from the stock premium and the gift can be applied to replenish capital every year. The aforementioned additional paid-in capital can be allocated in cash to shareholders proportionally to their original shareholding ratio.

(3) Treasury stock

a. Changes in Treasury Stocks are as follows:

January 1 to December 31, 2019:

Cause	Number of shares-beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	-	3,000 thousand shares	-	3,000 thousand shares
Maintain corporate credit and shareholders' equity	10,000 thousand shares	10,000 thousand shares	20,000 thousand shares	-
Total	<u>10,000 thousand shares</u>	<u>13,000 thousand shares</u>	<u>20,000 thousand shares</u>	<u>3,000 thousand shares</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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January 1 to December 31, 2018:

Cause	Number of shares-beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	5,000 thousand shares	-	5,000 thousand shares	-
Maintain corporate credit and shareholders' equity	-	10,000 thousand shares	-	10,000 thousand shares
Total	5,000 thousand shares	10,000 thousand shares	5,000 thousand shares	10,000 thousand shares

- b. As of December 31, 2019 and 2018, the amount of Treasury Stocks that are not yet canceled or distributed to employees was NT\$98,422 thousand and NT\$314,865 thousand, respectively, which was for 3,000 thousand shares and 10,000 thousand shares, respectively.
- c. The Company transferred treasury stock to employees for 914 thousand shares and 4,086 thousand shares on March 16 and July 19, 2018, respectively.
- d. The Company's Board of Directors had resolved to schedule the de-capitalization base on January 21 and September 30, 2019, with 10,000 thousand Treasury stock shares, respectively, repurchased and cancelled for a total amount of NT\$200,000 thousand.
- e. The treasury stocks held by the Company shall not be pledged, nor shall they be entitled to the distribution of dividends and voting rights according to the Securities and Exchange Act.

(4) Earnings allocation and dividend policy

According to the Articles of Association of the Company, if there are earnings at the annual final accounts, it should be distributed in the following order:

- A. Withholding taxes
- B. Making up for the loss
- C. Appropriate 30% as the legal reserve
- D. Making appropriation according to other provisions of the law or the order of the competent authority, or reversing the special reserves
- E. The Board of Directors shall use the dividend policy to prepare an earnings distribution plan according to the remaining amount and present it in the shareholders meeting for resolutions.

The principle of dividend distribution of the Company is based on the business operation needs of the Company and the revision of major laws and regulations. The Board of Directors presents the proposal in the Shareholders Meeting for resolutions with the ratio of the cash dividend moderately adjusted, which shall not be less than 1% of the total dividends. If the cash dividend per share is less than NT\$0.1, it will not be distributed.

According to the Banking Act, the legal reserve should be appropriated until the total amount is equivalent to the total capital. Before the legal reserve is equivalent to the total capital, the maximum distribution of a cash dividend shall not exceed 15% of the total capital. The legal reserve can be used to make up for the loss. When the Company has no loss, the portion of the legal reserve exceeds 25% of the paid-in capital should be applied to have stock shares or cash distributed to shareholders

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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proportionally to their original shareholding ratio.

According to the provisions of the Securities and Exchange Act, when the competent authorities consider it necessary, it may request the listed companies to have a certain percentage of special reserve appropriated in addition to appropriating the legal reserve lawfully at the time of distributing earnings.

After adopting IFRSs, when the Company adopted IFRSs for the first-time according to the FSC. Fa.Zi No. 1010012865 Letter issued by the Financial Supervisory Commission on July 6, 2012, for the booked unrealized revaluation increments and the cumulative conversion adjustment benefits are transferred to the retained earnings due to the adoption of IFRS 1 "First-time Adoption of International Financial Reporting Standards Data" exemption on the conversion date, a special reserve for the same amount is appropriated. After having the financial report prepared in accordance with IFRSs, when the distributable earnings are distributed, an additional special reserve is appropriated for an amount equivalent to the difference between the balance of the special reserve appropriated at the first-time adoption of IFRSs and the net debit of other equity. If the amount debited to the other shareholders' equity is reversed subsequently, the reversed amount can be distributed.

As of January 1, 2019 and 2018, the special reserve at the first-time adoption amounted to NT\$45,549 thousand. In addition, the Company did not use, dispose of, or reclassify the relevant assets in the period from January 1 to December 31, 2019 and 2018 that caused having the special reserve reversed to the undistributed earnings. As of December 31, 2019 and 2018, the special reserve for the first time was NT\$45,549 thousand.

The 2019 and 2018 earnings appropriation and distribution and the dividend per share was proposed and resolved in the board meeting on February 24, 2020 and the shareholders meeting on June 24, 2019 as follows:

	Distribution of retained earnings		Dividends per share (\$)	
	2019	2018	2019	2018
Legal reserve	\$1,019,906	\$863,340		
Special reserve	(423,162)	437,551		
Common stock cash dividends	1,692,351	1,711,852	\$1.5	\$1.5
Total	<u>\$2,289,095</u>	<u>\$3,012,743</u>		

Please refer to Note VI. 28 for the relevant information on the estimation basis and recognition amount of the employee compensation and the remuneration to directors and supervisors.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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23. Net interest income

	2019	2018
<u>Interest revenue</u>		
Discount and loan interest income	\$4,194,505	\$4,289,864
Due from bank and interbank offered interest income	52,041	46,157
Security investment interest income	2,364,921	2,372,807
Other interest incomes	38,434	21,056
Subtotal	<u>6,649,901</u>	<u>6,729,884</u>
<u>Interest expenses</u>		
Deposits Interest expenses	(1,030,751)	(984,320)
Central Bank and interbank interest expense	(398,743)	(400,049)
Interest expense of the RP bonds	(613,021)	(451,828)
Others	(3,829)	(34)
Subtotal	<u>(2,046,344)</u>	<u>(1,836,231)</u>
Total	<u>\$4,603,557</u>	<u>\$4,893,653</u>

24. Service Fee, Net

	2019	2018
Service fee revenue	\$1,695,428	\$1,627,650
Service fee expenses	(47,586)	(46,833)
Total	<u>\$1,647,842</u>	<u>\$1,580,817</u>

25. Gain (loss) on financial assets and liabilities at fair value through profit and loss

	2019	2018
Stock investment	\$809,407	\$(537,202)
Bond investment	601,153	385,140
Derivatives	(36,418)	(60,793)
Others	82,202	41,675
Total	<u>\$1,456,344</u>	<u>\$(171,180)</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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26. The reversed benefit of asset impairment and bad debts, commitments, and guarantee reserve

	2019	2018
Financial assets at fair value through other comprehensive income	\$(27,450)	\$58,560
Financial assets based on cost after amortization	139	132
Property, plant, and equipment	-	417
Subtotal	<u>(27,311)</u>	<u>59,109</u>
Loan and receivables bad debt (appropriation) reversed	(2,546,070)	(1,658,655)
Guarantee reserve reversed (appropriation)	(9,735)	40,562
Financing commitments reserve reversed	2,500	11,500
Subtotal	<u>(2,553,305)</u>	<u>(1,606,593)</u>
Total	<u><u>\$(2,580,616)</u></u>	<u><u>\$ (1,547,484)</u></u>

Please refer to Note XIV for credit risk related information.

27. Lease

(1) The Company is a lessee (subject to the relevant disclosures as stipulated in IFRS 16).

The Company leases several assets, including real estate (buildings and structures) and other equipment. The lease period for each contract is for 3-10 years.

The impact of the lease on the Company's financial position, financial performance, and cash flow is as follows:

A. Amount recognized on the balance sheet

(a) Right-of-use assets

The book value of the right-of-use assets	2019.12.31	2018.12.31 (Note)
Buildings and structures	\$211,245	
Other equipment	4,438	
Total	<u><u>\$215,683</u></u>	

Note: The Company has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

The Company had added right-of-use assets for an amount of NT\$19,868 thousand in 2019.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(b) Lease liabilities

	<u>2019.12.31</u>	<u>2018.12.31 (Note)</u>
Lease liabilities	<u>\$(217,256)</u>	
Current	<u>\$(217,256)</u>	

The interest expense of the Company's lease liabilities was NT\$3,827 thousand in 2019. For the maturity analysis of the lease liabilities on December 31, 2019, please refer to Note XIV.4 "Liquidity Risk Management."

Note: The Company has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

B. Amount recognized in the statements of comprehensive income

Depreciation of the right-of-use assets

	<u>2019</u>	<u>2018 (Note)</u>
Buildings and structures	\$74,205	
Other equipment	<u>1,664</u>	
Total	<u>\$75,869</u>	

Note: The Company has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

C. The lessee and the lease activity related income, expense, and loss

	<u>2019</u>	<u>2018 (Note)</u>
Short-term lease expense	\$1,738	
Low-value asset lease expense (excluding the low-value assets lease expense of the short-term leases)	2,027	

Note: The Company has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

D. The lessee and the lease activity related cash outflow

The total cash outflow for the lease of the Company was NT\$78,122 thousand in 2019.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

- (2) The Company is a lessee - operating lease (subject to the relevant disclosure as stipulated in IAS 17).

The Company has signed commercial lease contracts for building and equipment that is for an average period of 3-10 years and without any renewal right. No restrictions are imposed on the Company in these contracts.

According to the irrevocable operating lease contract, the total future minimum lease payments on December 31, 2019 and 2018 are as follows:

	2019 (Note)	2018
No more than one year		\$78,068
Over 1 year but less than 5 years		188,529
Over 5 years		25,562
Total		<u>\$292,159</u>

Note: The Company has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

28. Operating expenses

The employee benefits, depreciation, and amortization expenses are summarized by function as follows:

	2019	2018
Employee benefits expenses		
Salaries and wages	\$840,422	\$731,801
Labor insurance and health insurance	64,481	63,381
Pension expenses	35,180	35,890
Remuneration of Directors	13,815	27,523
Other employee benefits expenses	36,109	39,721
Depreciation	124,825	49,653
Total	<u>\$1,114,832</u>	<u>\$947,969</u>

There were 975 employees and 954 employees of the Company in current year and the year before, respectively, of which, 7 directors were not employees of the Company in both years.

According to the Articles of Association, if the Company has earnings for the year, no less than 0.01% of the earnings should be appropriated to pay employees' remuneration and no more than 2% of the earnings should be appropriated as remuneration to directors and supervisors. However, when there are accumulated losses, an equivalent amount should be appropriated to make up for losses. The remuneration to employees is paid with stock dividend or cash; also, it must be with the consent of half of the presenting directors in the Board meeting that is with two thirds of the directors attended; also, the resolution should be reported in the shareholders' meeting. Please refer to the "Market Observation Post System" of the Taiwan Stock Exchange Corporation for information on employees' remuneration and remuneration to directors and supervisors resolved by the Board of Directors.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

In 2019 and 2018, according to the profit generated, an amount equivalent to 0.01% of the earnings was appropriated for the employee's remuneration, NT\$400 thousand and NT\$360 thousand, respectively, which was listed in the "salary expense" account.

The Company's Board of Directors had resolved on February 24, 2020 to have the 2019 employees' remuneration and the remuneration to directors and supervisors distributed for an amount of NT\$400 thousand and NT\$0, respectively, which was not significantly different from the expenses booked in the 2019 financial report.

The Company's Board of Directors had resolved on February 25, 2019 to have the 2018 employees' remuneration and the remuneration to directors and supervisors distributed for an amount of NT\$360 thousand and NT\$0, respectively, which was not significantly different from the expenses booked in the 2018 financial report.

There is no significant difference between the actual employees' compensation and remuneration to directors and supervisors distributed in 2019 and the expenses booked in the 2018 financial report.

29. Other comprehensive income

The other comprehensive income in 2019 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensiv e income	Income tax benefit (expense)	After-tax amount
Items not reclassified to income:					
Unrealized gain/loss on valuation of equity instruments measured at fair value through other comprehensive income	\$423,680	\$-	\$423,680	\$-	\$423,680
The proportion of other comprehensive incomes from subsidiaries, associates, and equity joint-ventures accounted for under the equity method	6,815	-	6,815	-	6,815
Reevaluation of defined benefit plan	6,589	-	6,589	(19,752)	(13,163)
Items may be re-classified subsequently to income:					
Exchange differences from the translation of financial statements of foreign operations	(85,655)	-	(85,655)	13,122	(72,533)
Unrealized gain(loss) of debt instruments measured at fair value through other comprehensive income	4,176,434	(51,540)	4,124,894	-	4,124,894
Total	<u>\$4,527,863</u>	<u>\$(51,540)</u>	<u>\$4,476,323</u>	<u>\$(6,630)</u>	<u>\$4,469,693</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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The other comprehensive income in 2018 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income	Income tax benefit (expense)	After-tax amount
Items not reclassified to income:					
Unrealized gain/loss on valuation of equity instruments measured at fair value through other comprehensive income	\$(68,926)	\$-	\$(68,926)	\$-	\$(68,926)
The proportion of other comprehensive incomes from subsidiaries, associates, and equity joint-ventures accounted for under the equity method	(3,014)	-	(3,014)	-	(3,014)
Reevaluation of defined benefit plan	(8,950)	-	(8,950)	8,632	(318)
Items may be re-classified subsequently to income:					
Exchange differences from the translation of financial statements of foreign operations	64,596	-	64,596	(12,048)	52,548
Unrealized gain(loss) of debt instruments measured at fair value through other comprehensive income	(3,303,829)	20,004	(3,283,825)	-	(3,283,825)
Total	\$(3,320,123)	\$20,004	\$(3,300,119)	\$(3,416)	\$(3,303,535)

The Company's debt instrument investment measured at fair value through other comprehensive income in 2019 and 2018 are reclassified to profit or loss from the cumulative other comprehensive income at the time of de-recognition for an amount of NT\$51,540 thousand and NT\$20,004 thousand, respectively.

30. Income tax

According to the amended provisions of the Income Tax Law promulgated on February 7, 2018, the income tax rate of the profit-making enterprise applicable from the year of 2018 was changed from 17% to 20%, and the additional business tax rate for undistributed earnings was changed from 10% to 5%.

The main composition of income tax expenses (benefit) is as follows:

Income tax recognized in profit or loss

	2019	2018
Current income tax expenses (benefit):		
Current Tax Liability	\$256,270	\$627,106
The income tax of the previous years adjusted in the current period	(3,413)	(8,766)
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to the original generation of the temporary difference and its reversal	193,007	55,701
Deferred income tax related to changes in tax rates or new taxation	-	(47,265)
Income tax expenses	\$445,864	\$626,776

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Income tax recognized in the other comprehensive income

	2019	2018
Deferred income tax expense (benefit):		
Exchange differences from the translation of financial statements of foreign operations	\$(13,122)	\$12,048
Defined benefit plan actuarial (loss)	19,752	(8,632)
The other comprehensive income related income tax	<u>\$6,630</u>	<u>\$3,416</u>

The amount of income tax expense and accounting profit multiplied by the applicable income tax rate is adjusted

	2019	2018
Net income before tax of the continuing business units	<u>\$3,845,551</u>	<u>\$3,504,577</u>
Tax amount calculated according to the domestic tax rate applicable to the income of the country concerned	\$769,110	\$700,915
Income tax effect of the tax-free income	(670,431)	(417,462)
Income tax effect of non-deductible expenses on tax returns	44	323
Income tax effect of deferred income tax assets/liabilities	102,392	(9,168)
Basic tax adjustment	248,162	143,686
Additional 10% income tax on the undistributed earnings	-	217,248
The income tax of the previous years adjusted in the current period	(3,413)	(8,766)
Total income tax expense recognized in profit or loss	<u>\$445,864</u>	<u>\$626,776</u>

Deferred income tax assets (liabilities) balances related to the following items

2019

	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Balance, ending
Temporary differences				
Financial assets measured at fair value through profit or loss	\$(2,647)	\$(83,050)	\$-	\$(85,697)
Allowance for bad debt	157,375	(77,066)	-	80,309
Impairment of Assets	23,234	(9,293)	-	13,941
Employees' leave benefits liabilities	5,726	(2,164)	-	3,562
Compensation payable	9,276	(8,114)	-	1,162
Reserve for guarantee liability	11,289	(4,230)	-	7,059
Net determined benefit liability-non-current	58,836	(9,090)	(19,752)	29,994
Conversion difference of the financial statements of foreign institutions	(7,108)	-	13,122	6,014
Deferred income tax benefit		<u>\$(193,007)</u>	<u>\$(6,630)</u>	
Net deferred income tax assets	<u>\$255,981</u>			<u>\$56,344</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

The information expressed on the balance sheet is as follows:

Deferred income tax assets	\$265,736	\$142,041
Deferred tax liabilities	9,755	85,697
Deferred income tax liabilities - land value incremental tax reserve	50,135	50,135
Total	<u>\$59,890</u>	<u>\$135,832</u>

2018

	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Balance, ending
Temporary differences				
Financial assets measured at fair value through profit or loss	\$17,971	\$(20,618)	\$-	\$(2,647)
Allowance for bad debt	135,531	21,844	-	157,375
Impairment of Assets	22,336	898	-	23,234
Employees' leave benefits liabilities	6,174	(448)	-	5,726
Compensation payable	7,250	2,026	-	9,276
Reserve for guarantee liability	17,736	(6,447)	-	11,289
Net determined benefit liability-non-current	55,895	(5,691)	8,632	58,836
Conversion difference of the financial statements of foreign institutions	4,940	-	(12,048)	(7,108)
Deferred income tax benefit		<u>\$(8,436)</u>	<u>\$(3,416)</u>	
Net deferred income tax assets	<u>\$267,833</u>			<u>\$255,981</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$267,833</u>			<u>\$265,736</u>
Deferred tax liabilities	-			9,755
Deferred income tax liabilities - land value incremental tax reserve	50,135			50,135
Total	<u>\$50,135</u>			<u>\$59,890</u>

Income tax declaration and audit

The Company's income tax returns before 2017 (inclusive) had already been assessed and approved by the tax authority.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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31. Earnings per share

The basic earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period.

The diluted earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period plus the weighted average number of common stock shares to be issued when all dilutive potential common stock shares were converted into common stock shares.

	2019	2018
(1) Basic earnings per share		
Current net income	\$3,399,687	\$2,877,801
Weighted average number of common stock shares (Thousand shares) of the earnings per share	1,137,777	1,147,757
Base earnings per share (In dollars)	\$2.99	\$2.51
(2) Diluted earnings per share		
Current net income	\$3,399,687	\$2,877,801
Weighted average number of common stock shares (Thousand shares) of the earnings per share	1,137,777	1,147,757
Dilution effect	-	-
Weighted average number of common stock shares (Thousand shares) after adjusting the dilution effect	1,137,777	1,147,757
Diluted earnings per share (In dollars)	\$2.99	\$2.51

There was no other transaction performed to cause significant changes to the outstanding common stock shares or the potential common stock shares after the reporting period and before the release of the financial statements.

VII. Related party transactions

1. Names of related parties and their relationship with the company

Name	Relationship with the Company
Tainan Life Insurance Agency Co., Ltd.	Subsidiaries of the Company (ceased to exist due to a merger on June 3, 2019)
Fuchen Property Insurance Agency Co., Ltd.	Subsidiaries of the Company (ceased to exist due to a merger on June 3, 2019)
King's Town Bank International Leasing Co., Ltd.	Subsidiaries of the Company
King's Town International Real Estate Management Co., Ltd.	Sub-subsidiary of the Company
Chen-Chih Tai	Chairman of the Company
Chiung-Ting Tsai	Vice Chairman of the Company
Jih-Cheng Chang	President of the Company

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Name	Relationship with the Company
Tiangang Investment Co., Ltd	Director of the Company
Ming-Tai Chen	Independent Director of the Company
Chao-Lung Chen	Independent Director of the Company
Chih-Chieh Hsu	Independent Director of the Company (2018.5.16 resigned)
Hung-Liang Chiang	Independent Director of the Company (2018.11.2 took office)
Others	Representatives of the Company's managers, incorporated directors and supervisors, and second degree of kinship and substantive stakeholders

2. Significant transactions with related parties

(1) Deposit and loan

Account titles	Amount	% of the account balance
<u>2019.12.31</u>		
Deposits	\$230,354	0.12%
Loans	28,796	0.02%
<u>2018.12.31</u>		
Deposits	\$478,632	0.25%
Loans	33,496	0.02%

For the deposit interest rate between the Company and its related parties, except for when the bank clerk's savings deposit amount within the prescribed limit has interest calculated according to a preferential deposit interest rate, the amount exceeding the threshold and the deposit interest rate of the other related party are same as the interest rate of the general customers.

(2) Lease

- ① The rent revenue received by the Company for offices leased to the related parties in the period of January 1 to December 31, 2019 and 2018 was NT\$844 thousand and NT\$984 thousand, respectively.
- ② The rental expenses paid to the related party for the lease of the office on January 1 to December 31, 2019 and 2018 were NT\$3,840 thousand.

(3) The handling fee income from the related party and remuneration to the Chairman and director and supervisor in 2019 and 2018 (booked in the "statements of comprehensive income - other non-interest net profit and loss") are as follows:

	2019	2018
Tainan Life Insurance Agency Co., Ltd.	\$27,004	\$43,344
Fuchen Property Insurance Agency Co., Ltd.	687	1,838
	<u>\$27,691</u>	<u>\$45,182</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(4) Loans

December 31, 2019

Type	Number of accounts or name of stakeholder	Maximum balance – current period	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	No-performing loans		
Consumer loan	12	\$5,601	\$5,374	\$5,374	\$-	None	None
Residential mortgage loans	4	13,264	13,147	13,147	-	Real estate	None
Other loans	Chou OO	3,000	3,000	3,000	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Yu OO	5,000	5,000	5,000	-	Real estate	None

December 31, 2018

Type	Number of accounts or name of stakeholder	Maximum balance – current period	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	No-performing loans		
Consumer loan	8	\$4,586	\$4,413	\$4,413	\$-	None	None
Residential mortgage loans	4	23,503	23,308	23,308	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Lin OO	3,500	3,500	3,500	-	Real estate	None

(5) Guaranteed amount: None

(6) Derivative financial instrument transactions: None

(7) Sale of non-performing loan: None

(8) Remuneration of directors and key management personnel of the Company

	2019	2018
Short-term employee benefits	\$26,555	\$42,455
Retirement benefits	1,864	1,763
Total	<u>\$28,419</u>	<u>\$44,218</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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VIII. Pledged assets

The Company has the following assets provided as collateral:

Item	Book value		Guaranteed debt
	2019.12.31	2018.12.31	
Financial assets at fair value through profit and loss	\$6,563,455	\$6,737,446	RP transaction
Financial assets at fair value through profit and loss	705,688	11,203	Various business reserves and collateral
Financial assets at fair value through other comprehensive income	-	2,056,191	Various business reserves and collateral
Financial assets at fair value through other comprehensive income	25,086,282	25,914,862	RP transaction
Financial assets at fair value through other comprehensive income	6,469,473	8,689,407	Funds borrowed from banks
Total	<u>\$38,824,898</u>	<u>\$43,409,109</u>	

IX. Significant contingent liabilities and unrecognized contractual commitments

The Company has the following or various trust agents and guarantees:

	2019.12.31	2018.12.31
Receivable and collection	\$10,764,902	\$10,780,490
Receivable guarantees	5,619,363	5,092,739
Receivables from L/C	54,661	33,176
Trust and custody	31,605,353	27,652,280
Agreed financing amount	21,220,207	17,201,151

X. Contents and amount of trust business handled in accordance with the provisions of the Trust Enterprise Act

The Company provides the trust balance sheet, income statement, and property list to the Trust Department in accordance with Article 17 of the Enforcement Rules of the Trust Enterprise Act as follows:

Balance Sheet of Trust Accounts					
Trust assets	2019.12.31	2018.12.31	Trust liabilities	2019.12.31	2018.12.31
Bank deposits	\$909,909	\$3,687,960	Mid-term borrowings	\$4,821,230	\$-
Stock	2,524,592	384,111	Payables	22,179	49,179
Fund	9,171,811	10,414,291	Other liabilities	31,402	1,769
Real estate	18,070,304	12,380,141	Trust capital	26,505,245	27,583,648
Other assets	866,230	723,777	Reserve and accumulated earnings	162,790	(44,316)
Total trust assets	<u>\$31,542,846</u>	<u>\$27,590,280</u>	Total trust liabilities	<u>\$31,542,846</u>	<u>\$27,590,280</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Income Statement of Trust Accounts		
Item	2019	2018
Amount		
Interest revenue	\$1,105	\$751
Rent revenue	385,687	11,994
Dividend income	129,037	-
Unrealized capital gains	53,013	-
Other profits	16,158	-
Subtotal	585,000	12,745
Trust expenses		
Sales expenses	-	35,376
Administrative expenses	34,571	-
Tax expenses	22,850	-
Interest expenses	40,298	-
Unrealized capital loss	69,166	-
Appraisal expenses	3,000	6,612
Remuneration expenses	1,200	8,418
Other Expenses	58,645	6,655
Subtotal	229,730	57,061
Net profit before tax (net loss)	355,270	(44,316)
Income tax expenses	(25)	-
Net income (net loss)	\$355,245	\$(44,316)

Property Catalogue of Trust Accounts		
Investment	2019.12.31	2018.12.31
Bank deposits	\$909,909	\$3,687,960
Stock	2,524,592	384,111
Fund	9,171,811	10,414,291
Real estate		
Land	13,193,092	8,953,760
Buildings and structures	4,870,632	3,150,231
Construction in progress	6,580	276,150
Others	866,230	723,777
Total	\$31,542,846	\$27,590,280

XI. Significant disaster loss

No such event.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

XII. Significant subsequent events

No such event.

XIII. Fair value and grade information of financial instruments

1. Information on the fair value of financial instruments

Financial assets:

	2019.12.31		2018.12.31	
	Book value	Fair value	Book value	Fair value
Financial assets measured at fair value through profit or loss:				
Mandatorily measured at fair value through profit or loss	\$34,733,596	\$34,733,596	\$31,459,508	\$31,459,508
Financial assets at fair value through other comprehensive income	50,810,145	50,810,145	53,412,766	53,412,766
Financial assets based at amortized cost:				
Investment of debt instruments on the basis of cost after amortization	17,698,135	17,698,135	17,597,996	17,597,996
Cash and cash equivalents (excluding cash on hand)	1,491,463	1,491,463	2,721,751	2,721,751
Due from central bank and lend to banks	11,162,682	11,162,682	13,844,758	13,844,758
Bonds and securities sold under repurchase agreements	150,022	150,022	624,167	624,167
Receivables	1,270,450	1,270,450	1,028,136	1,028,136
Discounts and loans	155,350,678	155,350,678	152,229,752	152,229,752
Other financial assets	4,396	4,396	4,705	4,705

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Financial liabilities:

	2019.12.31		2018.12.31	
	Book value	Fair value	Book value	Fair value
Financial liabilities at amortized cost:				
Deposits from Central Bank and other banks	\$14,533,849	\$14,533,849	\$19,937,251	\$19,937,251
Funds borrowed from Central Bank and other banks	1,655,830	1,655,830	2,458,640	2,458,640
Bills and bonds sold under repurchase agreements	28,218,020	28,218,020	29,316,496	29,316,496
Payables	1,223,956	1,223,956	2,299,446	2,299,446
Customer deposits and remittances	191,812,314	191,812,314	188,677,300	188,677,300
Lease liabilities	217,256	217,256	(Note)	(Note)
Financial liabilities at fair value through profit and loss:				
Held for transaction purposes	6,002	6,002	25,784	25,784

Note: The Company has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

The derivative financial instrument transactions are detailed as follows:

Item	Contract amount	Fair value
2019.12.31		
Foreign exchange contracts	\$1,984,179	\$2,803
2018.12.31		
Foreign exchange contracts	\$4,176,667	\$13,233

2. Methods and assumptions used in the fair value of financial instruments

Fair value is the price that would be collected for the assets sold or price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. The methods and assumptions used by the Company to measure or disclose the fair value of financial assets and financial liabilities are as follows:

- (1) The fair value of short-term financial products is estimated according to the book value on the balance sheet. Because the maturity date of such products is very close or the current collection price is equal to the book value, so the book value is a reasonable basis for estimating the fair value. This method is applied to cash and cash equivalents, deposits with the Central Bank and inter-bank loan, RS bill and bond investments, receivables, deposits of the Central Bank and interbank, financing of the Central Bank and interbank, RP bill and bond liabilities, payables, deposits and remittances, and other financial liabilities.
- (2) For financial assets and liabilities measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, available-for-sale financial assets, and held-to-maturity financial assets, if there is a public market price available, such market price is the fair value, which refers to the closing price on the balance sheet date for the listed (OTC) equity security with a market price available, the net asset value on the balance sheet date for the fund, the

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

closing price or reference price on the balance sheet date for the bond, and the settlement price or the counterparty's quote for the derivative financial products. If no market price is available for reference, the evaluation method is used for estimation. When the Company adopts the market price including the purchase price and the selling price, the Company will evaluate the selling (purchasing) position at the market buying (selling) price. If there is no market price available at the time of evaluation but there is the most recent market transaction price available, then the said transaction price is the fair value of such financial asset.

- (3) Discounts, loans, and deposits are all interest-bearing financial assets and liabilities, so their book value is similar to the current fair value. The book value of the collection is the estimated recovery amount net of the allowance for bad debt. Therefore, the book value is the fair value.
- (4) For debt-based instruments that are without an available market price, the fair value is determined by the counterparty's quotation or valuation technology. The determination of valuation technology is based on the discounted cash flow analysis. The assumptions of interest rate and discount rate are mainly based on information related to similar instruments (for example, Taipei Exchange reference yield curve, the Reuters commercial promissory interest rate average quotation, and credit risk information).
- (5) The fair value of derivatives (including forward foreign exchange and foreign exchange transactions) is the amount that the Company is expected to obtain or must pay if it terminates the contract at the agreed reporting date. The Company calculates the fair value of the position held with the parameters or quotation information disclosed by the Reuters Information System.
- (6) The fair value of the equity instruments (e.g.: private company's stock shares) that do not have a market price available is estimated with the market approach, which is with the fair value estimated with the price generated in market transactions of the same or comparable company's equity instruments and other relevant information (e.g. lack of liquidity discount factor, the profit ratio of the similar company's stock, and the input value of the similar company's stock price book ratio).

Please refer to Note XIII. 3 for the information on the fair value bracket of the Company's financial instruments.

3. Fair value hierarchy

(1) The definition of the Company's three-level fair value

① Level I

Refers to the public offer (unadjusted) of the same financial instrument available in the market on the measurement date. The fair value of the listed (OTC) stocks, beneficiary certificates, corporate bonds, financial bonds, convertible corporate bonds, and derivatives with a market price available invested in by the Company is classified as Level I.

② Level II

It refers to the observable prices other than the quote in an active market, including the observable input parameters directly (as prices) or indirectly (e.g. derived from prices) acquired from an active market. It includes the Taiwan Central Government bonds, convertible corporate bonds, and general derivatives invested by the Company.

③ Level III

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It means that the input parameters for measuring fair value are not based on information available from the market or by the quotations provided by the counterparty. It includes the unlisted stocks invested by the Company.

For assets and liabilities that are recognized in the financial statements on a repetitive basis, the classification is re-evaluated at the end of each reporting period to determine whether there is a transfer between the fair value levels.

(2) Information on the fair value measurement levels:

The Company does not have non-repetitive assets measured at fair value. The information on the fair value level of repetitive assets and liabilities is shown below.

2019.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets at fair value through profit and loss				
Stock investment	\$3,318,000	\$3,318,000	\$-	\$-
Bond investment	29,056,073	-	29,056,073	-
Derivatives	8,805	-	8,805	-
Others	2,350,718	2,350,718	-	-
Financial assets at fair value through other comprehensive income				
Stock investment	2,488,202	21,386	13,839	2,452,977
Bond investment	48,321,943	39,382,688	8,939,255	-
<u>Liabilities measured at fair value</u>				
Financial liabilities at fair value through profit and loss				
Derivatives	6,002	-	6,002	-

2018.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets at fair value through profit and loss				
Stock investment	\$4,257,240	\$4,257,240	\$-	\$-
Bond investment	24,435,062	301,361	24,133,701	-
Derivatives	39,017	-	39,017	-
Others	2,728,189	2,728,189	-	-
Financial assets at fair value through other comprehensive income				
Stock investment	816,402	93,960	-	722,442
Bond investment	52,596,364	36,881,446	15,714,918	-
<u>Liabilities measured at fair value</u>				
Financial liabilities at fair value through profit and loss				
Derivatives	25,784	-	25,784	-

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(3) Transfer between Level I and Level II fair value

In the period of January 1 to December 31, 2019 and 2018, the Company's assets and liabilities measured at the Company's repetitive fair value was not transferred between Level I and Level II fair value.

(4) Changes in Repetitive Fair Value Level III Statement

If the assets measured with the Company's repetitive fair value that are classified as Level III fair value, the adjustment of the beginning balance and the ending balance is as follows:

	Financial assets measured at fair value through other comprehensive income - stocks
2019.1.1	<u>\$722,442</u>
Total benefits recognized in 2019:	
Recognized in other comprehensive income (reporting in "Unrealized gain(loss) on valuation of equity instrument investments measured at fair value through other comprehensive income")	425,884
Achievements in the current period	<u>1,304,651</u>
2019.12.31	<u><u>\$2,452,977</u></u>
	Financial assets measured at fair value through other comprehensive income - stocks
2018.1.1	<u>\$725,908</u>
Total benefits recognized in 2018:	
Recognized in other comprehensive income (reporting in "Unrealized gain(loss) on valuation of equity instrument investments measured at fair value through other comprehensive income")	(8,065)
Achievements in the current period	<u>4,599</u>
2018.12.31	<u><u>\$722,442</u></u>

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Significant unobservable input value information of Level III fair value

For the Company's assets measured at Level III repetitive fair value, the significant unobservable input values for fair value measurement are as follows:

	Valuation technique	Significant unobservable input value	Range	Relationship between input value and fair value
Financial assets at fair value through other comprehensive income				
Stock	Market Approach	Lack of liquidity discount rate	20%~30%	The higher the lack of liquidity, the lower the estimated fair value

Evaluation process for Level III fair value

The financial instrument evaluation team of the Company's Risk Management Department is responsible for independent fair value verification. The data from an independent source is used to bring the evaluation results close to the market, to confirm that the data sources are independent, reliable, consistent with other resources, and representing executable prices, and regularly calibrate and evaluate the valuation model, performing backtracking tests, updating the input values and information required for the evaluation model, and any other necessary fair value adjustments to ensure that the valuation results are reasonable.

(5) Not measured at fair value but must disclose fair value level information

Assets with only fair value disclosed:	Level I	Level II	Level III	Total
<u>2019.12.31</u>				
Investment of debt instruments at amortized cost				
Convertible certificate of deposit	\$17,698,135	\$-	\$-	\$17,698,135
<u>2018.12.31</u>				
Investment of debt instruments o at amortized cost				
Convertible certificate of deposit	\$17,597,996	\$-	\$-	\$17,597,996

4. Transfer of financial assets

Transferred financial assets not being removed in all

In the daily trading activities of the Company, for the transferred financial assets that did not meet the overall de-recognizing conditions, most of them are RP debt securities as collateral held by the counterparty of the transaction. Such transactions are essentially secured borrowings and reflect the Company's liabilities from repurchasing the obligation of the transferred financial assets at a fixed price in the future. For such transactions, the Company is unable to use, sell, or pledge the transferred financial assets during the effective period of the transaction, but the Company still bears the interest rate risk and credit risk. Therefore, it has not been derecognized entirely.

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The table below shows the financial assets not qualified under all conditions and related information of financial liabilities:

December 31, 2019					
Category of financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Net fair value position
Financial assets at fair value through profit and loss R/P agreement	\$6,563,455	\$6,957,000	\$6,563,455	\$6,957,000	\$(393,545)
Financial assets at fair value through other comprehensive income R/P agreement	25,086,281	21,261,020	25,086,281	21,261,020	3,825,261

XIV. Financial risk management

1. Overview

The Company uses the business growth scale to establish a capital adequacy assessment process that meets the risk profile in order to maintain adequate capital. Also, it considers the overall risk exposure, implements appropriate overall capital allocation, and establishes management mechanisms for various business risks in order to strengthen business performance. The risks involved in the businesses on and off the balance sheet, such as, credit risk, market risk, operational risk, liquidity risk, country risk, interest rate risk in the banking book, etc., are included in the risk management scope. Policies and methods are stipulated according to different risks, such as, "Credit Policy", "Rules Governing Credit Review and Authorization", "Rules Governing Risks", etc. Stipulate management guidelines according to the needs of the policies and methods, such as, stipulating "Regulations Governing Credit Risk", "Regulations Governing Market Risk", and "Regulations Governing Operational Risk" in accordance with the "Rules Governing Risks" that are reviewed and approved by the Board of Directors in order to effectively identify, measure, communicate, and monitor various risks.

2. Risk management organizational structure

The risk management of the Company is carried out by the Risk Management Department in accordance with the risk management policy approved by the Board of Directors. The Risk Management Department works closely with business units to identify, assess, and prevent risks. The Board of Directors has a written policy for risk management that covers specific risk exposure, such as, interest rate risk, credit risk, etc. In addition, the Audit Office regularly (at least once a year) and occasionally reviews the risk management and operating procedures of the Company to ensure that the Company's risk management mechanism can be operated effectively. Also, the audit records related to various risks, such as transaction records, statements, and valuations are kept for the review of the Audit Office.

(1) Risk Management Committee

For the purpose of upgrading the risk management mechanism, improving various risks management, avoiding all possible adverse effects on the Company, and seeking maximized profits with limited risks, the Risk Management Committee is established with the President acting as the Chief Commissioner. Also, the department head of the Finance Department, Digital Service and Business Department, Risk Management Department, Credit Review Department, Administration Office, International Sales Department, Compliance Department, and the Business Management Department and other personnel designated by the President act as the Members of the Committee.

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The chief auditor may attend the Committee meeting, but may not vote. The Committee has a meeting held once a month with the following missions to fulfill:

- ① Add and amend the Company's risk management policy.
- ② Coordinate the risk management issues of the Company, such as, credit risk, market risk, and operational risk.
- ③ Review the ratio of the Company's regulatory capital to risk assets (referred to as "capital adequacy ratio")
- ④ Handle and review the major risk exposure and unauthorized events which occur.
- ⑤ Major issues or discussions related to risk management proposed by each unit
- ⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman

The "Risk Management Department" is the execution unit of the Risk Management Committee and the risk management planning and management unit of the Bank. It independently monitors and manages the risks of the Bank. The department head of the Risk Management Department acts as the Executive Secretary who is appointed by the Board of Directors. The Risk Management Department is responsible for calculating and monitoring the capital adequacy, and comprehensively handles the risk management and reports to the competent authorities in accordance with various risks management guidelines. Submits a risk control report to the Committee on a quarterly basis and forwards it to the Board of Directors. Also, the Committee sets rules to control various investment positions and transaction quotas, and handles transaction clearing and settlement, such as, bank-wide fund scheduling and securities trading.

(2) Asset and Liability Management Committee

The President of the Company is the Chief Commissioner of the Company's Asset and Liability Management Committee. The members are composed of the personnel designated by the President and the department head of the Digital Service and Business Department, the Risk Management Department, the Finance Department, and the Administration Office. In response to the domestic and foreign financial situation, they are responsible for adjusting the business strategy in a timely manner, maintaining liquidity, safety, and profitability, and holding regular meetings at least once a month. The main tasks are as follows:

- ① Assess the impact of changes in domestic and foreign political and economic situations and the trend of government policies on financial business operations.
- ② Predict the impact of domestic and foreign funds, exchange rates, interest rate trends, and other relevant financial indicators on the Company's business operations.
- ③ Assess the Company's operating performance, capital position, asset and liability risk position, and interest rate sensitivity, as well as study and adjust the best ratio of various assets and liabilities.
- ④ Assess the Company's pricing strategy for deposit and loan interest rates.
- ⑤ Estimate the Company's future operating performance and moderately adjust the Company's business strategy.
- ⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman

(3) Credit Review Committee

The Credit Review Committee is chaired by the President and consists of the head of the Credit Review Department, the Risk Management Department, and the Digital

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Service and Business Department, and the personnel designated by the President to strengthen the review and risk control of the credit business and to ensure the Company's credits. In principle, a meeting will be held once a week to review the credit cases to be granted by the Board of Directors, and the results of the review will be presented to the Board of Directors for approval. The process and transfer of the proposals will be handled by the Credit Review Department.

(4) Investment Management Committee

In order to respond to changes in domestic and foreign financial situations, timely adjust investment strategies and control investment risks to maintain the safety and profitability of the Company's investment positions. The "Investment Management Committee" is established as the highest management unit responsible for the Company's investment business. The Investment Management Committee is chaired by the President, and the members include the head of the Finance Department and other personnel appointed by the President. The Committee has a meeting held once a month with the following missions to fulfill:

- ① Set the Bank's investment strategies and principles according to the changes in domestic and foreign political and economic situations and the trend of government policies.
- ② Assess whether the performance of the investment portfolio meets the expected objectives, predict the impact of changes in domestic and foreign capital situation, exchange rate, interest rate, and other relevant financial indicators on the investment position of the Company, and study whether the investment strategy should be adjusted.
- ③ Review the proportion, allocation, and reinvestment-orientation of various financial investment projects.
- ④ Review the source of funds and cost structure of the investment.

(5) Information Security Management Committee

The "Information Security Management Committee" is formed to improve the information security management system, respond to all information security-related laws and regulations, and comply with the relevant government regulations in order to reduce the risk impact and influence on the Company due to information security. The Committee has one convener appointed who is the President or an individual appointed by the GM. The members are the head of the Risk Management Department, the Information Office, the Digital Service Department, the Compliance Department, and the department head or the designated individual of the department designated by the convener. The Audit Department may attend the Committee meeting, but may not vote. The Committee will hold meetings from time to time as needed. The main tasks are as follows:

- ① Propose the information security policy of the Company.
- ② Promote the information security management system.
- ③ Assess the infrastructure of the information security management system.
- ④ Handle and review major information security incidents.
- ⑤ Major issues or discussions related to information security proposed by each unit.
- ⑥ Discussion of other information security issues.

3. Credit Risk

(1) Source and definition of credit risk

Credit risk refers to the risk of default loss caused by the borrower or counterparty

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due to the deterioration of the company's business condition or other factors (such as, disputes between the company and its counterparty), resulting in the borrower or counterparty not fulfilling its contractual obligations. The sources of credit risk covered on and off balance sheet items. For the Company's credit risk exposure, the items on the balance sheet mainly come from discounts and loans, deposits and interbank lending, debt instrument investments and derivative financial instruments... etc. The off-balance sheet items are mainly guarantees, letters of credit, loan commitments, etc.

(2) Credit risk management policies:

The Company's written credit risk management strategy is prepared as a guideline for the credit operating procedure. Also, the relevant policies and operational guidelines are set up to ensure that the strategy can be implemented continuously and effectively in order to maintain rigorous loan granting standards, monitor credit risk, assess possible business opportunities, and identify and manage non-performing loans. The scope of management includes: ① Various credit risks (including individual credit cases, overall credit check, credit business, non-performing loans, etc.) and credit risk offset instruments, such as, collateral and guarantee, of the businesses on and off the balance sheet. ② A credit risk-related product or position of the banking book or transaction book.

In order to maintain a safe and sound credit business and control credit risk, the "Regulations Governing Credit Risk" are stipulated to establish a credit risk control mechanism when planning various businesses in order to implement the procedures of identification, measurement, communication, and monitoring. Under the credit management organization structure with decentralization of responsibility planned, each responsible unit is to review and discuss the cases within the authorization in accordance with the "Rules Governing Credit Review and Authorization" in order to ensure the quality of the credit assets. The "Directions for Credit Review and Implementation" are formulated. Also, the Credit Review Department at the head office is responsible for handling and strengthening post-loan management in order to effectively control credit risk.

The credit risk management procedures and measurement methods for each major business of the Company are described below:

① Credit business (including loan commitments and guarantees)

The classification of credit assets and credit quality rating are described as follows:

A. Credit asset classification

The Company's credit assets are classified into five categories. Except that the normal credit assets are classified as Category I, the non-performing credit assets are evaluated according to the loan guarantee status and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful", and Category V "Losses". The Company has formulated the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" to establish the internal processing systems and procedures for asset quality assessment, appropriation of loss reserve, collection of overdue loans, and liquidation of bad debts. Also, it is handled in accordance with the requirements of the competent authorities and the Company. In order to speed up the liquidation of non-performing loans and

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reduce overdue loans, the Company has the "Rules Governing Non-Performing Loans" formulated to realize a sound financial structure and to enhance asset and liability management.

B. Credit quality rating

The Company has formulated the "Corporate Finance and Consumer Finance Business Classification" according to the business characteristics and scales. The directions for credit rating are formulated for corporate accountholders and individual accountholders. The credit rating scores of the debtors are classified into 10 grades (C1~C10), which is an internal credit rating and it is used for risk management. The credit rating is used as criteria for credit approval and as reference in determining credit conditions, and those with a poor credit rating are subject to higher credit review frequency.

② Deposit and inter-bank lending

The Company evaluates the credit status of the counterparty before the transaction initiated. Also, it determines the ratio of loans in New Taiwan Dollars and foreign currency according to the domestic and foreign financial inter-bank credit rating before the end of each year, and submits it to the Credit Review Committee for review and reports it to the Board of Directors for approval.

③ Debt instrument investment and derivative financial instruments

The Company's credit risk management of debt instrument is to identify credit risk through the credit rating of debt instrument by domestic and international credit rating agencies, bond guarantee institutions, country risks, and counterparty risk. For the financial institutions that initiate investments in the Company's derivative financial product transactions, set the ceiling of the financial transaction amount by the nature of the counterparty and the credit rating in accordance with the "Regulations Governing Derivatives Transactions Quota".

(3) Credit risk hedge or mitigation policy

① Collateral

The Company adopts the methods of stipulating credit limit conditions, collection of collateral, and the guarantor or the transfer of the credit guarantee fund to reduce the credit risk for credit business in order to strengthen the credit of the Company. The Rules Governing Collateral Appraisal and related procedural guidelines and regulations for regulating acceptable types of collateral and the valuation, management, and disposal of collateral have been formulated to ensure credit. It also has a credit guarantee, a collateral clause, and an offset clause formulated. It clearly defines that upon the occurrence of a credit event, the credit amount can be reduced, the borrowing repayment period can be shortened or deemed as fully expired, and the various deposits of the debtors with the Company are applied to offset the liabilities in order to reduce credit risk.

For the verification of collateral appraisal and the collateral check on a regular or irregular basis, verify the credit and collateral revaluation according to the status quo of the debtors, and assess the degree of guarantee provided by the debtors and the legal effect of the guarantor in order to ensure the protection of credit.

② Credit risk limit and credit risk concentration control

The Company has the "Credit Policy" formulated to properly plan and control the credits of the same natural person, the same legal person, the same public

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enterprise, the same related party, the same associate, and the same group. Set the ceiling (the same public enterprise shall not exceed the net value of the Company, and the ceiling of the same group enterprise shall be adjusted and approved according to its credit rating and prospect) of the ratio to the net value of the Company for each entity in order to control the single credit risk and improve the efficiency of fund utilization. For the ratio of total credit balance of the same industry to the total credit balance of the Company, the ceiling will be approved according to the industry and the overall economy and by referring to the non-performing loan ratio of the industry and future economy. In order to strengthen the credit risk control of each industry overseas and in Mainland China, the respective limit is stipulated accordingly. For the ratio of the total credit balance secured by residential real estate to the total credit balance of the Company, it is divided into the categories of housing repair and working capital limit control by the intended use of funds. Also, the credit-orientation is dynamically adjusted to hedge the overall risk and to avoid excessive credit risk concentrations.

③ Master netting arrangement

The Company's transactions are usually cleared on a gross amount. Also, an agreement is reached with some counterparties for a net clearing method, or all transactions with the counterparty are terminated with a net amount clearing arranged in the event of default in order to further reduce the credit risk.

(4) Maximum credit risk exposure

The maximum credit risk exposure of the assets stated in the individual balance sheet without the consideration of collaterals or other reinforced credit instruments approximate their book value. The maximum credit risk exposure amount (excluding collateral or other credit enhancement instruments, and irrevocable maximum risk exposure amount) associated with off-balance sheet items is as follows:

Off-balance sheet items	Credit risk maximum risk exposure amount	
	2019.12.31	2018.12.31
Customer's developed and irrevocable loan commitments	\$21,220,207	\$17,201,151
Customer's outstanding letters of credit amount	207,684	668,933
Guarantee payments	5,619,363	5,092,739
Total	\$27,047,254	\$22,962,823

(5) The financial information of the collateral, total net cash clearing amount, and other credit enhanced finance effect related to the book value of the maximum credit risk exposure on and off the individual balance sheet is illustrated as follows.

December 31, 2019	Collateral	Master netting arrangement	Total
<u>Items on the statement</u>			
Discounts and loans	\$109,321,607	\$ -	\$109,321,607
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	11,707,019	-	11,707,019
Customer's outstanding letters of credit amount	3,000	-	3,000
Guarantee payments	2,287,112	-	2,287,112
Total	\$123,318,738	\$ -	\$123,318,738

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December 31, 2018	Collateral	Master netting arrangement	Total
<u>Items on the statement</u>			
Discounts and loans	\$102,787,532	\$ -	\$102,787,532
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	10,067,432	-	10,067,432
Customer's outstanding letters of credit amount	203,359	-	203,359
Guarantee payments	1,843,473	-	1,843,473
Total	\$114,901,796	\$ -	\$114,901,796

The Company's management assesses and believes that the credit risk exposure amount of the off-balance sheet items could be controlled and minimized continuously because the Company and its subsidiaries have adopted a more stringent selection process during the credit approval and subsequent periodic review.

(6) Status of credit risk concentration

When a financial instrument counterparty is significantly concentrated on one person, or a financial instrument has several counterparties who are mostly engaging in similar business activities and have similar economic characteristics, so that their ability to perform contracts is affected by economic or other conditions in a similar manner, there is a significant concentration of credit risk.

The Company's credit risk concentration is derived from assets, liabilities, or off-balance sheet items, which are generated through transactions (regardless of products or services) performance or implementation, or a combination of cross-category risk exposure, including credit, deposit and inter-bank lending, marketable securities investments, receivables, and derivatives. The Company did not significantly concentrate on trading with single customers or single transaction counterparties. The total transaction amount with single customers or single transaction counterparties accounting for the Company's discounts and loans and collection amount is insignificant. The Company has the credit risk of discount, lending, and collection booked by the classification of industry, indicating significant concentration of credit risk by the classification of industry, area and collateral are as follows:

① By industry

By industry	2019.12.31		2018.12.31	
	Amount	%	Amount	%
I. Private Enterprise	\$118,440,765	75	\$121,205,378	79
II. Government agencies	-	-	-	-
III. Non-profit groups	161,417	-	177,347	-
IV. Private	39,016,244	25	33,214,250	21
V. Financial institution	-	-	-	-
Total	\$157,618,426	100	\$154,596,975	100

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② By region

The Company's main business is conducted in Taiwan and there is no significant concentration of credit risk by region.

③ By collateral

By collateral	2019.12.31		2018.12.31	
	Amount	%	Amount	%
Non-secured	\$48,296,819	31	\$51,809,444	34
Secured				
- Financial collateral	13,342,931	8	14,351,793	9
- Real estate	85,331,445	54	78,741,042	51
- Guarantee	2,932,494	2	1,963,499	1
- Other collaterals	7,714,737	5	7,731,197	5
Total	\$157,618,426	100	\$154,596,975	100

(7) Analysis of the Company's financial assets that is overdue but without impairment
The Company had no financial assets that were overdue without impairment as of December 31, 2019 and 2018.

(8) Judgment of the Company's credit risk that has increased significantly since the original recognition

Credit business

The Company assesses the change in the risk of default in the expected duration of each type of credit asset on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Company considers the information that evidences the significant and reasonable increase of credit risk (including forward-looking information) since the original recognition. The main considerations include:

① Quantitative indicators:

If the contract is overdue for more than 30 days on the reporting date, it is concluded that the credit risk has increased significantly since the original recognition.

② Qualitative indicators:

Observe the following information on the reporting date. If the following conditions are met, it is concluded that the credit risk has increased significantly since the original recognition.

- a. The records of bounced checks of the debtors reported by the Company.
- b. The dishonored accounts announced by Taiwan Clearing House.
- c. A specific performance is implemented by other banks against the collateral of the debtors held the Company.
- d. Acknowledged the debts of the debtors with reorganization requested by other financial institution when implementing the post-loan management procedures of review, tracking, and assessment.
- e. Listed as a collection or debited to bad debts.
- f. Acknowledged that the public certified accountants had issued an opinion on the financial statements of the debtors with a concern over the continuing operation of the audited debtors when implementing the post-loan management

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procedures of review, tracking, and assessment.

g. Acknowledged other non-performing loans of the debtors.

The Company's various types of credit assets are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

Debt instruments

The Company assesses the change in the risk of default in the expected duration of each type of debt instrument on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Company considers the changes in credit rating that indicates the main evaluation indicator is a quantitative indicator since the original recognition. When the credit rating on each reporting date is lower to an extent than the credit rating on the original recognition date, it is determined that the credit risk has increased significantly since the original recognition.

The Company's various types of debt instrument are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

(9) Definition of the Company's default and credit impairment financial assets

Credit business

The Company's definition of default on various types of credit assets is the same as the default and credit impairment of each type of credit assets. If one or more of the following conditions are met, the Company determines that the various types of credit assets have been defaulted with credit impairment resulted:

① Quantitative indicators

If the contract is overdue for more than 90 days on the reporting date, it is concluded that default and credit impairment have occurred.

② Qualitative indicators

Observe the following information on the reporting date. If the objective evidence of impairment (such as agreement, bail-out, rehabilitated, etc.) is met, it is determined that default and credit impairment have occurred.

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Debt instruments

The Company's definition of default on a debt instrument is the same as the credit impairment of a debt instrument. If one or more of the following conditions are met, the Company determines that the debt instrument has defaulted with credit impairment.

① Quantitative indicators

If the credit rating on each reporting date reaches the default level, it is determined as defaulted with credit impairment.

② Qualitative indicators

Observe the following information on the reporting date. If the following conditions are met, it is determined that default and credit impairment have occurred.

- a. An event of default occurred
- b. The issuer's significant financial difficulties
- c. The issuer is likely to apply for bankruptcy or other financial restructuring.

The foregoing definition of default and credit impairment is applicable to all financial assets held by the Company and is consistent with the definitions used for the internal credit risk management purposes of the financial assets and are applied to the relevant impairment assessment model. If the financial assets on the reporting date no longer meet the definition of default and credit impairment, they are concluded to be in the status of performance and are no longer regarded as financial assets that have defaulted with credit impairment.

(10) Write-off policy

When the Company cannot reasonably expect the financial assets to be recovered entirely or partially, it will write off the whole or part of the financial assets in a timely manner in accordance with the requirements of the competent authorities and in line with the Company's asset quality policy.

(11) Measurement of anticipated credit loss

For the purpose of assessing expected credit losses, the Company classifies financial assets into the following combinations according to the credit asset/debt instrument categories, credit ratings, and subject matter claim order:

Credit asset/debt instrument category	Definition
Corporate banking loan	Grouped by risk characteristics, company size, and credit category
Consumer banking loan	Grouped by product category, loan type, etc.
Corporate bonds and financial bonds	Classified by long-term issuer rating (Moody's) and subject matter claim order
Government bonds and Central Bank's convertible certificate of deposit	Classified by sovereign rating (Moody's) and subject matter claim order

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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For the financial instruments that have not significantly increased in credit risk (Stage 1) after the original recognition, the Company measures the allowance for loss of the financial instrument according to the expected credit loss amount within 12 months. For the financial instruments with significant increase in credit risk after the original recognition (Stage 2) or with credit impairment (Stage 3), it is measured by the expected credit loss amount of the duration.

In order to measure the expected credit losses, the Company while considering the probability of default (PD) of the borrower/issuer in the next 12 months and the duration includes the loss given default (LGD) and has it multiplied by the exposure at default (EAD), taking into account the impact of the time value of money to calculate the expected credit losses for 12 months and the duration. However, for the off-balance sheet credit assets, it must be multiplied by the credit conversion factor (CCF) that is regulated with the "standardized approach" of Basel II.

The probability of default (PD) and loss given default (LGD) used in the impairment assessment of the Company's credit business/investment business are adjusted and calculated according to the internal and external information of each combination and based on current observable information and forward-looking macro-economic information (e.g. global economic growth rate, inflation rate, etc.).

The Company assesses the amount of financial asset default risk on the reporting date. In addition, based on internal and external information, the Group considers the financial assets to be used within 12 months after the reporting date and the amount expected to be used in order to determine the default risk exposure amount for the calculation of the expected credit loss.

There was no significant change in the estimation techniques or material assumptions that were used in 2019 to assess the expected credit loss.

(12) Consideration of prospective information

The Company uses historical data to analyze and identify the economic factors that affect the credit risk and expected credit losses of each asset portfolio, and estimates the impairment parameters after forward-looking adjustment according to the regression model or imputation adjustment method. The relevant economic factors and their impact on PD and LGD vary according to the type of financial instruments.

The relevant economic factors of credit assets identified by the Company in 2019 were the economic growth rate. The relevant economic factors of debt instrument identified by the Company in 2019 were the global economic growth rate and inflation rate.

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(13) Allowance for loss

Changes in allowances for bad debts related to discount and loan

Changes in the allowances for bad debts related to discounts and loans for the period from January 1 to December 31, 2019 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Impairment appropriated according to IFRS 9	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance, beginning	\$392,388	\$41,994	\$-	\$146,477	\$-	\$580,859	\$1,786,364	\$2,367,223
Changes in financial instruments recognized at the beginning of the period:								
- Converted to expected credit losses of the duration	(1,188)	1,054	-	(795)	-	(929)		(929)
- Converted to financial assets with credit impairment	(20)	(18)	-	2,897,934	-	2,897,896		2,897,896
- Converted to 12-month expected credit loss	2	(19)	-	-	-	(17)		(17)
- Financial assets derecognized in the current period	(251,121)	(41,286)	-	(17,593)	-	(310,000)		(310,000)
Purchased or originated new financial assets	201,436	507	-	(250,573)	-	(48,630)		(48,630)
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"							20,475	20,475
Write-off bad debts	-	-	-	(2,986,217)	-	(2,986,217)		(2,986,217)
Recovered amount after write-off bad debts	-	-	-	332,203	-	332,203		332,203
Other changes	-	-	-	-	-	-		-
Changes in exchange	-	-	-	-	-	-	(4,256)	(4,256)
Balance, ending	\$341,497	\$2,232	\$-	\$121,436	\$-	\$465,165	\$1,802,583	\$2,267,748

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Changes in the allowances for bad debts related to discounts and loans for the period from January 1 to December 31, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Impairment appropriated according to IFRS 9	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance, beginning	\$354,129	\$493	\$-	\$172,532	\$-	\$527,154	\$1,710,577	\$2,237,731
Changes in financial instruments recognized at the beginning of the period:								
- Converted to expected credit losses of the duration	(5,380)	5,570	-	(276)	-	(86)		(86)
- Converted to financial assets with credit impairment	(14)	(82)	-	1,607,364	-	1,607,268		1,607,268
- Converted to 12-month expected credit loss	4	(39)	-	-	-	(35)		(35)
- Financial assets derecognized in the current period	(200,627)	(129)	-	(23,225)	-	(223,981)		(223,981)
Purchased or originated new financial assets	244,276	36,181	-	(59,119)	-	221,338		221,338
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"							71,533	71,533
Write-off bad debts	-	-	-	(1,856,449)	-	(1,856,449)		(1,856,449)
Recovered amount after write-off bad debts	-	-	-	305,650	-	305,650		305,650
Other changes	-	-	-	-	-	-		-
Changes in exchange	-	-	-	-	-	-	4,254	4,254
Balance, ending	\$392,388	\$41,994	\$-	\$146,477	\$-	\$580,859	\$1,786,364	\$2,367,223

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Changes in the total book value of discount and loan

Changes in the total book value for the period from January 1 to December 31, 2019 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Total
Balance, beginning	\$150,797,346	\$3,461,185	\$-	\$338,444	\$-	\$154,596,975
Converted as anticipated credit loss of duration	(337,536)	258,937	-	(3,040)	-	(81,639)
Converted as financial assets with credit impairment	(13,200)	(5,907)	-	2,911,156	-	2,892,049
Transferred out from the financial assets with credit impairment	7,707	(9,194)	-	-	-	(1,487)
Discounts and loans assessed collectively	-	-	-	-	-	-
Originated or purchased discounts and loans	93,863,069	179,197	-	108,859	-	94,151,125
Write-off bad debts	-	-	-	(2,986,217)	-	(2,986,217)
De-recognition	(87,572,571)	(3,288,419)	-	(91,390)	-	(90,952,380)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance, ending	<u>\$156,744,815</u>	<u>\$595,799</u>	<u>\$-</u>	<u>\$277,812</u>	<u>\$-</u>	<u>\$157,618,426</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Changes in the total book value for the period from January 1 to December 31, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Total
Balance, beginning	\$144,675,468	\$111,473	\$-	\$398,655	\$-	\$145,185,596
Converted as anticipated credit loss within the perpetuity of the financial assets	(1,330,487)	804,648	-	-	-	(525,839)
Converted as financial assets with credit impairment	(13,054)	(17,307)	-	1,627,608	-	1,597,247
Transferred out from the financial assets with credit impairment	9,280	(10,138)	-	(1,130)	-	(1,988)
Discount and loan assessed collectively	-	-	-	-	-	-
Originated or purchased discounts and loans	90,115,786	2,597,645	-	274,402	-	92,987,833
Write-off bad debts	-	-	-	(1,856,449)	-	(1,856,449)
de-recognition	(82,659,647)	(25,136)	-	(104,642)	-	(82,789,425)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance, ending	<u>\$150,797,346</u>	<u>\$3,461,185</u>	<u>\$-</u>	<u>\$338,444</u>	<u>\$-</u>	<u>\$154,596,975</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Changes in expected credit losses of the financial assets-debt instrument measured at fair value through other comprehensive income by the Company are as follows:

Financial assets-allowance for losses measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Expected credit losses on January 1, 2019	\$32,972	\$79,056	\$-	\$-	\$112,028
Changes arising from the recognition of financial instruments on January 1, 2019					
Converted as anticipated credit loss of duration	(486)	24,449	-	-	23,963
Converted as financial assets with credit impairment	-	-	-	-	-
Converted as anticipated credit loss in 12 months	-	-	-	-	-
Financial assets derecognized in current period	(5,698)	-	-	-	(5,698)
Originated or purchased new financial assets	5,388	8,794	-	-	14,182
Changes in model/risk parameters	909	(6,656)	-	-	(5,747)
Other changes and exchange rate changes	(539)	(1,613)	-	-	(2,152)
Expected credit losses on December 31, 2019	<u>\$32,546</u>	<u>\$104,030</u>	<u>\$-</u>	<u>\$-</u>	<u>\$136,576</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Financial assets-allowance for losses measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Expected credit losses on January 1, 2018	\$31,394	\$138,718	\$-	\$-	\$170,112
Changes arising from the recognition of financial instruments on January 1, 2018					
Converted as anticipated credit loss of duration	(196)	14,861	-	-	14,665
Converted as financial assets with credit impairment	-	-	-	-	-
Converted as anticipated credit loss in 12 months	1,425	(63,994)	-	-	(62,569)
Financial assets derecognized in current period	(3,815)	(10,841)	-	-	(14,656)
Originated or purchased new financial assets	4,188	10,629	-	-	14,817
Changes in model/risk parameters	(286)	(10,670)	-	-	(10,956)
Other changes and exchange rate changes	262	353	-	-	615
Expected credit losses on December 31, 2018	<u>\$32,972</u>	<u>\$79,056</u>	<u>\$-</u>	<u>\$-</u>	<u>\$112,028</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Changes in the total book value of the Company's financial assets-debt instrument measured at fair value through other comprehensive income are further explained as follows:

Financial assets-total book value measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Total book value on January 1, 2019 (Note)	\$52,183,475	\$1,365,139	\$-	\$-	\$53,548,614
Converted as anticipated credit loss of duration	(461,497)	452,009	-	-	(9,488)
Converted as financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	-	-	-	-	-
Financial assets assessed collectively	-	-	-	-	-
Originated or purchased new financial assets	7,900,013	139,884	-	-	8,039,897
Derecognized financial assets	(15,727,345)	-	-	-	(15,727,345)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-
Other changes and exchange rate changes	(650,165)	(27,665)	-	-	(677,830)
Total book value on December 31, 2019 (Note)	<u>\$43,244,481</u>	<u>\$1,929,367</u>	<u>\$-</u>	<u>\$-</u>	<u>\$45,173,848</u>

Note: The total book value does not include an evaluation adjustment

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Financial assets-total book value measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Total book value on January 1, 2018 (Note)	\$54,188,642	\$2,543,520	\$-	\$-	\$56,732,162
Converted as anticipated credit loss of duration	(170,884)	176,206	-	-	5,322
Converted as financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	1,349,115	(1,303,150)	-	-	45,965
Financial assets assessed collectively	-	-	-	-	-
Originated or purchased new financial assets	4,447,269	122,186	-	-	4,569,455
Derecognized financial assets	(8,265,889)	(204,249)	-	-	(8,470,138)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-
Other changes and exchange rate changes	635,222	30,626	-	-	665,848
Total book value on December 31, 2018 (Note)	<u>\$52,183,475</u>	<u>\$1,365,139</u>	<u>\$-</u>	<u>\$-</u>	<u>\$53,548,614</u>

Note: The total book value does not include an evaluation adjustment

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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The allowance for loss of the Company's receivables is measured with the expected credit loss amount of the duration. The assessment of the allowance for loss on December 31, 2019 and 2018 is described as follows:

The Company's receivables are not overdue. Counterparties are groups with the considerations of their credit rating, regional, and industrial factors. Also, measure the allowance for loss with the provision matrix. For the total book value were NT\$1,300,468 thousand and NT\$1,062,823 thousand, the allowance for loss is measured with an expected credit loss rate of 0%~5%, so it is for an amount of NT\$30,018 thousand and NT\$34,687 thousand.

Changes in allowances or loss of notes and accounts receivables of the Company in 2019 and 2018 are as follows:

	Receivables
2019.1.1	\$34,687
Amount appropriated (reversed) for the period	(13,952)
Write-off amount	(388)
Recovery of write-off amount	9,671
2019.12.31	\$30,018
2018.1.1	\$51,435
Amount appropriated (reversed) for the period	(18,682)
Write-off amount	(7,376)
Recovery of write-off amount	9,310
2018.12.31	\$34,687

(14) The Company's financial assets with the maximum credit risk exposures as of December 31, 2018 amounted to NT\$203,536,045 thousand and NT\$204,714,088 thousand, which include financial assets measured at fair value through other comprehensive income and discounts and loans.

(15) The maximum credit risk exposure amount of the financial instruments that are not subject to impairment requirements is as follows:

	2019.12.31	2018.12.31
Financial assets measured at fair value through profit or loss		
- Debt instrument	\$29,056,073	\$24,435,062
- Derivatives	8,805	39,017

(16) Collateral and other credit enhancements

The Company adopts a series of policies and measures for the credit business to reduce credit risk, one of the commonly uses methods is to request the borrower to provide collateral. For the collateral assessment management and loan collateral value calculation, the Company has procedures for the range of collateral collected, the valuation, management, and disposal of collateral formulated to ensure loans. The main types of collateral for the Company's financial assets are as follows:

- Real estate mortgage: The loan amount is set separately according to the location of the real estate. For larger amount or special products, the public appraisers are entrusted to perform price evaluation.
- Stocks: The reasonable loan amount and evaluation criteria are formulated by the conditions of listing, OTC, emerging market, and unlisted stocks.
- Property: An appropriate loan amount is determined according to the nature of disposition and cost.
- Certificate of Deposit: Mainly refers to the Bank's certificate of deposit in foreign currency.
- Credit insurance: It is handled with credit insurance for small and medium-sized enterprises.
- Rights pledge: Special rights, such as, land rights and creditor's rights are judged separately on a case-by-case basis.

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For the credit preservation and collateral clauses in the credit contract, it is clearly defined that upon the occurrence of a credit event, the borrowing amount can be reduced and the borrowing repayment period can be shortened or deemed as expired entirely in order to reduce credit risk.

The collateral of other non-credit business is subject to the nature of the respective financial instrument. Only asset-based securities and other similar financial instruments are secured by a group of asset-based financial instruments.

The Company's collateral policy has no significant change occurring on the balance sheet date and there has been no significant change in the quality of the overall collateral.

The Company closely observes the value of collateral for financial instruments and considers the impairment to be appropriated for the financial assets with credit impairment occurred. The financial assets with credit impairment are as follows:

	Total book value	Provision for impairment	Total exposure (cost after amortization)
Impaired financial assets:			
Discounts and loans	\$162,659	\$42,939	\$119,720
Total financial assets with impairment	\$162,659	\$42,939	\$119,720

4. Liquidity risk

(1) Sources and definitions of liquidity risk

The definition of the Company's liquidity risk refers to the possible financial losses due to the inability of having assets cashed or obtaining loans to have the funds needed to liquidate the financial liabilities, for example, depositors' terminating deposits before the maturity date, financing channels and conditions for inter-bank lending become worse or difficult due to specific market influences. Also, the debtor's credit default situation has deteriorated, which makes the recovery of funds abnormal and the realization of financial instruments difficult. The aforementioned circumstances may weaken the Company's source of cash for financial activities, such as, loans, trading, and investment. In an extreme situation, the lack of liquidity may result in a decline in the position of the balance sheet, the sale of the asset, or the failure in meeting the borrowing commitment. Liquidity risk exists in the inherent risks of all banking operations and may be affected by various industry-specific or market-wide events, including but not limited to: credit events, mergers or acquisitions, systemic impact, and natural disasters.

(2) Liquidity risk management policy

The liquidity management procedures of the Company are executed separately in the Finance Department and the Risk Management Department. However, the branches are required to notify the Finance Department of the funding gap for the unified control of the Finance Department and are monitored by the independent Risk Management Department. The procedures include: Perform daily fund scheduling and monitor future cash flows to ensure the fulfillment of various needs.

- ① Maintain an appropriate amount of high liquidity assets that can be easily realized to buffer unforeseen and unexpected events that may interrupt cash flow.
- ② Monitor the liquidity ratio of the consolidated balance sheet in accordance with the internal management purposes and external regulatory requirements.

The monitoring process is based on the measurement and speculation of the future flow of funds for one day and one month (such timeframe is for the management of liquidity risk by the Company). The estimation of future cash flows begins with an analysis of the contractual maturity date of financial liabilities and the expected cash realization date of financial assets. The Risk Management Department of the Company also monitors the extent and pattern of

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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contingent liabilities, such as mid-term and long-term borrowing commitments, discount quotas, and guarantee letters.

Relevant information is regularly reported to the Company's Risk Management Committee and the Board of Directors.

- (3) Regarding the financial liabilities held for the purpose of managing the liquidity risk, the due date of the Company's financial liability contracts is summarized in the table below. The amounts disclosed in the table are based on the contractual cash flows, so the amount disclosed in some of the projects does not correspond to the related items on the individual balance sheet.

2019.12.31

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
<u>Non-derivative financial liabilities</u>					
Deposits from Central Bank and other banks	\$13,781,199	752,650	\$-	\$-	\$14,533,849
Funds borrowed from Central Bank and other banks	1,655,830	-	-	-	1,655,830
Bills and bonds sold under repurchase agreements	23,250,020	4,968,000	-	-	28,218,020
Customer deposits and remittances	14,560,130	17,853,339	74,421,043	84,977,802	191,812,314
Lease liabilities (Note)	6,286	12,572	53,825	157,609	230,292
<u>Derivative financial liabilities</u>					
Derivative financial liabilities measured at fair value through profit or loss					
Foreign exchange derivatives					
Cash outflow	\$2,084,482	\$-	\$-	\$-	\$2,084,482
Cash inflow	2,078,480	-	-	-	2,078,480
Net cash flow	<u>\$ (6,002)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$ (6,002)</u>

2018.12.31

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
<u>Non-derivative financial liabilities</u>					
Deposits from Central Bank and other banks	\$17,632,276	\$2,304,975	\$-	\$-	\$19,937,251
Funds borrowed from Central Bank and other banks	2,458,640	-	-	-	2,458,640
Bills and bonds sold under repurchase agreements	22,255,969	7,060,527	-	-	29,316,496
Customer deposits and remittances	17,799,131	22,386,111	67,842,625	80,649,433	188,677,300
<u>Derivative financial liabilities</u>					
Derivative financial liabilities measured at fair value through profit or loss					
Foreign exchange derivatives					
Cash outflow	\$4,583,399	\$-	\$-	\$-	\$4,583,399
Cash inflow	4,557,615	-	-	-	4,557,615
Net cash flow	<u>\$ (25,784)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$ (25,784)</u>

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Note: 1. The further information on the maturity analysis of the lease liabilities is provided in the following table:

	Expiry of duration				Total
	Less than 1 year	1~5 years	6~10 years	10~15 years	
Lease liabilities	\$72,683	\$134,397	\$23,212	\$-	\$230,292

5. Market Risk

(1) Source and definition of market risk

Market risk refers to the loss of the positions that may occur on and off the balance sheet due to the changes in market prices. The so-called market price refers to interest rate, exchange rate, stock price, and product price.

The Company shall classify the holding position into a trading book and a banking book according to its purpose. The market risks faced by each position can be divided into four risk categories: interest rate, equity securities, foreign exchange, and product.

- ① The "trading book" includes the position of the financial products (including goods and derivative financial products) and physical products held for the purpose of trading or for the risk hedging of the trading book position. The term "trading purpose" stated in the preceding paragraph refers to the intention of a short-term gain or to generate or secure the arbitrage from actual or expected short-term price fluctuations.
- ② Financial products and physical products that are not held for the aforementioned purpose are within the scope of the "banking book".
- ③ Market risk management scope:
 - I. For interest rates and equity securities, it is only necessary to compute the capital needed for market risk of the trading book.
 - II. For foreign exchange and products, it is necessary to compute the capital needed for all market risks.

(2) Market risk management strategy

- ① Market risk management strategies should be documented to explain market risk management objectives and to ensure consistency in market risk management of the Company.
- ② The market risk management strategies are subject to appropriate adjustments in response to the Company's operating environment and changes in risk, maintain consistency with the Company's business strategies and objectives, and cover all key market risks associated with the business.
- ③ The market risk management strategies shall include at least the following:
 - I. Market risk measurement methods: including qualitative and quantitative methods
 - II. Market risk monitoring methods: such as limits management, stop-loss mechanism, etc.
 - III. The Company shall establish an approval hierarchy and regulate the standard operating procedure for overrun.

(3) Market risk management process

The market risk management process includes risk identification, measurement, communication, and monitoring. The Company shall effectively identify, measure, communicate, and monitor market risks associated with all major trading products, trading activities, processes, and systems.

① Risk identification

- I. The so-called market risk factor refers to the market ratio and price that influence the price of the position. The Company's risk measurement system should have

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sufficient risk factors to measure the risks in the on- and off-balance sheet trading position.

- II. For any structured financial product, the market risk factors of each part should be identified in order to provide the basis for a correct measurement of the market risk exposure of the structured product.
- III. The selection of risk factors includes interest rates, exchange rates, equity securities prices, and product prices.
- IV. Each unit of the Company shall identify the market risk in business activities or financial products.

② Risk measurement

- I. The risk management personnel of the Company's business trading units shall establish reasonable verification and control procedures for the sources of market data, such as, product market price, interest rate, and exchange rate.
- II. When risk management personnel of the business transaction units measure market risk, they should consider the market liquidity risk caused by insufficient market depth, low market transparency, or market disorder.
- III. The risk management personnel of the financial transaction unit shall evaluate the trading position at least daily according to the market price. All model parameters should be evaluated daily if the model is used for evaluation.
- IV. The Company should develop a method for measuring the overall position risk exposure according to the scale and complexity of the investment portfolio held. Also, avoid excessive concentration of the investment portfolio on a certain risk factor. When performing risk measurement, the individual risk of the subject matter of the transaction and the possible risk dispersion effect should be considered by evaluating the volatility and correlation of the subject matter of the transaction. And a position with poor liquidity or insufficient market price transparency should be evaluated conservatively in order to fully assess the market risks faced by the Company.

③ Risk communication

- I. Internal report
 - i. Market risk reports are to regularly provide accurate, consistent, and timely information to senior executives as a reference for their decisions.
 - ii. The Company should establish various operating procedures to ensure that overruns and exceptions (e.g. violations of policies and procedures) can be immediately reported to the governing management.
- II. External disclosure
 - i. The market risks faced by the Company should be fully disclosed.
 - ii. The computed capital of the following risks should be disclosed:
Interest rate risk, equity securities risk, foreign exchange risk, and product risk.
 - iii. The extent of information disclosure should be in line with the scale, risk profile, and complexity of the Company's sales operations.

④ Risk monitoring

- I. Each business unit of the Company shall establish a transaction limit system, which shall be controlled by the risk management personnel on a daily basis. If there is a lack of risk management, such as, overrun or other special circumstances, it shall be reported in due course to facilitate the adoption of the response measures.
- II. The status of the transaction shall be monitored immediately and

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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comprehensively, such as whether the changes in position, changes in profit or loss, trading patterns, and subject matter of the transaction are within the scope of business authorization.

- III. Information needed for the review of financial products valuation should be obtained by the Company externally or through a channel other than the trading unit in order to avoid manipulation of price data due to conflicts of benefit.
- IV. The Company shall stipulate the limits management, stop-loss mechanism, and overrun process to effectively monitor market risks.
 - i. Limits management
The responsible business department shall set the limits for financial product transactions according to the product characteristics and authorization hierarchy, such as, traders, risk category, counterparty's trading position limits, stop-loss limits, etc.
 - ii. Stop-loss mechanism
The responsible business department shall establish a clear stop-loss mechanism and implement it to effectively control the loss within the expected range.
 - iii. Overrun processing
The responsible business department shall clearly establish a defined limit and overrun mechanism and implement it to effectively handle the extraordinary cases.

(4) Trading book risk management policy

When handling various financial transactions, it should be divided into trading books and banking books according to the intention of holding, which are defined as follows:

- ① The scope and definition of the trading book: The trading book includes the position held for the purpose of trading or risk hedging of the trading book. The position must be free from any contractual restrictions in trade, or the risk can be completely hedged. The positions included in the trading book are summarized as follows:
 - I. The positions held for earning a profit from the actual or expected spread.
 - II. The positions held for earning a profit from other price changes.
 - III. The position held due to engaging in the brokerage and trade business.
 - IV. The position held to offset all or most of the risks of another asset position or portfolio on the trading book.
 - V. All positions that can be traded within the predetermined investment amount.
- ② Trading Book Authorization Projects:
 - I. Monetary market transactions: short-term bill (bond) within one year.
 - II. Capital market transactions: More than one year government bonds, corporate bonds, financial bonds, beneficiary securities, asset securitization bonds, stocks, various types of fund beneficiary certificates, and convertible corporate bonds.
 - III. Derivative financial product transactions: including exchange rates, interest rates and stocks, etc.
 - IV. Foreign exchange market transactions: foreign exchange spot, swap, forward foreign exchange, and forward rate agreement.

③ Evaluation mechanism of the transaction book:

The evaluation mechanism of the Company's trading book position shall be handled by the risk management personnel who are independent of the trading desk. The trading book position shall be valued on a daily or weekly basis in accordance with the "Market to Market Method" with information from an independent source and readily available, such as, exchange prices, electronic screen quotes, or quotes from

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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independent brokers, which should be presented to the Board of Directors for approval and future reference.

- ④ Management specifications and procedures for the position limits, monitoring, early warning, stop-loss, and reporting: It should be handled in accordance with the Company's "Regulations Governing Market Risk", "Regulations Governing Security Investment", "Regulations Governing Derivatives Transactions", "Regulations Governing Foreign Exchange Business", "Regulations Governing Loans Business", "Interest Rate Risk Management Policy", "Liquidity Risk Management Policy", and other relevant regulations.

(5) Management of interest rate risk in banking book

① Management strategy and process

Make adequate adjustment to respond to the changes in the Company's operating environment and the changes in risks. Maintain the Company's operational strategies and deepen the Company's operations. Enhance the performance of the Bank's asset portfolio. Assess the impact of changes in interest rate on economic value or earnings. Establish the interest rate risk in banking book control mechanism in accordance with the "Regulations Governing Interest Rate Risks in Banking Book", which is implemented in accordance with the procedures of identification, measurement, communication, and monitoring, so that the interest rate risk is maintained at an appropriate level. Consistency of objectives and coverage of all important interest rate risks in banking book associated with the business.

② Management organization and structure

- A. The Board of Directors is the highest decision-making authority of the Company's interest rate risk in banking book management and bears ultimate responsibility for the Company's interest rate risk in banking book.
- B. The Asset and Liability Management Committee is responsible for assessing the Company's operating performance, capital position, asset and liability risk position and interest rate sensitivity, as well as researching and adjusting the best ratio of various assets and liabilities, and evaluating the Company's deposit and loan interest rate pricing strategy.
- C. The Risk Management Committee is responsible for implementing the interest rate risk in banking book management decisions approved by the Board of Directors, coordinating the interest rate risk in banking book management matters, and continuously monitoring the performance of risk management.
- D. The Risk Management Department is the exclusive unit for the Company's interest rate risk in banking book management. It is responsible for planning, establishing, and integrating the Company's interest rate risk in banking book management operations, and implementing the Bank's overall interest rate risk in banking book management and monitoring work in order to assess the impact of changes in interest rate on the economic value or earnings. Also, regularly aggregating the Bank's interest rate risk in banking book management information and then report it to the Risk Management Committee and the Board of Directors, and disclose risk management information according to the regulations of the competent authorities.
- E. The business units in the head office are responsible for setting and managing the respective regulations and operating procedures for the interest rate risks in banking book, and assisting the Risk Management Department to manage the interest rate risk position related to their business.
- F. All units (including business units) of the Company are responsible for identifying the interest rate risks in the banking book, cooperating with the implementation of

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the interest rate risk in banking book management decisions, and adopting the risk offset treatment method or response measures approved by the GM to operate and adjust the interest rate risk exposure position on and off the balance sheet.

③ Risk reporting/measurement system scope, characteristics, and frequency

The Company makes the "Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio" the monitoring and management index to control the Company's interest rate risk in the banking book within the tolerance, and reports it to the Risk Management Committee on a monthly basis. Analyze the changes and compare them to the conditions of the last month. Provide executives with correct, consistent, and prompt information as a reference for their decision-making and have it disclosed in the risk control report to the Board of Directors on a quarterly basis. The content and scope of the risk control report are as follows: (I) Measurement indicators: 1. Earnings perspective (interest rate risk warning and reporting) 2. Economic value (Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio); (II) Stress test: (1) the impact of changes in interest rate on the next year "earnings" (2) the impact of changes in interest rates on economic value. The Information Department and the business units are to provide the information of relevant electronic files or written materials to the Risk Management Department in order to effectively grasp the overall risk position and to provide appropriate risk measurement results in order to assist with the interest rate risk in banking book management.

④ Risk hedging/risk-reducing policies and strategies and processes for keeping the monitoring and hedging/reducing risk tools effective continuously

When handling banking book interest rate risk related businesses and transactions, assess the probability of occurrence of the event or transaction loss and the severity of the loss. Also, adopt countermeasures, such as, risk hedging, risk reduction or transfer, risk control, and risk endurance.

In case of special circumstances that may seriously affect the Company's earnings or economic value, the Risk Management Department or the business units in the head office shall report it to the GM and adopt appropriate risk offset methods or response measures to reduce the banking book interest rate sensitivity net impacted position or increase the Company's capital.

(6) Market risk assessment technology

① Stress test

The stress test is to assess the Company's risk tolerance ability under a stress scenario so the Company can then develop specific and feasible hedging strategies and response plans in order to monitor possible changes in risk conditions under various scenarios. Also, the Board of Directors and the executives determine whether the Company's risk exposure is consistent with its risk appetite and it is one of the important tools for identifying, measuring, and controlling capital adequacy and liquidity planning decisions.

※ The Group has investments classified according to the investment classification principle:

A. Domestic and foreign bonds and bills and equity investments in banking books

- a. Domestic bond investment: The book value on the base date is treated as the exposure at default (EAD) and included for calculation. The default rate (PD) is calculated according to the risk linked indicator and referring to the default

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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rate table, and the loss given default (LGD) is divided into with and without guarantee, which are estimated separately by referring to the experience of recovery.

- b. Domestic equity investment: The book value on the base date is treated as the exposure at default (EAD). The probability of default (PD) is estimated by referring to the stress test of the credit risk of the credit position, and the loss given default (LGD) is estimated at 100% since the probability of recovery is very small.
- c. Foreign bills and bonds and equity investments: The assets related to foreign bill and bond investments and equity investments has a fixed loss rate (PD*LGD) given to calculate the expected losses under stress scenario. Of which, the probability of default for national risk exposure is mainly based on the results of its external evaluation. Also, perform a stress test only on the more serious scenarios. The probability of default for other risks is given respectively depending on whether the counterparty is in the financial industry. For the calculation of the exposure at default, the investment position is calculated on the basis of the book value.

B. Securities and derivative products transactions in the trading book

Based on the current calculation of the market risk stress test of the second pillar, the Company uses market risk factor sensitivity analysis to calculate the impact on profit or loss arising from asset impairment due to the changes in risk factors, including equity security, interest rates, gold and exchange rates, products, and credit-derived products. The change in each risk factor produces different benefits and losses in proportion to minor and severe scenarios. In the interval between various risk factors and domestic and foreign scenarios, the amount of change in the same scenario may cause some positions with benefits generated and other positions with losses resulted. Choose those with greater fluctuations in each scenario for calculation, which become the estimated loss amount under the stress scenario.

② Sensitivity Analysis

Test items: For the main trading book positions in different markets, if the computed market risk capital of the position accounts for more than 5% of the total market risk capital, the listed scenario test is carried out.

A. Interest rate risk

Assume that all factors are given, if the yield curve of all markets in the world shifted downward/upward by 100 base points on December 31, 2019, the Company's net profit or loss would increase/decrease by NT\$2,009,633 thousand, respectively.

B. Exchange rate risk

The Company assumes that all other variable factors are given, if the major currency exchange rates on December 31, 2019 were relatively appreciated/depreciated by 3%, the Company's net profit or loss before tax would increase/decrease by NT\$8,486 thousand, respectively. Of which, the main currencies are the US dollar, euro, and yen.

C. Equity securities price risk

The Company assumes that all other variable factors are given, if the price of equity securities increased/decreased by 15% on December 31, 2019, the Company's net

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profit or loss before tax would increase/decrease by NT\$855,591 thousand, respectively.

D. Sensitivity analysis is compiled as follows:
2019

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	\$855,591	\$2,144,399	39.90%
	Major stock markets -15 %	(855,591)		-39.90%
Interest rate market	Main interest rate + 100bp	(2,009,633)		-93.72%
	Main interest rate - 100bp	2,009,633		93.72%
Foreign exchange market	Main currency +3%	8,486		0.40%
	Main currency -3 %	(8,486)		-0.40%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,856,738)		-133.22%

2018

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	\$1,061,908	\$2,390,595	44.42%
	Major stock markets -15 %	(1,061,908)		-44.42%
Interest rate market	Main interest rate + 100bp	(1,888,496)		-79.00%
	Main interest rate - 100bp	1,888,496		79.00%
Foreign exchange market	Main currency +3%	8,871		0.37%
	Main currency -3 %	(8,871)		-0.37%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,941,533)		-123.05%

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(7) Exchange rate risk concentration information

The Company's foreign currency financial assets and liabilities with significant impact are as follows:

	2019.12.31			2018.12.31		
	Foreign currency (thousand)	Exchange rate	NTD	Foreign currency (thousand)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$1,574,328	30.11	\$47,396,726	\$1,464,767	30.73	\$45,016,674
HKD	96,000	3.87	371,138	101,591	3.92	398,642
AUD	16,974	21.10	358,111	3,735	21.68	80,953
JPY	2,481,013	0.28	687,241	2,960,152	0.28	823,810
EUR	4,136	33.73	139,517	4,576	35.22	161,170
RMB	649,292	4.32	2,807,344	721,785	4.48	3,230,639
<u>Non- Monetary items</u>	-	-	-	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$1,438,479	30.11	\$43,306,861	\$1,547,009	30.73	\$47,544,224
HKD	10,835	3.87	41,890	10,940	3.92	42,928
AUD	53,336	21.10	1,125,285	45,089	21.68	977,341
JPY	1,197,931	0.28	331,827	1,484,524	0.28	413,143
EUR	4,179	33.73	140,951	4,491	35.22	158,168
RMB	297,901	4.32	1,288,033	319,247	4.48	1,428,918
<u>Non- Monetary items</u>	-	-	-	-	-	-

Due to the wide variety of foreign currencies of the Company, it is impossible to disclose the exchange gains and losses information of monetary financial assets and financial liabilities by each foreign currency with significant impact. The Company's foreign currency exchange gains and losses in 2019 and 2018 were NT\$181,050 thousand and NT\$161,600 thousand, respectively.

XV. Capital management

1. Overview

In response to the trend of capital management, the Company's overall business monitoring indicators are established to match the business development strategy and to reflect the overall risk situation. The various capital management indicators of the Company are as follows:

- (1) The Bank's overall capital adequacy ratio shall not be less than 10.5%.
- (2) Category I capital shall not be less than 8.5% of the total risk assets.
- (3) The common stock equity shall not be less than 7.0% of the total risk assets.
- (4) The total business reserve and allowance for bad debt as stated in Category II capital with a credit risk standard adopted shall not exceed 1.25% of the total amount of credit risk and weighted risk assets.

2. Capital management procedure

- (1) The Company's capital management objectives are based on the "Legal Capital:"
Legal Capital Management Objectives: To meet the legal capital requirements of the

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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supervisory authority, set the Company's capital adequacy ratio target, and ensure that the Company can operate safely and steadily.

(2) Legal capital management

① Demand legal capital

The Company uses the method prescribed by the supervisory authority to calculate the unanticipated losses arising from the credit risk, market risk, and operational risk under the existing assets and operating conditions, and compute the relative capital in response to the situation accordingly.

② Legal capital available

The Company's legal capital available is based on the rules published by the competent authorities to have the Company's capital classified by its source and characteristics as follows:

Category I capital: Refers to the common stock equity net of the intangible assets, the deferred income tax assets arising from the losses of previous years, the business reserve and the insufficient appropriation of the allowance for bad debt, the revaluation increments of real estate, the unamortized loss of the bad debts sold, and other legal adjustment items specified and stipulated according to the calculation methods.

Common stock equity: Includes common stock and its premium on capital stock, advance capital, additional paid-in capital, legal reserve, special reserve, accumulated profit or loss, non-controlling equity, and other equity items.

Other Category I capital other than common stock equity: Includes perpetual non-cumulative preferred stock and its premium on capital stock, non-cumulative subordinated bonds without a maturity date, perpetual non-cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and non-cumulative subordinated bonds without a maturity date.

Category II capital: Includes perpetual cumulative preferred stock and its premium on capital stock, cumulative subordinate bonds without a maturity date, convertible subordinate bonds, long-term subordinate bonds, non-perpetual preferred stock and its premium on capital stock, real estate first-time subject to the application of International Accounting Standards, increase of retained earnings arising from the fair value or the revaluation value used as the cost, the valuation increments arising from the subsequent measurement of the investment real estate at the fair value and 45% of the unrealized benefits of the financial assets measured at fair value through other comprehensive income, business reserve and allowances for bad debts, perpetual cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and cumulative subordinated bonds without maturity date, convertible subordinate bonds, long-term subordinate bonds, and non-perpetual preferred stock and its premium on capital stock.

The allowance for bad debt included in Category II capital in the preceding paragraph refers to the amount that the bank's allowance for bad debt exceeds the estimated loss

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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of the bank based on historical losses.

- ③ The management of legal capital is to convert the unanticipated losses of each risk to the total amount of risk assets, and then have the legal capital available divided by the total amount of the risk assets to calculate the capital adequacy ratio. The fundamental goal is to ensure that the Company's capital adequacy ratio is higher than the statutory required ratio.

(3) Capital Adequacy

The Company's qualified regulatory capital ratio and risk assets ratio on December 31, 2019 and 2018 were 15.06% and 14.04%, respectively, which were in line with the capital management regulations of the competent authorities.

XVI. Notes of disclosure

1. Information related to material transactions

- (1) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (2) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (3) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (4) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
- (5) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (6) Information regarding sale of NPL: None.
- (7) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None
- (8) Business relationships or important transactions and amounts between the parent company and subsidiary and among subsidiaries: None..
- (9) Other important transactions sufficient to affect the policy to use financial statements: None.

2. Transfer investment business-related information and total shareholding

- (1) Information regarding investees and total shareholdings: Please refer to Attached table 1.
- (2) Loans to others: See Attached table 2.
- (3) Endorsements/guarantees to others: None.
- (4) Holding of marketable securities at the end of the period: See Attached table 3.
- (5) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (6) Information on trading in derivative instruments: None
- (7) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (8) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (9) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
- (10) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (11) Information regarding sale of NPL: None.
- (12) The types of securitized products and related information applied and approved for

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None

(13) Other important transactions sufficient to affect the policy to use financial statements: None.

3. Setting up branches and investments in Mainland China
No such event.
4. Disclosure of other supplementary information
 - (1) Loans and receivables and allowance for bad debt assessment form: Please refer to XIV and 3 (13) for details.
 - (2) Quality of assets: Detailed in Attached table 4.
 - (3) NPL or non-performing receivable accounts exempted from report: See Attached table 5.
 - (4) Concentration of credit risk: Please refer to Attached table 6 and Attached table 6-1.
 - (5) Interest rate sensitivity assets and liabilities analysis data: See Attached table 7 and 7-1.
 - (6) Profitability: Please refer to Attached table 8 for details.
 - (7) Maturity date analysis: Please refer to Attached table 9 and Attached table 9-1 for details.
 - (8) Capital Adequacy: See Attached table 10.

XVII. Department information

The Company has the department operation information disclosed in the consolidated financial statements.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 1
2019.01.01~2019.12.31
Information regarding investees:

Name of investee (Explanation 1)	Location	Principal business	Proportion of shareholding - end	Book value of investment	Investment gain and loss recognized in current period	Consolidated shareholdings of the Bank and associates (Note 1)				Remarks
						Day trading stock shares (thousand shares)	Proforma shareholdings (thousand shares) / (Explanation 2)	Total		
								Quantity	Ratio of Shareholding	
Tainan Life Insurance Agency Co., Ltd.	Taiwan	Life insurance agent	-	-	\$138,808	-	-	-	-	Note 1
Fuchen Property Insurance Agency Co., Ltd.	Taiwan	Property insurance agent	-	-	1,309	-	-	-	-	Note 1
King's Town Bank International Leasing Co., Ltd.	Taiwan	Lease	100.00%	699,890	74,328	65,323	-	65,323	100.00%	
King's Town International Real Estate Management Co., Ltd.	Taiwan	Real Estate Management	100.00%	15,791	4,741	1,000	-	1,000	100.00%	

- Note:
1. Please list separately by the category of "financial business" and "non-financial business."
 2. All current shares or proforma shares of the invested companies held by the Bank, directors, supervisors, President, Vice President, and related parties as defined in the Company Act shall be counted.
 3. Proforma share refers to the shares, under the precondition of conversion, obtained by converting the equity-based securities purchased or a derivative contract (which has not yet been converted into equity) signed in accordance with the trading conditions and the bank's underwriting commitment; also, combined with the equity of the invested company for the purpose of investment as defined in Article 74 of this Act.
 - (1) "Equity-based securities" refers to the securities as defined in Paragraph 1 Article 11 of the Securities and Exchanges Act Enforcement Rules, such as, convertible corporate bonds and warrants.
 - (2) "Derivatives Contract" refers to those as defined in IAS 39, such as, stock options.
 4. This table may not be disclosed in the financial statements for Q1 and Q3.

Note 1: The said subsidiary merged with the Company on June 3, 2019 (merger basis date). The Company was the continuing company after the merger and assumed all assets, liabilities and all effective rights and obligations up to the merger basis date.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
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Attached table 2

The Loaning of Funds

Unit: NTD thousand

No. (Note 1)	The lender of fund	The borrower of fund	Transaction title	Are they related parties	Maximum amount of the current period	Balance, ending	The actual amounts disbursed	Interest rate collars	Nature of loan (Note 4)	Business transaction amount (Note 5)	Reasons for the necessity of short-term financing (Note 6)	Allowance for loss appropriated	Collateral		Individual loan limit amount (Note 2)	Total loan limit amount (Note 3)
													Name	Value		
1	King's Town Bank International Leasing Co., Ltd.	Summary of other customers	Accounts receivable	No	\$1,834,063	\$1,596,381	\$1,500,781	5%~18%	1	\$1,027,952		\$17,669	No/real estate	\$2,600,835	\$934,224	\$3,736,897
1	King's Town Bank International Leasing Co., Ltd.	Summary of other customers	Accounts receivable	No	300,668	208,610	203,610	5%~18%	2	-	Business turnover	2,454	No/real estate	361,259	155,704	249,126

(Note 1) The financial information of the Company and its subsidiaries should be indicated in the corresponding column. The numbering method is as follows:

- (1) For the column of the issuer, please fill in with "0."
- (2) Investee is numbered from number 1.

(Note 2) Subsidiary's limit amount for each individual:

- (1) Business counterparty:

Unsecured: The individual loan amount shall not exceed 50% of the lending company's net value in the most recent financial report audited by the certified public accountant.

Total secured/unsecured amount: The individual loan amount shall not exceed 150% of the lending company's net value in the most recent financial report audited by the certified public accountant.

- (2) Those who need financial support: The individual loan amount shall not exceed 25% of the lending company's net value in the most recent financial report audited by the certified public accountant.

(Note 3) The subsidiary's loan amount may not exceed 40% of the lending company's net value in the most recent financial report audited by the certified public accountant. For the business counterparty, the loan amount may not exceed 6 times of the lending company's net value in the most recent financial report audited by the certified public accountant.

(Note 4) The nature of loan is illustrated as follows:

- (1) For the business counterparty, please fill in with "1."
- (2) For those who need a short-term loan, please fill in with "2."

(Note 5) If the nature of loan is as defined in alternative "1," please state the business transaction amount. The business transaction amount refers to the amount of business transactions conducted between the lending company and the borrower in the most recent year.

(Note 6) If the nature of loan is as defined in alternative "2," the reasons for the necessary loans and funds application of the borrower should be specified, such as repayment of loans, purchase of equipment, business turnover, etc.

(Note 7) The reinvested company – King's Town International Leasing Co., Ltd. has granted loans to 50 customers currently; however, a detailed list is not prepared since no individual loan amount exceeds 20% of the total loan.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
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Attached table 3

The securities held at the end of the period (excluding investment in subsidiaries, associates, and joint venture):

Unit: NTD thousand

Holding company	Types and names of securities (Note 1)	Relationship with the securities issuer	Account titles in book	At ending				Remarks
				Shares (Thousand Shares)	Book value	Ratio of Shareholding	Fair value	
King's Town Bank International Leasing Co., Ltd.	Bank of Panhsin	Equity measured at fair value through other comprehensive income	Equity measured at fair value through other comprehensive income	10,780	\$76,105	0.75%	\$76,105	
King's Town Bank International Leasing Co., Ltd.	Hoyii Life Co., Ltd.	Equity measured at fair value through other comprehensive income	Equity measured at fair value through other comprehensive income	526	5,300	2.49%	5,300	
King's Town Bank International Leasing Co., Ltd.	Forest Water Environmental Engineering Co., Ltd.	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	3,512	173,502	2.61%	173,502	
King's Town Bank International Leasing Co., Ltd.	Radium Life Tech Co., Ltd.	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	1,530	17,825	0.17%	17,825	
King's Town Bank International Leasing Co., Ltd.	Mirle Automation Corporation	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	696	27,631	0.36%	27,631	
King's Town Bank International Leasing Co., Ltd.	Hon Hai Precision Industry Co., Ltd.	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	300	27,240	-	27,240	

Note 1: Securities as stated in this table are the stocks, bonds, beneficiary certificates and the securities deriving from the above items within the scope of IFRS 9, "Financial Instruments".

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 4

Asset quality

Non-performing loans and overdue accounts

Unit: NTD thousand, %

Year and month		December 31, 2019					December 31, 2018				
Business category/Items		Non-performing loan amount (Note 1)	Total amount	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)	Non-performing loan amount (Note 1)	Total amount	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)
Corporate banking	Secured	\$ 14,290	89,267,889	0.02%	1,301,331	9106.59%	\$11,881	\$83,864,153	0.01%	\$1,311,246	11,036.50%
	Non-secured	-	48,127,976	-	657,645	-	-	51,749,234	-	745,687	-
Consumer banking	Residential mortgage loans (Note 4)	7,517	16,092,535	0.05%	252,526	3359.40%	21,920	14,907,763	0.15%	250,625	1,143.36%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small credit loans (Note 5)	1,059	126,260	0.84%	4,432	418.51%	310	91,104	0.34%	5,307	1,711.94%
	Others (Note 6)	Secured	-	3,862,417	-	49,526	-	380	3,924,877	0.01%	52,538
Non-secured		-	141,349	-	2,288	-	-	59,844	-	1,820	-
Total amount		\$22,866	157,618,426	0.01%	2,267,748	9917.55%	\$34,491	\$154,596,975	0.02%	\$2,367,223	6,863.31%
		NPL amount	Balance of receivable accounts	Non-performing loan (NPL) ratio	Allowance for bad debt	Allowance for bad debt coverage rate	NPL amount	Balance of receivable accounts	Non-performing loan (NPL) ratio	Allowance for bad debt	Allowance for bad debt coverage rate
Credit card		\$376	\$376	100.00%	\$376	100.00%	\$813	\$813	100.00%	\$700	86.10%
Non-recourse receivables factoring business (Note 7)		-	-	-	-	-	-	-	-	-	-

Note 1: The non-performing loan is the overdue amount reported in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The non-performing credit card amount is reported according to the FSC. Banking (IV).Tzi No. 0944000378 Letter dated July 6, 2005.

Note 2: Non-performing loan ratio = Non-performing loan/total loan amount. Non-performing credit card ratio = Non-performing amount/accounts receivable balance

Note 3: NPL Coverage Ratio = Allowance for bad debt appropriated for loans/Non-performing amount. Non-performing credit card receivables coverage ratio = Allowance for bad debt appropriated for credit card receivables/non-performing amount.

Note 4: The residential mortgage loan refers to the borrower providing the resident purchased (owned) by the borrower of his/her spouse or minors as collateral to financial institutions in exchange for funds in order to purchase or construct or decorate houses.

Note 5: Small credit loans refer to small credit loans other than credit cards and cash cards. Also, it is subject to the FSC. Banking (IV).Tzi No. 09440010950 Letter dated December 19, 2005.

Note 6: The "Other" consumer finance refers to the secured or unsecured consumer finance loans other than the "residential mortgage loans", "cash cards", and "small credit loans", excluding credit cards.

Note 7: The accounts receivable business without recourse is reported as non-performing loans within three months upon confirming that the accounts receivable factoring banks or insurance companies decline to compensate in accordance with the FSC. Banking (V). Tzi No. 094000494 Letter dated July 19, 2005.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 5

NPL or non-performing receivable accounts exempted from report

Unit: NTD thousand

	December 31, 2019		December 31, 2018	
	Total NPL exempted from report	Total non-performing receivable accounts exempted from report	Total NPL exempted from report	Total non-performing receivable accounts exempted from report
Exempted amount after a debt negotiation and contractual performance (Note 1)	\$3,847	\$76	\$5,658	\$105
Performance of debt clearance program and rehabilitation program (Note 2)	12,311	70	18,134	110
Total	\$16,158	\$146	\$23,792	\$215

Note 1: For the FSC. Banking (I) Tzi No. 09510001270 Letter dated April 25, 2006. It is regarding the matters to be disclosed additionally according to the credit reporting methods and information disclosure requirement of the cases approved according to the "Unsecured Debt Negotiation Mechanism for Consumer Finance Cases of the Bankers Association of the Republic of China".

Note 2: For the FSC. Banking (I) Tzi No. 09700318940 Letter dated September 15, 2008, it is regarding the matters to be disclosed additionally according to the credit reporting and information disclosure requirements of the pre-negotiation, rehabilitation, and liquidation cases approved according to the "Consumer Debt Clearance Act".

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6

Concentration of credit risk

Unit: NTD thousand, %

Year	December 31, 2019		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	7,308,896	18.69%
2	Company (Group) B - General product wholesale business	5,157,644	13.19%
3	Company (Group) C - Unclassified other financial service business	4,300,000	11.00%
4	Company (Group) D - Real Estate Development business	3,654,743	9.35%
5	Company (Group) E - Power supply business	3,522,363	9.01%
6	Company (Group) F - Unclassified other financial service business	2,897,635	7.41%
7	Company (Group) G - Real Estate Rental and Sale business	2,710,530	6.93%
8	Company (Group) H - Engineering services and related technical consultancy	2,541,028	6.50%
9	Company I - Wire & Cable manufacturing business	2,198,529	5.62%
10	Company (Group) J - Unclassified other financial service business	2,125,000	5.43%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of “code” + “industry” [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the “detailed category” according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of “Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings”.

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

Note 4: For the ratio of total credit balance to the net value of the current period, the domestic banks should have it calculated basing on the net value of the headquarters; the branches of foreign banks in Taiwan should have it calculated basing on the net value of the branch.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6-1

Concentration of credit risk

Unit: NTD thousand, %

Year	December 31, 2018		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	7,471,822	21.24%
2	Company (Group) B - General product wholesale business	5,667,055	16.11%
3	Company (Group) C - Unclassified other financial service business	4,500,000	12.79%
4	Company (Group) D - Solar Cell Manufacturing business	4,265,540	12.12%
5	Company (Group) E - Real Estate Development business	3,815,217	10.84%
6	Company (Group) F - Power supply business	3,546,733	10.08%
7	Company G - Wire & Cable manufacturing business	2,914,198	8.28%
8	Company (Group) H - Unclassified other financial service business	2,817,115	8.01%
9	Company (Group) I - Real Estate Rental and Sale business	2,740,530	7.79%
10	Company J - Computers and peripheral equipment and software retailing business	2,384,967	6.78%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of “code” + “industry” [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the “detailed category” according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of “Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings”.

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7

Interest Rate Sensitive Assets and Liabilities Analysis Table (NTD)

2019.1.1~2019.12.31

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$170,626,899	\$782,638	\$3,570,507	\$37,098,495	\$212,078,539
Interest rate sensitivity liabilities	158,636,022	8,453,992	19,324,704	1,542,852	187,957,570
Interest rate sensitivity gap	11,990,877	(7,671,354)	(15,754,197)	35,555,643	24,120,969
Net value					35,703,714
Interest rate sensitivity assets and liabilities rate					112.83
Interest rate sensitivity gap and net value rate					67.56

2018.1.1~2018.12.31

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$166,900,620	\$3,528,581	\$9,675,400	\$31,557,092	\$211,661,693
Interest rate sensitivity liabilities	161,791,613	7,634,612	16,712,961	1,491,510	187,630,696
Interest rate sensitivity gap	5,109,007	(4,106,031)	(7,037,561)	30,065,582	24,030,997
Net value					34,212,235
Interest rate sensitivity assets and liabilities rate					112.8
Interest rate sensitivity gap and net value rate					70.24

- Note: 1. This form is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches
2. Interest rate sensitivity assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
3. Interest rate sensitivity gap=Interest rate sensitivity assets - Interest rate sensitivity liabilities.
4. Interest rate sensitivity assets and liabilities rate=Interest rate sensitivity assets ÷ interest rate sensitivity liabilities (i.e. interest rate sensitivity assets and interest rate sensitivity liabilities in NTD)

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7-1

Interest rate sensitivity assets and liabilities analysis data (USD)

2019.1.1~2019.12.31

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$228,233	\$93,493	\$14,375	\$1,211,578	\$1,547,679
Interest rate sensitivity liabilities	1,345,955	35,740	48,025	407	1,430,127
Interest rate sensitivity gap	(1,117,722)	57,753	(33,650)	1,211,171	117,552
Net value					173,270
Interest rate sensitivity assets and liabilities rate					108.22
Interest rate sensitivity gap and net value rate					67.84

2018.1.1~2018.12.31

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	\$316,753	\$2,299	\$-	\$-	\$319,052
Interest rate sensitivity liabilities	1,478,069	23,770	39,615	-	1,541,454
Interest rate sensitivity gap	(1,161,316)	(21,471)	(39,615)	-	(1,222,402)
Net value					(1,202,842)
Interest rate sensitivity assets and liabilities rate					20.70
Interest rate sensitivity gap and net value rate					101.63

- Note: 1. This form is prepared to report the amount in USD of the head office and domestic branches, international financial business branches, and overseas branches, excluding contingent assets and contingent liabilities.
2. Interest rate sensitivity assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
3. Interest rate sensitivity gap=Interest rate sensitivity assets - Interest rate sensitivity liabilities.
4. Interest Rate Sensitive Assets to Liabilities Ratio = Interest Rate Sensitive Assets ÷ Interest Rate Sensitive Liabilities (refers to USD interest rate sensitive assets and interest rate sensitive liabilities)

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 8

Profitability

Unit: %

Item		2019.12.31	2018.12.31
ROA	Before tax	1.38	1.28
	After tax	1.22	1.05
ROE	Before tax	10.10	9.72
	After tax	8.93	7.98
Net profit rate		41.06	42.08

- (Note):
1. ROA = Income before (after) tax/Average total assets
 2. ROE=Income before (after) tax / Average net value
 3. Profit rate = Income after tax/income-net.
 4. Income before (after) tax means the income accumulated from January of the current year until the current quarter

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 9

NTD maturity date structure analysis table

2019.12.31

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$229,723,828	\$65,056,959	\$12,354,584	\$21,256,940	\$36,124,994	\$94,930,351
Outward remittance of due fund	248,369,349	22,941,990	29,259,729	31,286,226	43,523,136	121,358,268
Period Difference	(18,645,521)	42,114,969	(16,905,145)	(10,029,286)	(7,398,142)	(26,427,917)

2018.12.31

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$229,760,884	\$64,571,579	\$9,767,412	\$19,047,650	\$47,042,010	\$89,332,233
Outward remittance of due fund	244,571,868	27,012,109	32,414,978	27,714,173	42,032,167	115,398,441
Period Difference	(14,810,984)	37,559,470	(22,647,566)	(8,666,523)	5,009,843	(26,066,208)

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 9-1

USD maturity date structure analysis table

2019.12.31

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$1,618,912	\$93,056	\$16,317	\$24,820	\$33,375	\$1,451,344
Outward remittance of due fund	1,663,610	1,127,780	174,587	52,830	82,193	226,220
Period Difference	(44,698)	(1,034,724)	(158,270)	(28,010)	(48,818)	1,225,124

2018.12.31

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$455,838	\$146,087	\$3,790	\$22,419	\$12,045	\$271,497
Outward remittance of due fund	1,545,463	1,224,689	163,136	43,281	78,583	35,774
Period Difference	(1,089,625)	(1,078,602)	(159,346)	(20,862)	(66,538)	235,723

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 10

Capital Adequacy (Explanation 1)

Unit: NTD thousand

Analytical items		Year (Explanation 2)	December 31, 2019	December 31, 2018
Self-owned Capital	Common stock equity		\$35,406,623	\$33,293,116
	Other category I capital		-	-
	Category II capital		849,105	211,547
	Total self-owned capital		36,255,728	33,504,663
Total risk-weighted assets	Credit Risk	Standardized approach	199,737,743	195,257,564
		Internal ratings-based approach	-	-
		Asset securitization	-	-
	Operation Risk	Basic indicator approach	14,230,138	13,510,439
		Standard method /Optional standard method	-	-
		Advanced measurement approach	-	-
	Market Risk	Standardized approach	26,804,987	29,882,439
		Internal models approach	-	-
	Total risk-weighted assets		240,772,868	238,650,442
	Capital adequacy ratio		15.06%	14.04%
Proportion of common stock equity to risk assets		14.71%	13.95%	
Proportion of category I capital to risk assets		14.71%	13.95%	
Leverage ratio		11.85%	11.11%	

Explanation:

- The amount of the regulatory capital, weighted risk assets, and total risk exposure should be calculated in accordance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and "Description and Table of Calculation Methods for Capital and Risk Assets of Banks".
- The capital adequacy ratio for the current period and the previous period should be filled in the annual financial statement. The interim financial statements shall, in addition to disclosing the ratio of the current period and the previous period, also disclose the capital adequacy ratio at the end of the previous year.
- This table should demonstrate the following formula:
 - Total self-owned capital = Common stock equity + Other Category I Capital + Category II Capital
 - Total amount of risk-weighted-assets = Credit risk-weighted assets + Capital charge of (operational risk + market risk) x 12.5.
 - Capital Adequacy ratio = Total self-owned capital / Total amount risk-weighted assets.
 - Ratio of common stock equity to risk assets = Common stock equity / Total risk weighted assets.
 - Proportion of Category I capital to risk assets = (Common stock equity + Category I Capital) / Total risk-weighted asset.
 - Leverage ratio = Category I capital / Total exposure.
- This table may not be disclosed in the financial statements for Q1 and Q3.

Index of Important accounting title statement

Account titles	No./Index
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Financial assets at fair value through other comprehensive income	Statement 3
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Bonds and securities sold under repurchase agreements	Note VI.6
Receivables	Note VI.7
Discounts and loans	Statement 2
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Other assets	Note VI.12
Deposits from Central Bank and other banks	Note VI.13
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Interest revenue	Statement 10
Interest expenses	Statement 11
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Statement of loss or gain on reversal of assets impairment	Statement 14
Net income other than interest income	Statement 15
Business and administrative expenses	Statement 16
Statement of employee benefits expenses	Statement 17

King's Town Bank Co., Ltd.

1. Statement of Financial assets at fair value through profit and loss

December 31, 2019

Unit: NT\$ thousands / thousand Shares / thousand sheets

Name of financial instrument	Summary	Number of shares, units or sheets	Book value	Total amount	Interest rate	Acquisition cost	valuation adjustment	Fair value		Remarks
								Unit price(NT\$)	Total amount	
Domestic financial instruments										
Stock	-	91,911 thousand shares	NT\$10	\$919,110	-	\$3,396,121	\$(186,761)	7.66~75.5	\$3,209,360	
Real estate trust fund	-	24,238 thousand units	-	-	-	387,171	41,842	17.70	429,013	
Beneficiary certificate	-	139,618 thousand units	-	-	-	1,900,000	7,016	10.38~16.78	1,907,016	
Bonds	115.9.7~136.5.26	-	-	28,550,000	0.63%~1.88%	28,185,745	870,328	100.06~108.58	29,056,073	
Foreign exchange contracts	-	-	-	-	-	-	8,805	-	8,805	
Subtotal						33,869,037	741,230		34,610,267	
Overseas financial instruments										
Stock	-	277 thousand shares	-	-	-	128,451	(19,811)	AUD33.14	108,640	
Equity securities	-	27 thousand units	-	-	-	15,965	(1,276)	USD3.69~USD157.5 USD15.76~USD19.43	14,689	
Subtotal						144,416	(21,087)		123,329	
Total						\$34,013,453	\$720,143		\$34,733,596	

King's Town Bank Co., Ltd.

2.Statement of Discounts and loans

December 31, 2019

Unit: NTD thousand

Item	Amount	Remarks
Short-term loans	\$13,059,711	
Short-term secured loans	41,512,733	
Mid-term loans	31,409,884	
Mid-term secured loans	38,037,474	
Long-term loans	4,398,222	
Long-term secured loans	28,977,516	
Others	<u>222,886</u>	
Total	157,618,426	
Less: allowance for bad debt	<u>(2,267,748)</u>	
Net	<u><u>\$155,350,678</u></u>	

3.Statement of financial assets at fair value through other comprehensive income
December 31, 2019

Unit: NTS thousands / thousand Shares / thousand sheets

Name of financial instrument	Summary	Number of shares, units or sheets	Book value	Total amount	Interest rate	Acquisition cost	Accumulated impairment	Evaluation adjustment	Fair value		Remarks
									Unit price(NT\$)	Total amount	
FVOCI equity instruments											
Stocks - Listed/OTC	-	5,191 thousand shares	10NT\$	\$51,910	-	\$65,918	\$ -	\$(30,693)	5.77~7.66	\$35,225	
Stocks- Non-Listed/Non-OTC	-	33,502 thousand shares	-	-	-	1,516,563	-	936,414		2,452,977	
Subtotal						1,582,481	-	905,721		2,488,202	
FVOCI debt instruments											
Bonds	109/3/27~118/10/14	-	-	8,750,000	0.63%~2.5%	8,850,669	-	88,586	99.56~105.98	8,939,255	
Corporate bond	109/1/14 ~255/6/15	-	-	33,033,688	3.75%~8.38%	33,039,873	-	2,873,680	USD 72.83~140.16	35,913,553	
Financial bonds	109/6/8 ~ 114/11/22	-	-	3,305,878	4.4%~6.8%	3,283,306	-	185,829	USD 102.01~119.67 CNY100.30~100.71	3,469,135	
Subtotal						45,173,848	-	3,148,095		48,321,943	
Total						\$46,756,329	\$ -	\$4,053,816		\$50,810,145	

King's Town Bank Co., Ltd.

4. Statement of changes in investment under the equity method

December 31, 2019

Unit: NTD thousand/ thousand shares

Investee company	2019.1.1Balance		Increase		Decrease		2019.12.31Balance			Net market price or equity		Collateral or pledge	Remarks
	Quantity (thousand shares)	Amount	Quantity (thousand shares)	Amount	Quantity (thousand shares)	Amount	Quantity (thousand shares)	Ratio of Shareholding	Amount	Unit price (NT\$)	Total		
Tainan Life Insurance Agency Co.,	3,000	\$363,699	-	\$138,808 (Note 1)	3,000	\$360,854 (Note 5)	-	-	\$-	-	\$-	None	
Fuchen Property Insurance Agency	300	6,197	-	1,309 (Note 1)	300	6,156 (Note 5)	-	-	-	-	-	None	
King's Town Bank International L	55,965	618,747	9,358 (Note 4)	74,328 (Note 1)	-	-	65,323	100.00%	699,890	-	699,890	None	
				6,815 (Note 2)									
Total		<u>\$988,643</u>		<u>\$221,260</u>		<u>\$510,013</u>			<u>\$699,890</u>		<u>\$699,890</u>		

Note 1: The profit or loss in the subsidiary, affiliated company and joint ventures recognized under the equity method.

Note 2: The unrealized losses resulted due to King's Town International Leasing Company's financial assets at fair value through other comprehensive income are debited to the investment cost.

Note 3: Distribution of cash dividends

Note 4: Distribution of stock dividends

Note 5: Tainan Life Insurance Agent Co., Ltd. and Fucheng Property Insurance Agent Co., Ltd. were discontinued and the merger was approved by the competent authority on March 8, 2019.

Also, the merger base date was scheduled on June 3, 2019 with the resolution of the board of directors on March 25, 2019.

King's Town Bank Co., Ltd.

5. Statement of investment of debt instruments at amortised cost

December 31, 2019

Unit: NTD thousand

Name of financial instrument	Summary	Stock units	Book value	Total amount	Interest rate	Acquisition cost	Accumulated impairment	Book value	Remarks
Central Bank convertible certificates of deposit	-	-	-	\$17,700,000	0.59%	\$17,700,000	\$(1,865)	\$17,698,135	
Total				<u>\$17,700,000</u>		<u>\$17,700,000</u>		<u>\$17,698,135</u>	

King's Town Bank Co., Ltd.

6.Statement of changes in right-of-use assets

December 31, 2019

Unit: NTD thousand

Item	Balance, beginning	Increase	Decrease	Balance, ending	Remarks
Buildings and structures	\$265,762	\$19,868	\$(432)	\$285,198	
Other equipment	<u>6,102</u>	<u>-</u>	<u>-</u>	<u>6,102</u>	
Total	<u><u>\$271,864</u></u>	<u><u>\$19,868</u></u>	<u><u>\$(432)</u></u>	<u><u>\$291,300</u></u>	

King's Town Bank Co., Ltd.

7. Statement of changes in accumulated depreciation of right-of-use assets

December 31, 2019

Unit: NTD thousand

Item	Balance, beginning	Increase	Decrease	Balance, ending	Remarks
Buildings and structures	\$-	\$74,205	\$(252)	\$73,953	
Other equipment	-	1,664	-	1,664	
Total	<u>\$-</u>	<u>\$75,869</u>	<u>\$(252)</u>	<u>\$75,617</u>	

King's Town Bank Co., Ltd.

8. Statement of customer deposits and remittances

December 31, 2019

Unit: NTD thousand

Item	Amount	Remarks
Check deposits	\$1,687,261	
Bank check	530,203	
Current deposits	31,435,078	
Current deposits in foreign currency	4,633,227	
Time deposits	10,261,194	
Convertible certificate of deposit	392,400	
Time deposit in foreign currency	10,789,231	
Current saving deposits	72,659,247	
Current saving deposits of banking staff	479,737	
Fixed amount deposit of principal and lump sum payment account	5	
Lump sum deposit of principal and lump sum payment account	2,986,055	
Principal deposit and interest payment saving account	55,953,175	
Outward remittance	5,501	
Total	<u>\$191,812,314</u>	

King's Town Bank Co., Ltd.

9.Statement of change in lease liabilities

December 31, 2019

Unit: NTD thousand

Item	Summary	Rental period	Discounted rate	Balance, ending	Remarks
Buildings and structures	Branch premise	2~10year	1.57%	\$212,784	
Other equipment	Offsite backup equipment	5year	1.57%	<u>4,472</u>	
Total				<u><u>\$217,256</u></u>	

King's Town Bank Co., Ltd.

10.Statement of interest revenue

January 1 to December 31, 2019

Unit: NTD thousand

Item	Amount	Remarks
Security investment interest	\$2,364,921	
Central Bank deposit interest	18,973	
Interbank deposit interest	6,307	
Interbank loan interest	26,760	
Short-term loan interest	400,341	
Short-term guaranteed loan interest	1,049,416	
Mid-term loan interest	1,050,506	
Mid-term guaranteed loan interest	971,888	
Long-term loan interest	127,710	
Long-term guaranteed loan interest	589,612	
Miscellaneous interest	43,467	
Total	<u>\$6,649,901</u>	

King's Town Bank Co., Ltd.

11.Statement of interest expense

January 1 to December 31, 2019

Unit: NTD thousand

Item	Amount	Remarks
Interbank financing interest expenses	\$26,970	
Repurchase (RP)	613,021	
Interbank offered rate	371,773	
Time deposit interest	72,507	
Forex time deposit interest	210,491	
Savings interest	93,014	
Fixed time deposit interest	29,869	
Savings principal and interest	586,778	
Miscellaneous interest	41,921	
Total	<u>\$2,046,344</u>	

King's Town Bank Co., Ltd.
12.Statement of service fee, net
January 1 to December 31, 2019

Unit: NTD thousand

Item	Amount	Remarks
Service fee revenue		
Remittance revenue	\$60,323	
Guaranteed fee revenue	81,109	
Trust business income	64,208	
Syndicate loan revenue	33,643	
Financing fee	1,075,625	
Agency insurance revenue	174,373	
Credit term change fee	4,181	
Organization fee	84,702	
Miscellaneous fee	117,264	
Subtotal	1,695,428	
Service fee expenses		
Interbank fee	12,728	
Trust fee	1,367	
Credit card fee	1,357	
Remittance expenses	1,742	
Bill check fee	1,101	
Miscellaneous fee	29,291	
Subtotal	47,586	
Service fee, net	\$1,647,842	

King's Town Bank Co., Ltd.

13. Statement of Gain (loss) on financial assets and liabilities at fair value through profit and loss

January 1 to December 31, 2019

Unit: NTD thousand

Item	Amount	Remarks
Realized		
Stock investment	\$239,257	
Bond investment	236,863	
Derivatives	(25,988)	
Others	8,435	
Unrealized		
Stock investment	570,150	
Bond investment	364,290	
Derivatives	(10,430)	
Others	73,767	
Total	<u>\$1,456,344</u>	

King's Town Bank Co., Ltd.

14. Statement of loss and gain on reversal of assets impairment

January 1 to December 31, 2019

Unit: NTD thousand

Item	Impairment amount	Reversed gain amount	Remarks
Debt instruments at fair value through other comprehensive income	\$(32,804)	\$5,354	
Ddebt instruments at amortised cost	(42)	181	
Total	<u>\$(32,846)</u>	<u>\$5,535</u>	

King's Town Bank Co., Ltd.

15. Statement of other non-interest net profit or loss- other

January 1 to December 31, 2019

Unit: NTD thousand

Item	Amount	Remarks
Other non-interest income		
Rent revenue	\$14,081	
Gain on disposal of property	24,284	
Others	42,398	
Subtotal	<u>80,763</u>	
Other non-interest loss		
Loss on disposal of property	4,537	
Loss from scrapping of property	456	
Others	123	
Subtotal	<u>5,116</u>	
Net	<u><u>\$75,647</u></u>	

King's Town Bank Co., Ltd.

16. Statement of business and administrative expenses

January 1 to December 31, 2019

Unit: NTD thousand

Item	Amount	Remarks
Rental expense	\$3,765	
Repairs expense	20,430	
Utilities expense	23,071	
Insurance premium	64,625	
Taxation	300,566	
Entertainment expense	22,087	
Membership fee	25,337	
Consumption expense	43,855	
Professional service expense	95,716	
Other Expense	167,117	
Total	<u><u>\$766,569</u></u>	

King's Town Bank Co., Ltd.

17. Statement of employee benefits expenses

January 1 to December 31, 2019

Unit: NTD thousand

Item	Amount				Remarks
	Employee benefits expenses	Net income other than interest income	Business and administrative expenses	Total	
Salaries and wages	\$840,422			\$840,422	
Labor and health insurance	64,481			\$64,481	
Pension expense	35,180			\$35,180	
Remuneration of Directors	13,815		\$73	\$13,888	
Other employee benefits expense	36,109			\$36,109	
Total	\$990,007	\$-	\$73	\$990,080	

Additional notes:

1. There were 975 employees and 954 employees on the payroll in the current year and the year before, respectively, of which, 7 directors were not an employee of the Company in both years.
2. The average employee welfare expense in the current year is NT\$1,008 thousand (“Total employee welfare expenses in the current year - Total directors’ remuneration” / “Number of employees in the current year - Number of non-employ directors”).
3. The average employee welfare expense in the previous year was NT\$920 thousand (“Total employee welfare expenses in the previous year - Total directors’ remuneration” / “Number of employees in the previous year - Number of non-employ directors”).
4. The average employee salary expenses in the current year is NT\$868 thousand (Total salary expenses in the current year / “Number of employees in the current year - Number of non-employ directors”).
5. The average employee salary expenses in the previous year was NT\$773 thousand (Total employee salary expenses in the previous year / “Number of employees in the previous year - Number of non-employ directors”).
6. Changes in the average employee salary expense adjustment are 12.29% (“Average employee salary expense in the current year - Average employee salary expense in the previous year” / Average employee salary expense in the previous year).

King's Town Bank Co., Ltd.



Chairman Chen-Chih Tai





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