

# KING'S TOWN BANK

# ANNUAL REPORT | 2020

**KTB' s Annual Report Info.**

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## Chapter 1. Letters to Shareholders

COVID-19 epidemic that ravaged the world throughout 2020 forced countries to implement various quarantine policies and led to economic stagnation in various countries. Over time, people began to accustom to the "new normal" and adjusted routines to continue and working amid the pandemic, preventing more severe impact. To rescue and relieve the global economy, countries around the world have coupled with various bail-out packages and policies such as offering financing options for affected industries, subsidizing domestic consumption, injecting liquidity into the market, etc. However, the epidemic will not end in the coming year. In the medium to long term, the impact of the weak economy will still be a huge challenge for all industries. As for the short-term economic stimulus measures, it remains to be seen whether the positive effect will gradually subside and support the subsequent economic development.

With the support of customers and shareholders and the efforts of our employees, the Bank stay on the course of improving its financial structure and providing more diverse and innovative product service offerings in the face of challenges. A summary of the Bank's 2020 business results and 2021 business plan is illustrated as follows:

### I. 2020 Business Result

#### (I) Financial environment of Taiwan and abroad in 2020 and change in the Bank's organization

##### 1. Financial environment of Taiwan and abroad in 2020

In 2020, COVID-19 was sweeping across the world, industries and economies around the world obviously suffered from the impact. For the Taiwan banking industry, both local and abroad operations were facing challenges. The epidemic has impacted the supply chain and demand, most companies encountered operational crises, which increased the risk of credit default and increased the chance of compression of interest income. The decrease in investment and consumption activities of the public led to a decrease in fee income related to wealth management and payment by the Bank. To reduce the impact of the epidemic on the domestic economy, the Central Bank of the Republic of China (Taiwan) followed the European and American countries in cutting interest rates, and the government actively launched bail-out package, all of which helped to relieve the impact of the epidemic. Although the low-interest-rate environment under quantitative easing has relieved some risk of a sudden rise in bad debts, the Bank also faced the challenge of narrowing deposit spreads and declining net interest income.

The epidemic has led to an increase in demand for digitalization in various industries and accelerated the pace of digital transformation of the Bank. AI smart technology and blockchain applications are gradually becoming the mainstream financial trend, and the local banks must take this opportunity to enhance their competitiveness in the digital era by using digital devices to create zero-distance, sensory services to maintain customer trust.

In 2020, the global economy will be in severe recession due to the epidemic. According to international forecasters, the economic growth rate will be negative 3.7%. Fortunately, with the low base year of 2020, the optimistic outlook of 5G and artificial intelligence industries, the expected continued easing monetary policy, the support of the government's bail-out package, and the imminent introduction of vaccines, the public can expect to get vaccinated. The rebound of the economy is expected to accelerate in 2021, and economic growth is estimated to climb to a positive 5.0%.

Looking forward to 2021, in terms of the global economy, with the active research and development of vaccines by countries around the world and large-scale vaccinations, it is expected that the epidemic will be effectively controlled, private consumption and business operations will gradually return to normal, and international trade is also expected to return to the track of normal growth. In addition, after U.S. President Biden took office, he announced that U.S. would return to the international multilateral trade organization, and the US-China trade relationship will tend to ease, which will help reduce geopolitical risks, and the global economic recovery will be expected. In terms of the domestic economy, due to Taiwan's success in epidemic prevention, overseas Taiwanese capital repatriation stimulates the domestic demand market, coupled with the rise in the stock market, consumption has clearly recovered. As foreign trade continues to

## I. Letter to Shareholders

expand steadily, according to the estimation of the Directorate General of Budget, Accounting and Statistics, the domestic economic growth rate in 2021 will reach 4.64%.

### 2. Changes in the Bank's organization

To implement the purpose of local operation of the community, provide customers with more comprehensive and diversified financial services. On Oct. 27, 2020, the Bank was approved by the competent authority to invest in "Wan Taig Securities Co, Ltd.", and on Jan. 5, 2021, the Bank acquired all the shares of the Wan Taig Securities Co, Ltd. and Wan Taig Securities Co, Ltd. became a 100%-owned subsidiary of the Bank.

### (II) Operational planning and implementation results of management strategies

Unit:NT\$;%

Item	2020	2019
Average deposit balance on NT Dollar accounts	183.038 billion	172.503 billion
Average deposit balance on foreign currency Accounts	19.383 billion	14.153 billion
Average loans balance	167.344 billion	153.293 billion
Financial management fee income	0.270 billion	0.405 billion
NPL ratio	0.01%	0.01%
Coverage ratio	11760.49%	9917.55%
BIS ratio (consolidated)	16.23%	15.04%
Tier-1 ratio (consolidated)	14.46%	14.56%

### (III) 2020 Budget implementation

Unit:NT\$;%

Item	Actual amount	Budget amount	Achievement rate
Average deposit balance on NT Dollar accounts	183.038 billion	181.875 billion	100.64%
Average deposit balance on foreign currency Accounts	19.383 billion	16.319 billion	118.78%
Average loans balance	167.344 billion	157.863 billion	106.01%

### (IV) Financial income and expenditure, and profitability analysis

Unit:NT\$;%

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)
6.263 billion	5.491 billion	4.90	61.65%	1.81%	12.55%

### (V) Research and development review

In response to the daily changes in the macroeconomy, financial situations, laws and regulations and ESG relevant information, 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.

## II. The 2021 business plan outline

### (I) Business policy and important operation policies.

1. Value the talent and inspire the future.
2. Implement legal compliance to strengthen internal control.
3. Digitalize finance and create business opportunities.
4. Adjust the structure and strengthen profitability.
5. Deepen the business for sustainability.

### (II) Expected business objectives

The Bank's 2021 expected business objectives are as follows:

Average deposit balance on NT Dollar accounts	Average deposit balance on foreign currency Accounts	Average loans balance
197.223 billion	25.067 billion	186.886 billion

### III. 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.

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

#### (I) External competitive environment

In recent years, most banks started the digital transformation. Last year, due to the impact of the epidemic, banks have accelerated the pace of digital transformation. To allow customers to use the Bank's digital financial services more quickly, the banking industry has launched IT transformation projects. Thus, the concept of ubiquitous financial services in Bank 4.0 can be realized. In the competitive and rapidly changing market, traditional banks must keep up with this wave of IT transformation trends to avoid being eliminated.

#### (II) Laws & regulations

Anti-money laundering, the counter-terrorism financing, and preventing security risks have been listed as the focus of financial supervision. 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.

The Financial Supervisory Commission started to implement the assessment mechanism of the fair treatment principle in 2019 to promote the implementation of the corporate culture of "fair treatment" in the financial industry. In order to strengthen the implementation of the regulations of the competent authorities, the Bank has established internal regulations, organized regular online education and training, and arranged self-evaluation of compliance with laws and regulations to deeply implant the concept of fair treatment to the organization and all employees.

#### (III) Macroeconomy

In 2020, coronavirus (COVID-19) ravaged the world, and countries adopted strict control measures such as lockdowns, border closures, and restrictions on human activities to prevent the spread of the epidemic, bringing global economic demand to a near halt. Despite Taiwan's proper prevention, the global economic downturn has dragged down Taiwan's economy. Taiwan's economy declined significantly in the first half of 2020, but since the third quarter, as major countries restarted their economic activities, the domestic traditional industries gradually recovered as overseas demand rebounded, and the electronic information industry benefited from strong demand for emerging technology applications and remote business opportunities. In addition, the new orders received by semiconductor makers from Europe and the U.S., as well as the rush orders placed by Chinese makers under U.S. sanctions, have led to a gradual strengthening of the overall manufacturing industry in the second half of the year.



## I. Letter to Shareholders

Looking ahead to the domestic economy in 2021, the impact of the epidemic is expected to gradually decrease in 2021. Together with the low base period, major international forecasters believe that global economic and trade growth will be significantly better in 2021 than in 2020. Continued investment in advanced manufacturing processes by the domestic semiconductor manufacturers, benefits from global supply chain restructuring, the government actively promotion of green energy construction, attracting foreign investors to Taiwan, all of which help drive domestic demand performance. For the macroeconomy in 2021, the Directorate General of Budget, Accounting and Statistics estimates that the domestic economic growth rate will reach 4.64% in 2021, an increase of 1.53% from 3.11% in 2020.

## V. The latest credit rating results

Date of credit rating	Credit rating agency	Domestic			International		
		Long-term credit ratings	Short-term credit ratings	Rating outlook	Long-term credit ratings	Short-term credit ratings	Rating outlook
2020.05.12	Fitch Ratings Co., Ltd.	A+ (twn)	F1 (twn)	Negative	BBB	F3	Negative

## VI. Conclusion

In 2020, the COVID-19 pandemic disrupted everyone's lives and severely affected the global economy and trade, leading to negative growth in the economies, decline in global trade volume and spikes in unemployment rate, etc. Thanks to the support from loyal customers and shareholders, as well as the efforts of all employees, the Bank's profits did not decline due to the pandemic; on the opposite, it actually bucked the trend and achieved substantial growth. The trust and support of our customers is the driving force for the Bank to continuously strive to self-transform. Moving forward, the Bank also endeavors to uphold the spirit of being customer-centric, provide the best products and services, generate the greatest benefits for shareholders, and create a differentiated bank.

Sincerely yours, Chairman Chen-Chih, Tai



## Chapter 2. Bank introduction

### I. Establishment date of the Bank

November 1, 1948

### II. Bank history

Date	Milestones
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 Banking 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 Banking Branch (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.
January 1, 2021	Wan Taig Securities Co, Ltd. was acquired and became a 100%-owned subsidiary of the Bank.

### III. The bank mergers and acquisitions, reinvested affiliated companies, and reorganizations in 2020 and as of the end of February 2021 are as follows:

Currently, the Bank's invested companies include the subsidiary "King's Town International Leasing Co., Ltd." with 100% shareholding acquired and the sub-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. To implement the mission of local operation and provide customers with more comprehensive and diversified financial services, the Bank received approval from the competent authorities to reinvest in "Wan Taig Securities Co, Ltd." on Oct. 27, 2020. On Jan. 5 2021, the Bank acquired all the shares of the company and became a 100%-owned subsidiary of the Bank.

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

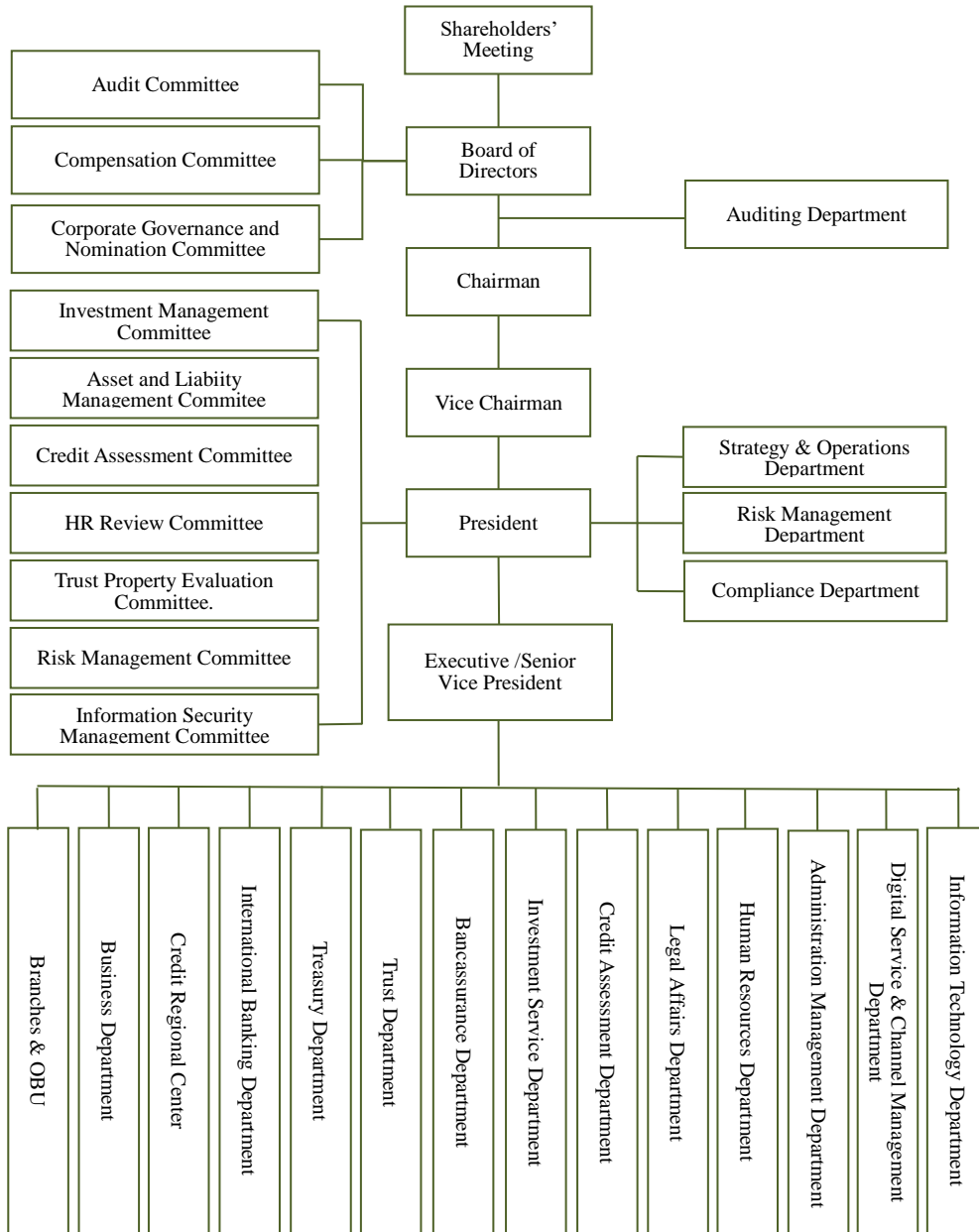
### V. A substantial transfer or replacement of the equity by directors, supervisors, and those who are required to declare equity in accordance with Article 25, Paragraph 3 of the Banking Act in 2020 and as of the end of February 2021: None.

### VI. 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.

## Chapter 3 Corporate Governance Report

### I. Organization

(I) Organization chart (Base date: 2021.02.28)



(II) Major departments functions

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. Strategy & Operations 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 & 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. Investment Service 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 Banking 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 Assessment 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 Affairs 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 Management 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 Resources Department: Coordinate the Bank's personnel-related administrative operation and the planning and implementation of employee development and human resources-related systems.
14. Bancassurance 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.

III. Corporate Governance Report

**II. Information on the Bank's Directors, Supervisors, Presidents, Executive/Senior Vice Presidents, Vice Presidents, heads of all the Bank's Divisions and Branch Units, and Retired Chairman and President acting as the Bank's consultants**

(I) Information on Directors

1. Directors' profile

Base date: 2021.02.28

Title	Nationality/ Place of Registration	Name	Gender	Date Elected	Term (years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (education)	Current Bank & Other Positions	Executives, Directors or Supervisors who are spouses or within the second degree of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman	Republic of China	Representative of Tiangang Investment Co., Ltd. - Chen-Chih, Tai	Male	2020.05.12	3 years	2005.06.23	39,399,025	3.48%	39,399,025	3.51%	-	-	-	-	-	-	-	-	-
							78,209,000	6.91%	78,209,000	6.98%	5,890,000	0.53%	0	0	Education: Department of Business Management of National Chung Hsing University Experience: Chairman of King's Town Bank, Executive Director of Makoto Bank	Director of King's Town International Leasing Co., Ltd., Director of King's Town International Real Estate Management Co., Ltd., Director of Payeasy Digital Integration Co., Ltd., Director of Mentex Glass INV DEV. Inc., Director of Tajjia Industrial Co., Ltd., and Director of Taiwan Pulp and Paper Corporation	Manager	Olivia Tai	Father and daughter
Vice Chairman	Republic of China	Representative of Tiangang Investment Co., Ltd. - Chiung-Ting, Tsai	Male	2020.05.12	3 years	2005.06.23	39,399,025	3.48%	39,399,025	3.51%	-	-	-	-	-	-	-	-	-
							0	0	0	0	23,756,000	2.12%	0	0	Education: Master of Engineering Economics of Stanford University Experience: Vice Chairman of King's Town Bank, Vice President 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.	Nil	Nil	Nil
Director	Republic of China	Representative of Fu Chiang Investment Co., Ltd. - Chung-Chang, Tsai	Male	2020.05.12	3 years	2020.05.12	5,000,000	0.44%	5,000,000	0.44%	-	-	-	-	-	-	-	-	-
							4,000	0.00%	4,000	0.00%	0	0	0	0	Education: Master of Public Administration of University of Southern California, USA Experience: Lecturer of National Open University, Lecturer of	Principal of Min Da Senior High School, Managing Supervisor of R.O.C. Private Education Association, Director of Shen Shui-De Cultural and Educational Foundation, Director of Tainan County Education, Culture and Education Foundation	Nil	Nil	Nil

III. Corporate Governance Report

															Shih Hsin University, Representative Assistant of National Assembly				
							5,000,000	0.44%	5,000,000	0.44%	-	-	-	-	-	-	-	-	-
Director	Republic of China	Representative of Fu Chiang Investment Co., Ltd. - Ching-Shun, Ou	Male	2020.05.12	3 years	2020.05.12	0	0	0	0	7,200,628	0.64%	0	0	Education: Department of Construction Engineering, Cheng-Shiu Institute of Technology & Commerce Experience: Chairman of Baihong Construction Co., Ltd.	Chairman of the Board of Director of Baihong Construction Co., Director of Wangfu Security Co., Supervisor of King s Town Construction Co.	Nil	Nil	Nil

III. Corporate Governance Report

Title	Nationality/ Place of Registration	Name	Gender	Date Elected	Term (years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (education)	Current Bank & Other Positions	Executives, Directors or Supervisors who are spouses or within the second degree of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Independent Director	Republic of China	Hung-Liang, Chiang	Male	2020.05.12	3 years	2018.11.02	0	0	0	0	0	0	0	0	Education: Master's degree of Graduate Institute of Finance of Fu Jen Catholic University Experience: Independent Director of King's Town Bank, Director of New Idea International Corp., Director of Ximei Agricultural Biotechnology Co., Chairman of Seed Workshop Co., Chairman of the Board of Directors of Ungu Biotechnology Co., Professional Examiner of Industrial Development Bureau, Vice President of King's Town Bank Strategy and Operations Department, Vice Presidents of King's Town Bank Risk Management Department and Information Technology Department, Regional Manager of Taiwan Shin Kong Commercial Bank	Chairman of the Board of Directors of Excellent Water Appraisal & Co., Director of Excellent Water Capital & Co., Director of Hosun Universal Co., Ltd., Director of Tung Kuan System Co., Ltd., Director of Fu Jen Xin Chuan Commercial Co.	Nil	Nil	Nil
Independent Director	Republic of China	Chao-Long, Chen	Male	2020.05.12	3 years	2017.05.17	0	0	0	0	0	0	0	0	Education: Bachelor of Medicine of Kaohsiung Medical University, Honorary Doctor of Engineering of Cheng Shiu University Experience: Medical Superintendent of Kaohsiung Chang Gung Memorial Hospital, Independent Director of King's Town Bank, Academicians of Chinese Academy of Engineering, Professor of Chang Gung University	Chairman of Cho Pharma Inc., Honorary Director, Kaohsiung Chang Gung Memorial Hospital, Director of Fulin Plastic Industry (Cayman) Holding Co., Chairman of the Board of Directors of the Chen Shiu-Lung Academic Foundation, Inc., Chairman of the Board of Directors of the Chen Shiu-Lung Foundation for Liver Transplantation, Director of Taiwan Bio-development Foundation, Director of Fooyin University, Director of Taipei Medical University	Nil	Nil	Nil
Independent Director	Republic of China	Chuan-Fu, Hou	Male	2020.05.12	3 years	2020.05.12	0	0	0	0	0	0	0	0	Education: Bachelor of Economics of Nihon University Experience: Chairman of Tainan Life Insurance Agency Co., President of King's Town Bank, Vice President of Business Department of King's Town Bank, Secretary to the Board of Directors of King's Town Bank, Business Manager of Dai-Ichi Kangyo Bank	Director of Kuanlibao Construction (Co., Ltd.), Director of Helibao Construction (Co.), Inc., Director of the Hou Ancestral Hall Fund	Nil	Nil	Nil

Note: The Bank does not have any cases where the Chairman and the President or their equivalent (the top manager) are the same person, spouses, or relatives within the first degree of kinship.

## 2. Major Shareholders of the Institutional Shareholders

Base date: 2021.02.28

Name of Institutional Shareholder	Major Shareholders of the Institutional Shareholder (Shareholding Ratio)
Tiangang Investment Co., Ltd.	Baihong Construction Co., Ltd. (90.91%), Tien-Tsan, Tsai (2.82%), Meiyun S. Tsai (1.73%), Chieh Chih Construction Co., Ltd. (1.71%), British Virgin Islands Bertmei Investment Group Co., Ltd. (2.73%), Chiung-Ting, Tsai (0.11%)
Fu Chiang Investment Ltd.	Chen, Yi-Ying (100%)

## 3. Major shareholders of the institutional shareholders that are listed as major shareholders in the preceding paragraph

Base date: 2021.02.28

Name of Institutional Shareholder	Major Shareholders of the Institutional Shareholder (Shareholding Ratio)
Baihong Construction Co., Ltd.	Tien-Tsan, Tsai (30.35%), Yi-Ying, Chen (34.76%), Chia-Ling, Tsai (34.83%) Hsin-Yi, Tsai (0.06%)
Chieh Chih Construction Ltd.	Tsai-Tien-Tsan (5.30%), Hsien-Tsung, Wang (61.21%), King's Town Construction Co., Ltd.(33.48%)
British Virgin Islands Bertmei Investment Group Co., Ltd.	Atherton Investment Group Ltd (100%)

## 4. Professional Qualifications and Independence of the Directors and Supervisors

Base date: 2021.02.28

Name	Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience (Note 1)			Status of Independence (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	
Chen-Chih, Tai				✓	✓			✓		✓	✓	✓	✓	✓	✓	✓	Nil
Chiung-Ting, Tsai				✓	✓				✓	✓	✓	✓	✓	✓	✓	✓	Nil
Tsung-Chang, Tsai				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Ching-Shun Ou				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Hung-Liang, Chiang				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Chao-Long, Chen				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Chuan-Fu, Hou				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil

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

- 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;
- 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;
- 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 serving as 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).



### III. Corporate Governance Report

- (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 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 Title/Subject	Hours From
Chairman	Chen-Chih, Tai	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing"	3
		2020.10.26	Securities and Futures Institute	"The Latest Fintech and Information Security Issues"	3
Vice Chairman	Chiung-Ting, Tsai	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing"	3
		2020.10.26	Securities and Futures Institute	"The Latest Fintech and Information Security Issues"	3
Independent Director	Chuan-Fu, Hou	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing"	3
		2020.10.26	Securities and Futures Institute	"The Latest Fintech and Information Security Issues"	3
		2020.06.05	Taiwan Institute of Directors	Directors and Supervisors Seminar - The Challenges and Opportunities of Corporate Governance under the Changing Circumstances	6
Independent Director	Chao-Long, Chen	2020.11.12	Taiwan Corporate Governance Association	Directors'/Supervisors' Responsibility in Misstatement of Financial Statements	3
		2020.11.12	Taiwan Corporate Governance Association	Case Study of Battle Over Management Rights	3
Independent Director	Hung-Liang, Chiang	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing"	3
		2020.10.26	Securities and Futures Institute	"The Latest Fintech and Information Security Issues"	3
Director	Ching-Shun Ou	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing"	3
		2020.10.26	Securities and Futures Institute	"The Latest Fintech and Information Security Issues"	3
		2020.06.05	Taiwan Institute of Directors	Directors and Supervisors Seminar - The Challenges and Opportunities of Corporate Governance under the Changing Circumstances	6
Director	Jong-Chang Tsai	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing"	3
		2020.10.26	Securities and Futures Institute	"The Latest Fintech and Information Security Issues"	3
		2020.06.05	Taiwan Institute of Directors	Directors and Supervisors Seminar - The Challenges and Opportunities of Corporate Governance under the Changing Circumstances	6

## (II) Information on President, Executive/Seinor Vice Presidents, Vice Presidents, and Heads of Various Divisions and Branches Units

Base date: 2021.02.28

Title	Nationality	Name	Date Elected	Gender	Shareholdings		Shares Held by Spouse & Dependents		Shareholding by Nominee Arrangement		Education	Other Position	Managers who are Spouses or Within the second degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
President	Republic of China	Jih-Cheng, Chang	2017.12.26	Male	354,000	0.032	-	-	-	-	Graduate Institute of Industrial Engineering of National Taiwan University	Nil	Nil	Nil	Nil
Executive Vice President	Republic of China	Chien-Wei, Pan	2020.01.30	Male	50,000	0.004	-	-	-	-	Graduate Institute of Business Administration of California State University	Nil	Nil	Nil	Nil
Chief Auditor	Republic of China	Ching-Chu, Pai	2018.11.06	Male	51,022	0.005	-	-	-	-	Graduate Institute of Finance of National Cheng Kung University	Nil	Nil	Nil	Nil
Compliance Department Senior Vice President	Republic of China	Chih-Cheng, Yu	2020.10.27	Male	301,444	0.027	-	-	-	-	Department of Business Administration of Hsingwu Junior College of Commerce	Director of WanTaig Corporation	Nil	Nil	Nil
Investment Service Department Senior Vice President	Republic of China	Qi-Wei, You	2020.08.25	Male	66,000	0.006	-	-	-	-	Institute of Science and Technology Law of Soochow University	Director of WanTaig Corporation	Nil	Nil	Nil
Treasury Department Vice President	Republic of China	Chih-Jin, Wu	2011.03.01	Male	124,000	0.011	-	-	-	-	Department of Economics of Chinese Culture University	Nil	Nil	Nil	Nil
Vice President of Head Office	Republic of China	Pen-Chen, Su	2019.02.26	Female	98,350	0.009	-	-	-	-	Financial Operations Institute of National Kaohsiung First University of Science and Technology	Nil	Nil	Nil	Nil
Vice President of Tainan Credit Regional Center			2018.12.25												
Vice President of Administration Management Department	Republic of China	Chien-Ko, Yang	2018.10.02	Male	285,444	0.025	-	-	-	-	Graduate Institute of Finance of National Chung Cheng University	Supervisor of King's Town International Leasing Co., Ltd., Supervisor of King's Town International Real Estate Management Co., Ltd., Director of Asia Pacific Certification Co., Ltd.	Nil	Nil	Nil
Vice President of Head Office	Republic of China	Ying-Shuo, Lu	2019.01.23	Male	35,000	0.003	-	-	-	-	Department of Finance and Economics of China Institute of Technology	Nil	Nil	Nil	Nil
Vice President of Risk Management Department	Republic of China	Hung-Sung, Shen	2014.05.27	Male	51,000	0.005	-	-	-	-	Department of Information Engineering of National Chiao Tung University	Nil	Nil	Nil	Nil
Vice President of Information Technology Department			2019.11.01												
Vice President of Human Resources Department and Strategy & Operations Department	Republic of China	Shu-Chen, Tsai	2020.02.10	Female	205,380	0.018	2,000	0.000	-	-	Department of Finance and Economics of National Taiwan University	Nil	Nil	Nil	Nil
Senior Manager of Credit Assessment Department	Republic of China	Chi-Chia, Chang	2018.12.25	Male	100,000	0.009	-	-	-	-	Department of Business Mathematics of Soochow University	Nil	Nil	Nil	Nil

III. Corporate Governance Report

Title	Nationality	Name	Date Elected	Gender	Shareholdings		Shares Held by Spouse & Dependents		Shareholding by Nominee Arrangement		Education	Other Position	Managers who are Spouses or Within the second degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Manager of Legal Affairs Department	Republic of China	Shui-Shan, Huang	2018.12.25	Male	38,000	0.003	-	-	-	-	Department of Banking and Insurance of Shih Chien University	Nil	Nil	Nil	Nil
Manager of Trust Department	Republic of China	Chih-Hung, Lin	2019.04.01	Male	10,574	0.001	-	-	-	-	Graduate Institute of Business Administration of National Taiwan University	Director of WanTaig Corporation	Nil	Nil	Nil
Manager of International Banking Department and OBU	Republic of China	Olivia Tai	2019.11.26	Female	1,052,000	0.094	-	-	-	-	Institute of Financial Risk Management of London School of Economics and Political Science	Director of Mentex Enterprise Co., Ltd., Director of AdvanPak Inc. Ltd., Director of Taiwan Pulp and Paper Corporation, Director of PH&L International Ltd.	Nil	Nil	Nil
Manager of Digital Service & Channel Management Department	Republic of China	Yun-Chia, Peng	2020.02.10	Female	80,000	0.007	-	-	-	-	Institute of International Trade of National Chengchi University	Director of WanTaig Corporation	Nil	Nil	Nil
Acting Manager of Bancassurance Department	Republic of China	Hung-Pei, Hsien	2020.01.07	Female	2,000	0.000	-	-	-	-	Department of International Trade of Kun Shan University	Nil	Nil	Nil	Nil
Accounting Executive	Republic of China	Yu-Hsuan, Chen	2018.08.07	Female	9,000	0.001	-	-	-	-	Department of Accounting of Providence University	Nil	Nil	Nil	Nil
Manager of Business Department of the Head Office	Republic of China	Ming-Jen, Wu	2018.12.25	Male	100,244	0.009	-	-	-	-	Department of International Trade of Ming Chuan University	Nil	Nil	Nil	Nil
Senior Manager of Nankan Branch	Republic of China	Kai-Ming, Liu	2016.12.13	Male	136,000	0.012	-	-	-	-	Department of Economics of Chung Hsing University	Nil	Nil	Nil	Nil
Senior Manager of Chung Hsiao Branch	Republic of China	Shun-Ming, Fan-Chiang	2020.02.17	Male	2,000	0.000	-	-	-	-	Department of Economics of Soochow University	Nil	Nil	Nil	Nil
Senior Manager of Changhua Branch	Republic of China	Ming-Ching, Yao	2020.05.12	Male	25,000	0.002	-	-	-	-	Department of Business Administration of Ling Tung University	Nil	Nil	Nil	Nil
Senior Manager of Panchiao Branch	Republic of China	Yung-Li, Huang	2020.06.09	Male	2,000	0.000	-	-	-	-	Department of Banking of National Chengchi University	Nil	Nil	Nil	Nil
Senior Manager of Kaohsiung Branch	Republic of China	Chih-Fu, Huang	2020.09.01	Male	2,180	0.000	-	-	-	-	Department of Economics of National Chengchi University	Nil	Nil	Nil	Nil
Manager of Wenxin Branch	Republic of China	Chung-Cheng, Li	2016.03.02	Male	3,000	0.000	-	-	-	-	Department of Business Administration of Chung Hsing University	Nil	Nil	Nil	Nil
Manager of Xiluo Branch	Republic of China	Wen-He, Liao	2016.03.15	Male	20,748	0.002	-	-	-	-	Department of Finance and Economics of National Yunlin University of Science and Technology	Nil	Nil	Nil	Nil
Manager of Huwei Branch Manager	Republic of China	Chih-Chieh, Chen	2016.03.15	Male	22,568	0.002	-	-	-	-	Institute of Business Administration of National Chung Cheng University	Nil	Nil	Nil	Nil
Manager of Guiren Branch	Republic of China	Ming-Hsien, Wei	2016.05.24	Male	4,000	0.000	-	-	-	-	Department of Economics of Tamkang University	Nil	Nil	Nil	Nil
Manager of Zhong Zheng Branch	Republic of China	Chen-Lin, Lai	2016.12.13	Female	14,000	0.001	-	-	-	-	Department of Business Administration of Soochow University	Nil	Nil	Nil	Nil

## III. Corporate Governance Report

Title	Nationality	Name	Date Elected	Gender	Shareholdings		Shares Held by Spouse & Dependents		Shareholding by Nominee Arrangement		Education	Other Position	Managers who are Spouses or Within the second degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Manager of Yongkang Branch	Republic of China	Chao-Hsien, Chou	2016.12.13	Male	-	-	-	-	-	-	Department of Accounting of Feng Chia University	Nil	Nil	Nil	Nil
Manager of Xinxing Branch	Republic of China	Chiu-Ching, Kuo	2016.12.13	Female	16,000	0.001	-	-	-	-	Graduate School of Management of Chang Jung Christian University	Nil	Nil	Nil	Nil
Manager of Shanhua Branch	Republic of China	Hui-Ling, Ko	2016.12.13	Female	10,000	0.001	-	-	-	-	Graduate School of Management of National Chiayi University	Nil	Nil	Nil	Nil
Manager of Zhongpu Branch	Republic of China	Chang-Yao, Lin	2017.01.10	Male	98,425	0.009	50	0.000	-	-	Department of Accounting and Statistics of Tatung College of Commerce	Nil	Nil	Nil	Nil
Manager of Tainan Branch	Republic of China	Mei-Wen, Wang	2017.04.11	Female	11,513	0.001	-	-	-	-	Department of International Trade of International College of Commerce	Nil	Nil	Nil	Nil
Manager of Yulin and Chiayi Credit Regional Center	Republic of China	Chun-Ching, Chen	2017.06.13	Male	40,574	0.004	2,000	0.000	-	-	Senior Management Office of National Chung Cheng University	Nil	Nil	Nil	Nil
Manager of Shuanghe Branch	Republic of China	Wen-Peng, Mo	2017.07.03	Male	30,000	0.003	-	-	-	-	Institute of Finance of Fu Jen Catholic University	Nil	Nil	Nil	Nil
Manager of Hsintien Branch	Republic of China	Chain-Jen, Chen	2017.07.18	Male	2,000	0.000	-	-	-	-	Department of Agriculture and Economics of National Taiwan University	Nil	Nil	Nil	Nil
Manager of Fucheng Branch	Republic of China	Yuan-Ping, Tsai	2017.12.26	Male	191,000	0.017	50,000	0.004	-	-	Department of Business Administration of Southern Taiwan University of Science and Technology	Nil	Nil	Nil	Nil
Manager of Xigang Branch	Republic of China	Li-Hsueh, Hsu	2017.12.26	Female	2,000	0.000	-	-	-	-	Department of Fashion Design of Tainan University of Technology	Nil	Nil	Nil	Nil
Manager of Dalin Branch	Republic of China	Ching-Mei, Wu	2017.12.26	Female	5,000	0.000	-	-	-	-	Department of Business Management of National Chia-Yi Senior Commercial Vocational School	Nil	Nil	Nil	Nil
Manager of Madou Branch	Republic of China	Chan-Chih, Kang	2017.12.26	Male	2,000	0.000	8,000	0.001	-	-	Department of Economics of Soochow University	Nil	Nil	Nil	Nil
Manager of Xinying Branch	Republic of China	Kuo-Sung, Kuo	2018.03.13	Male	4,000	0.000	-	-	-	-	Department of Economics of Feng Chia University	Nil	Nil	Nil	Nil
Manager of Yanxing Branch	Republic of China	Chin-Chuan, Chang	2018.04.01	Male	2,000	0.000	-	-	-	-	Department of International Trade of Tamkang College of Technology and Commerce	Nil	Nil	Nil	Nil
Manager of Zhonghua Branch	Republic of China	Kao-Hui, Lin	2018.04.01	Male	2,000	0.000	2,000	0.000	-	-	Department of Library Information of the World College of Journalism	Nil	Nil	Nil	Nil
Manager of Neihu Branch	Republic of China	Ping-Chao, Ho	2018.12.25	Male	85,000	0.008	-	-	-	-	Department of Insurance and Banking Management of Takming University of Science and Technology	Nil	Nil	Nil	Nil
Manager of Taipei Branch	Republic of China	Kuang-Ti, Yang	2018.12.25	Male	25,000	0.002	-	-	-	-	Department of Business Administration of Chung Yuan Christian University	Nil	Nil	Nil	Nil
Manager of Xuejia Branch	Republic of China	Li-Ling, Wu	2018.12.25	Female	13,878	0.001	-	-	-	-	Department of Business Administration of Chinese	Nil	Nil	Nil	Nil

### III. Corporate Governance Report

Title	Nationality	Name	Date Elected	Gender	Shareholdings		Shares Held by Spouse & Dependents		Shareholding by Nominee Arrangement		Education	Other Position	Managers who are Spouses or Within the second degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Manager of Yanshui Branch	Republic of China	Tsan-Chin, Mao	2018.12.25	Male	4,171	0.000	3,056	0.000	-	-	Culture University Department of Applied Mathematics of Chung Yuan Christian University	Nil	Nil	Nil	
Manager of Xinhua Branch	Republic of China	Ching-Chung, Hsu	2018.12.25	Male	2,000	0.000	-	-	-	-	Department of Economics of Tunghai University	Nil	Nil	Nil	
Manager of East Tainan Branch	Republic of China	Mei-Lien, Wu	2018.12.25	Female	30,784	0.003	5,000	0.000	-	-	Department of Accounting and Statistics of National Tainan Commercial Vocational Senior High School	Nil	Nil	Nil	
Manager of Shuishang Branch	Republic of China	Man-Chun, Chu	2019.01.23	Female	2,000	0.000	2,000	0.000	-	-	Department of Finance of Tatung Institute of Commerce and Technology	Nil	Nil	Nil	
Manager of Zhuqi Branch	Republic of China	Li-Wen, Tsai	2019.01.23	Female	8,199	0.001	-	-	-	-	Department of Accounting and Statistics of Tatung College of Commerce	Nil	Nil	Nil	
Manager of North Kaohsiung Branch	Republic of China	Ying-Hsiang, Wang	2019.01.23	Male	22,000	0.002	5,000	0.000	-	-	Department of Business Administration of Tunghai University	Nil	Nil	Nil	
Manager of Songshan Branch	Republic of China	Andy Feng	2019.02.26	Male	75,000	0.007	-	-	-	-	Department of Economics of Soochow University	Nil	Nil	Nil	
Manager of East Hsinchu Branch	Republic of China	Shu-Ling, Chang	2019.02.26	Female	2,000	0.000	-	-	-	-	Institute of Human Resources Management of National Sun Yat-sen University	Nil	Nil	Nil	
Manager of Jiali Branch	Republic of China	Ten-Yuh, John	2019.04.01	Male	5,060	0.000	15,866	0.001	-	-	Department of Economics of Tamkang University	Nil	Nil	Nil	
Manager of Xinshi Branch	Republic of China	Chia-Jung, Tsai	2019.10.08	Female	35,086	0.003	-	-	-	-	Department of Banking and Insurance of Feng Chia University	Nil	Nil	Nil	
Manager of Taichung Branch	Republic of China	Ming-Joe, Chiang	2019.11.01	Male	10,000	0.001	-	-	-	-	Department of International Trade of Chung Yuan Christian University	Nil	Nil	Nil	
Manager of Douliu Branch	Republic of China	Shu-Chueh, Chen	2019.12.30	Female	83,000	0.007	-	-	-	-	Department of Business Management of National Tuku Vocational High School of Commerce and Industry	Nil	Nil	Nil	
Manager of Beigang Branch	Republic of China	Li-Fen, Tu	2019.12.30	Female	5,000	0.000	-	-	-	-	Department of Business Management and Design of Tatung Institute of Commerce and Technology	Nil	Nil	Nil	
Manager of Puzi Branch	Republic of China	Yin-Shu, Huang	2019.12.30	Female	21,006	0.002	-	-	-	-	Department of Accounting and Statistics of San Sin High School of Commerce and Home Economics	Nil	Nil	Nil	
Manager of Dounan Branch	Republic of China	Li-Yu, Liao	2019.12.30	Female	9,000	0.001	-	-	-	-	Department of Accounting and Statistics of Tatung College of Commerce	Nil	Nil	Nil	
Manager of Liujia Branch	Republic of China	Chun-Mi, Wu	2019.12.30	Female	19,041	0.002	-	-	-	-	Department of Accounting of National Open Commercial School	Nil	Nil	Nil	

III. Corporate Governance Report

Title	Nationality	Name	Date Elected	Gender	Shareholdings		Shares Held by Spouse & Dependents		Shareholding by Nominee Arrangement		Education	Other Position	Managers who are Spouses or Within the second degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Manager of Annan Branch	Republic of China	Chia-Hao, Tien	2019.12.30	Male	10,100	0.001	37,000	0.003	-	-	Department of Economics of Feng Chia University	Nil	Nil	Nil	Nil
Manager of Lunbei Branch	Republic of China	Mei-Ling, Lin	2019.12.30	Female	10,000	0.001	-	-	-	-	Department of International Trade of Ling Tung University	Nil	Nil	Nil	Nil
Manager of Anhe Branch	Republic of China	Po-Heng, Chen	2019.12.30	Male	4,000	0.000	-	-	-	-	Department of Finance and Banking of Hsing Kuo University of Management	Nil	Nil	Nil	Nil
Manager of Guanmiao Branch	Republic of China	Chien-Jung, Lin	2019.12.30	Female	2,000	0.000	-	-	-	-	Department of Accounting and Statistics of Tainan University of Technology	Nil	Nil	Nil	Nil
Manager of Luzhou Branch	Republic of China	Ssu-Hao, Chen	2019.12.30	Male	2,000	0.000	-	-	-	-	Department of Economics of Fu Jen Catholic University	Nil	Nil	Nil	Nil
Manager of Gangshan Branch	Republic of China	Ta-Cheng, Lin	2019.12.30	Male	3,000	0.000	-	-	-	-	Department of Land Management and Development of Chang Jung Christian University	Nil	Nil	Nil	Nil
Manager of Xinzhuang Branch	Republic of China	Shih-Hsun, Chou	2019.12.30	Male	75,000	0.007	-	-	-	-	Graduate Institute of International Business Administration of Sheffield Hallam University	Nil	Nil	Nil	Nil
Manager of Hsinchu Branch R	Republic of China	Yu-Jei, Hsu	2019.12.30	Male	25,000	0.002	-	-	-	-	Financial Operations Institute of National Kaohsiung First University of Science and Technology	Nil	Nil	Nil	Nil
Manager of Nanzi Branch	Republic of China	Mei-Yu, Wen	2019.12.30	Female	9,000	0.001	-	-	-	-	Department of Public Finance Taxation of Tatung College of Commerce	Nil	Nil	Nil	Nil
Manager Yunong Branch	Republic of China	Meng-Ya, Hsu	2019.12.30	Female	11,002	0.001	-	-	-	-	Department of Finance of Hsing Kuo University of Management	Nil	Nil	Nil	Nil
Manager of Kaiyuan Branch	Republic of China	Chien-Hsun, Tseng	2020.03.01	Male	2,000	0.000	-	-	-	-	Institute of Finance of National Kaohsiung University of Science and Technology	Nil	Nil	Nil	Nil
Manager of Yujing Branch	Republic of China	Li-Hsueh, Su	2020.03.01	Female	27,000	0.002	-	-	-	-	Integrated Business Division of Tainan Commercial Vocational School	Nil	Nil	Nil	Nil
Manager of Dali Branch	Republic of China	Ming-Zhou, Kuo	2020.05.12	Male	3,000	0.000	-	-	-	-	Department of International Trade of Providence University	Nil	Nil	Nil	Nil
Manager of Zhongli Branch	Republic of China	Chih-Chiang, Chiang	2020.07.28	Male	2,000	0.000	-	-	-	-	Department of International Trade of Ming Chuan University	Nil	Nil	Nil	Nil
Manager of Taoyuan Branch	Republic of China	Sheng-Yuan, Lo	2020.07.28	Male	8,000	0.001	-	-	-	-	Department of Statistics of Shih Chien University	Nil	Nil	Nil	Nil
Manager of Rende Branch	Republic of China	Chiung-Chiang, Tsai	2020.09.01	Female	15,799	0.001	-	-	-	-	International Trade Division of Tainan Commercial Vocational School	Nil	Nil	Nil	Nil
Manager of Meishan Branch	Republic of China	Shu-Chuan, Kuo	2020.11.01	Female	22,000	0.002	-	-	-	-	Integrated Business Division of National	Nil	Nil	Nil	Nil

### III. Corporate Governance Report

Title	Nationality	Name	Date Elected	Gender	Shareholdings		Shares Held by Spouse & Dependents		Shareholding by Nominee Arrangement		Education	Other Position	Managers who are Spouses or Within the second degree of Kinship			
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
											Hua-Nan Vocational High School					
Manager of Baihe Branch	Republic of China	TYing-Feng, Tsai	2020.11.01	Male	10,073	0.001	20,000	0.002	-	-	Department of Economics of Fu Jen Catholic University	Nil	Nil	Nil	Nil	Nil
Manager of Chiayi Branch	Republic of China	Chin-Shan, Chang	2020.12.22	Male	1,113	0.000	-	-	-	-	Department of Statistics of Tunghai University	Nil	Nil	Nil	Nil	Nil
Manager of Xingye Branch	Republic of China	Ping-Hsun, Tsai	2020.12.22	Male	18,310	0.002	-	-	-	-	Department of Accounting and Statistics of Tatung College of Commerce	Nil	Nil	Nil	Nil	Nil
Manager of Taibao Branch	Republic of China	Hsiu-Mei, Lin	2020.12.22	Female	7,706	0.001	5,000	0.000	-	-	Department of Finance and Economics of Nanhua University	Nil	Nil	Nil	Nil	Nil
Manager of Minghsiung Branch	Republic of China	Yu-Mei, Chen	2020.12.22	Female	30,379	0.003	-	-	-	-	Department of Accounting and Statistics of Tatung College of Commerce	Nil	Nil	Nil	Nil	Nil

Note: The Bank does not have any cases where the Chairman and the President or their equivalent (the top manager) are the same person, spouses, or relatives within the first degree of kinship.

#### (III) Reappointment of Retiring Chairman and President as Consultants

Title	Nationality	Name	Gender	Position before retirement		Date of serving as a consultant	Purpose of employment	Segregation of duties	Remuneration	Ratio of remuneration to net income after tax
				Institution and title	Retirement date					
-	-	-	-	-	-	-	-	-	-	-

Note: Net income after tax shall refer to the net income after tax on the parent company only or individual financial statement in the most recent years

### III. Remuneration of Directors, Independent Director, Supervisors, President, Executive/Senior President and employees

#### (I) Remuneration of Directors and Independent Directors

2020

Unit: NT\$

Title	Name	Remuneration								Total amount of A, B, C and D to after-tax net income ratio		Relevant remuneration received by directors who are also employees								Total amount of A, B, C, D, E, F and G to after-tax net income ratio		Compensation from any invested company other than the company's subsidiary
		Base compensation (A)		Pension (B)		Compensation (C)		Business expense allowances (D)				Salary, bonuses, and allowances (E)		Severance pay and 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	Cash	Stock	Cash	Stock	The Bank	All companies mentioned in the financial statements	
Chairman	Chen-Chih, Tai	6,323,000	6,323,000	0	0	0	0	240,000	240,000	0.12%	0.12%	0	0	0	0	0	0	0	0	0.12%	0.12%	Nil
Vice Chairman	Chiung-Ting, Tsai	4,723,000	4,723,000	0	0	0	0	240,000	240,000	0.09%	0.09%	0	0	0	0	0	0	0	0	0.09%	0.09%	Nil
Director (Note)	Hsien-Tsung, Wang	179,000	179,000	0	0	0	0	104,000	104,000	0.01%	0.01%	0	0	0	0	0	0	0	0	0.01%	0.01%	Nil
Director (Note)	Chuang, Chin-Chung	179,000	179,000	0	0	0	0	108,000	108,000	0.01%	0.01%	0	0	0	0	0	0	0	0	0.01%	0.01%	Nil
Director (Note)	Ching-Shun Ou	306,667	306,667	0	0	0	0	183,334	183,334	0.01%	0.01%	0	0	0	0	0	0	0	0	0.01%	0.01%	Nil
Director (Note)	Jong-Chang Tsai	306,667	306,667	0	0	0	0	183,334	183,334	0.01%	0.01%	0	0	0	0	0	0	0	0	0.01%	0.01%	Nil
Independent Director (Note)	Ming-Tai, Chen	355,000	355,000	0	0	0	0	112,000	112,000	0.01%	0.01%	0	0	0	0	0	0	0	0	0.01%	0.01%	Nil
Independent Director	Chao-Long, Chen	963,000	963,000	0	0	0	0	294,000	294,000	0.02%	0.02%	0	0	0	0	0	0	0	0	0.02%	0.02%	Nil
Independent Director	Hung-Liang, Chiang	963,000	963,000	0	0	0	0	294,000	294,000	0.02%	0.02%	0	0	0	0	0	0	0	0	0.02%	0.02%	Nil
Independent Director (Note)	Chuan-Fu, Hou	613,334	613,334	0	0	0	0	183,334	183,334	0.01%	0.01%	0	0	0	0	0	0	0	0	0.01%	0.01%	Nil

Note: Directors Hsien-Tsung, Wang, Chi-Chung, Chuang, and Independent Director Ming Tai, Chen retired on May 12, 2020; Directors Ou, Ching-Shun, Tsai, Chung-Chang, and Independent Director Chuan-Fu, Hou took office on May 12, 2020, and this table discloses their remuneration during the term of office in 2020.

- Please describe the independent director remuneration policy, system, standard, and structure, and the connection between the amount of remuneration and the considered factors such as their responsibilities, risks, and invested time.  
Independent Director remuneration policy: the remuneration of Independent Directors of the Bank shall be set out in the Articles of Association and may be subject to a reasonable remuneration different from that of the ordinary directors. Responsibilities of Independent Directors: At least one Independent Director shall attend in person any meeting of the Board. With respect to the following matters that must be approved by resolution at a Board meeting, all Independent Directors shall attend the meeting in person or appoint another Independent Director to attend the meeting as a proxy. Any objection or reservation made by an Independent Director shall be set forth in the minutes of the Board meeting; if an Independent Director is unable to attend the Board meeting in person to express his objections or reservations, he shall, unless he has valid reasons, give a written opinion in advance and set it out in the minutes of the Board meeting: I. The Bank's operating plan. II. Annual and semi-annual financial reports; III. Formulate or amend internal control system pursuant to Article 14-1 of the Securities and Exchanges Act, and evaluate the effectiveness of the system; IV. Formulate or amend the procedures for handling financial or business activities of a material nature pursuant to Article 36-1 of the Securities and Exchange act, such as acquisition or disposal of assets, derivatives trading, etc.; V. Matters bearing on the personal interest of a directors; VI. Material assets or derivatives trading; VII. Offering, issuance or private placement of any equity-based securities; VIII. Appointment, discharge or compensation of CPAs; IX. Appointment or discharge of a finance officer, accounting officer or chief auditor; X. Donations to related parties or material donations to non-related parties provided that a donation for charity or disaster relief for a material natural disaster may be submitted to the following Board of Directors meeting for ratification; XI. Other matters that shall be decided by the Shareholders' Meetings or submitted to the Board of Directors or major matters specified by the competent authority in accordance with the law or the articles of association. In addition to the duties and responsibilities of the Board of Directors, all of the Bank's Independent Directors serve as members of the Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee, which are functional committees with different responsibilities and time commitments from those of the ordinary directors. Therefore, they are entitled to a different level of remuneration than ordinary directors.
- Except as otherwise disclosed herein, the directors of the Bank have not received other remunerations for providing services (in a non-employee capacity, such as an advisor) to any of the companies in the consolidated financial statements within the current fiscal year.

Note: 1. Net income after tax of the Bank in 2020 was NT\$5,490,966 thousand.

2. The remuneration contents disclosed are different from the concept of income specified in the Income Tax Act, thus, the purpose is for information disclosure only, rather than taxation purpose.



III. Corporate Governance Report

(II) Remuneration of the President and Executive/Seinor Vice Presidents

2020

Unit: NT\$

Title	Name	Salary(A)		Pension (B)		Bonus and allowance, etc. (C)		Remuneration to employees (D)				Total amount of A, B, C and D to after-tax net income ratio (%)		Compensation from any invested company other than the company's subsidiary
		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	Jih-Cheng, Chang	5,102,400	5,102,400	0	0	4,869,000	4,869,000	424	0	424	0	0.18%	0.18%	Nil
Chief Auditor	Ching-Chu, Pai	1,200,000	1,200,000	0	0	918,000	918,000	424	0	424	0	0.04%	0.04%	Nil
Executive Vice President (Note)	Chien-Wei, Pan	3,069,894	3,069,894	0	0	3,000	3,000	424	0	424	0	0.06%	0.06%	Nil
Seinor Vice President	Qi-Wei, You	1,476,000	1,476,000	0	0	1,069,500	1,069,500	424	0	424	0	0.05%	0.05%	Nil
Senior Vice President (Note)	Chih-Cheng, Yu	376,400	376,400	0	0	24,000	24,000	424	0	424	0	0.01%	0.01%	Nil

Note: Executive Vice Presidents Chien-Wei, Pan took office on January 30, 2020; Senior Vice President Chih-Cheng, Yu took office on October 27, 2020.

(III) Name of the managerial officers and employee bonus amount paid to managerial officers:

2020

Unit: NT\$

Title	Name	Stock	Cash	Total	Total amount to after-tax net income ratio (%)
President	Jih-Cheng, Chang				
Chief Auditor	Ching-Chu, Pai				
Executive Vice President	Chien-Wei, Pan				
Senior Vice President	Qi-Wei, You				
Senior Vice President	Chih-Cheng, Yu				
Vice President	Pen-Chen, Su				
Vice President (Note)	Shea-Lin, Chen	0	5,512	5,512	0.00010038306%
Financial Officer (Vice President)	Chih-Jin, Wu				
Vice President	Chien-Ko, Yang				
Vice President	Hung-Sung, Shen				
Vice President	Ying-Shuo, Lu				
Vice President	Shu-Chen, Tsai				
Accounting Executive	Yu-Hsuan, Chen				
Total		0	5,512	5,512	0.00010038306%

Note: Vice President Shea-Lin, Chen resigned effective on August 25, 2020.

- (IV) Analysis of the ratio of total remuneration paid to directors, supervisors, president, and Executive/Seinor Vice Presidents in the last two years to the net income on the parent company only financial report, remuneration policies, standards, and packages, procedure for determining remuneration, and linkage thereof to operating performance and future risk exposure:

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

Unit: NT\$

Title	2019		2020	
	The Bank	All companies included in the consolidated financial statements	The Bank	All companies included in the consolidated financial statements
Director	13,888,000	13,888,000	16,853,670	16,853,670
President, Executive/Seinor Vice Presidents	12,667,699	12,667,699	18,109,890	18,109,890
Total	26,555,699	26,555,699	34,963,560	34,963,560
Ratio to the net income on the parent company only financial report	0.78%	0.78%	0.64%	0.64%

2. Remuneration policies, standards, and packages, procedure for determining remuneration, and linkage thereof to operating performance and future risk exposure:

(1) Director

According to Article 33 of the Articles of Association of the Company, not more than 2% of the earnings, if any, shall be allocated as remuneration to directors. However, when the Company has accumulated losses, the Company shall offset the appropriate amounts before remuneration. No remuneration has been paid to the directors in the last two years. In addition, according to Article 25-1 of the Articles of Association 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." The Company determines the remuneration to Directors based on the evaluations on remuneration level of the peer companies, individual performances, Company's operating performance and Board performance.

(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 Association 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 and a business practice fee same as the payment standards for 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 Association. 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 Directors is resolved.

(3) President, Executive/Seinor Vice Presidents, Chief Auditor, Managers and Employees

The performance evaluation and remuneration system of the Bank's President, Executive/Seinor President, Chief Auditor, managers and employees 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. The Company handles the salary to employees in accordance with "Employee Benefit Payment Methods," and

### III. Corporate Governance Report

the abide by Paragraph 1, Article 5 of the Employment Service Act: "... employer is prohibited from discriminating against any job applicant or employee on the basis of race, class, language ..."

## IV. Implementation of Corporate Governance

### (I) Implementation of the Board

A total of 24 Board meetings were held in 2020. The attendance of the Directors was as follows:

Title	Name	Attendance in person	Attendance by proxy	Attendance rate (%)	Note
Chairman	Representative of Tiangang Investment Co., Ltd. - Chen-Chih, Tai	24	0	100.00%	
Vice Chairman	Representative of Tiangang Investment Co., Ltd. - Chiung-Ting, Tsai	23	1	95.83%	
Director	Representative of Tiangang Investment Co., Ltd. - Hsien-Tsung, Wang	7	2	77.78%	Left the board on May 12, 2020, attended 9 meetings
Director	Representative of Tiangang Investment Co., Ltd. - Chin-Chung, Chuang	8	1	88.89%	Left the board on May 12, 2020, attended 9 meetings
Director	Representative of Fu Chiang Investment Co., Ltd. - Ching-Shun, Ou	15	0	100.00%	Elected for the first time on May 12, 2020, attended 15 meetings
Director	Representative of Fu Chiang Investment Co., Ltd. - Chung-Chang, Tsai	15	0	100.00%	Elected for the first time on May 12, 2020, attended 15 meetings
Independent Director	Ming-Tai, Chen	9	0	100.00%	Left the board on May 12, 2020, attended 9 meetings
Independent Director	Chao-Long, Chen	24	0	100.00%	
Independent Director	Hung-Liang, Chiang	24	0	100.00%	
Independent Director	Chuan-Fu, Hou	15	0	100.00%	Elected for the first time on May 12, 2020, attended 15 meetings

Other mentionable items:

I. If any of the following events occurred, the dates of the meeting, sessions, summary of proposal, opinions of all the Independent Directors and the Company's responses should be specified:

(I) Matters referred to in Article 14-3 of the Securities and Exchange Act:

Board of Directors	Proposal content and subsequent treatment	Circumstances referred to an Article 14-3 of the Securities and Exchange Act	Objections or reservations by Independent Directors
2020.12.07 14th meeting of the 15th Board of Directors	Amendments to the "Regulations Governing Implementation of Internal Control and Audit System of King's Town Bank"	✓	
	Independent Directors' opinion: None.		
	The Company's Response: None		
	Resolution: Approved by the unanimous decision of the directors present		
2020.11.23 13th meeting of the 15th Board of Directors	1. Submission of evaluation results for the independence and suitability of the Bank's CPA	✓	
	2. Submission of the attestation service provided by the Company's CPA	✓	
	Independent Directors' opinion: None.		
	The Company's Response: None.		
Resolution: Approved by the unanimous decision of the directors present			
2021.02.22 19th meeting of the 15th Board of Directors	2020 Parent-Only and Consolidated Financial Statements and Business Report	✓	
	Independent Directors' opinion: None.		
	The Company's Response: None.		
	Resolution: Approved by the unanimous decision of the directors present		

(II) Any recorded or written Board resolutions to which Independent Directors have objections or reservations to be noted in addition to the above: None.

II. Regarding recusals of directors from voting due to conflicts of interest, the names of the directors, contents of motion, reasons for recusal, and results of voting shall be specified.

- The 64th meeting of the 14th Board of Directors held on January 6, 2020 approved the terms and criteria for the annual bonus for the Chairman and Vice Chairman of the Board of Directors for 2019. Chairman Chen-Chih, Tai and Vice Chairman Chiung-Ting, Tsai recused themselves from the discussion and voting in accordance with Article 16 of the Board of Directors' Meeting Rules, and did not exercise their voting rights on behalf of other directors.
- In the case of "Han Wong Ltd." and "Yue Yang International Industrial Ltd." approved at the 70th meeting of the 14th Board of Directors held on April 06, 2020, none of the borrowers is an interested party of the Bank, so it is a normal case that can be discussed in accordance with the regulations. However, considering that the seller of the collateral is King's Town Construction Co. Chairman Chen-Chih, Tai, Vice Chairman Chiung-Ting, Tsai and Director Chin-Chung, Chuang of Tiangang Investment Co., Ltd. are willing to recuse themselves from the discussion of these two cases from a more critical point of view, and have not participated in the discussion and voting, nor have they exercised their voting rights on behalf of other directors.

### III. Corporate Governance Report

3. In the case of "Chuan Shi De Development Ltd." and "Juren Construction Ltd." approved at the 71st meeting of the 14th Board of Directors held on April 27, 2020, the borrowers are not interested parties of the Bank, and the discussion of these cases is in accordance with the regulations. The seller of the collateral for "Chuan Shi De Development Co., Ltd." is King's Town Construction Co. Ltd. and the seller of the collateral for "Juren Construction Co., Ltd." is Huangyi Construction Co. (Responsible person Hsien-Tsung, Wang, Director Tsai S., Mei-Yun) is an interested party of Tiangang Investment Co, Ltd. (Responsible person Mei-Yun), the Chairman of the Board of Directors Chen-Chih, Tai, the Vice-Chairman Chiung-Ting, Tsai, Directors Hsien-Tsung, Wang, Chin-Chung, Chuang, Tsai S., Jin-Chung of Tiangang Investment Co.,Ltd. They have not joined the discussion or voted, nor have they exercised their voting rights on behalf of other directors.

#### III. The execution of the Board's evaluation:

Frequency	Period	Scope	Method	Content
Once a year	The performance of the Board of Directors from January 1, 2020 to December 31, 2020 was evaluated.	Board of Directors	Internal evaluation by the directors.	Content of performance evaluation of the Board of Directors of the Company: 1. Their degree of participation in the Bank's operation 2. Improvement in the Board's decision making quality 3. Composition and structure of the Board 4. Selection and continuing education of the directors 5. Internal control
Once a year	Evaluating the performance of the functional committees from January 1, 2020 to December 3, 2020.	Functional committees (includes Audit Committee, Remuneration Committee and Corporate Governance and Nomination Committee)	Internal self-evaluation of functional committees.	The performance evaluation of the functional committees of the Bank is as follows: 1. Their degree of participation in the Bank's operation 2. Recognition of the duties of the functional committees. 3. Improvement in the quality of decision making by the functional committees. 4. The composition of the functional committees and the election of their members. 5. Internal control
Once a year	Evaluating the performance from January 1, 2020 to December 31, 2020 by the Board members.	Individual Board members.	Self-evaluation by the Board members	Content of performance evaluation of individual Board members of the bank includes: 1. Execution of the Company's goals and tasks. 2. Recognition of directors' soles and responsibilities. 3. Their degree of participation in the Bank's operation 4. Management and communication of the internal relations. 5. Expertise and continuing education of the directors. 6. Internal control

Note: 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. The next external performance evaluation is expected to be conducted in the first quarter of 2022.

#### IV. Measures taken to strengthen the functionality of the Board in the current and the latest year (e.g. establishing the Audit Committee, enhancing information transparency), and implementation status:

- In 2019, the Company was valued and selected as the "Top 5% of Listed Companies" by the 6th (2019\_ COorporation Governance Evaluation of the Securities and Futures Institute.
- All the Board Directors should attend 168 meetings in 2020 and they actually attended 164 meetings, representing an actual attendance rate of 97.62%.
- The continuing education hours of each director in 2020 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".
- In 2020, Independent Directors Hung-Liang, Chiang, Chao-Long, Chen and Hou Chuan-Fu had an attendance rate of 100%, which complies with the requirement that at least one Independent Director should attend in person at each board meeting.

#### (II) Implementation of the Audit Committee

The Audit Committee had 30 meetings held in 2020. The attendance of the Independent Directors is as follows:

Title	Name	Actual Attendance Times	By Proxy	Attendance Rate (%)	Note
Independent Director	Ming-Tai, Chen	9	0	100%	Left the board on May 12, 2020 , attended 9 meetings
Independent Director	Chao-Long, Chen	30	0	100%	
Independent Director	Hung-Liang, Chiang	30	0	100%	
Independent Director	Chuan-Fu, Hou	21	0	100%	Elected for the first time on May 12, 2020, attended 21 meetings

#### Other mentionable items:

- With regard to the implementation of the Audit Committee, if any of the following circumstances occur, the dates, terms of the meetings, contents of motions, all Audit Committee resolutions, and the Company's handling of such resolutions shall be specified:

## (I) Circumstances referred to Article 14-5 of the Securities and Exchange Act:

Board of Directors	Proposal content and subsequent treatment	Circumstances referred to Article 14-5 of the Securities and Exchange Act	Objections or reservations by Independent Directors
2020.12.07 7th meeting of the 4th Board	Amendments to the "Regulations Governing Implementation of Internal Control and Audit System of King's Town Bank"	✓	
	Resolution of the Audit Committee (December 7, 2020): Passed by the Auditing Department with consent.		
	The Company's Response: Approved by the unanimous decision of the directors present		
2020.11.23 6th meeting of the 4th Board	1. Submission of evaluation results for the independence and suitability of the Bank's CPA	✓	
	2. Submission of the attestation service provided by the Company's CPA	✓	
	Resolution of the Audit Committee (November 23, 2020): Passed by the Auditing Department with consent.		
	The Company's Response: Approved by the unanimous decision of the directors present		
2021.02.22 9th meeting of the 4th Board	2020 Parent-Only and Consolidated Financial Statements and Business Report	✓	
	Resolution of the Audit Committee (February 22, 2021): Passed by the Auditing Department with consent.		
	The Company's Response: Approved by the unanimous decision of the directors present		

(II) Except for the aforementioned matters, other resolutions which were not being approved by the Audit Committee but resolved by more than two-thirds of all the Directors: None.

II. Regarding recusals of Independent Directors from voting due to conflicts of interests, the names of the Independent Directors, contents of motions, reasons for recusal, and results of voting shall be specified: None.

III. Communications among the Independent Directors, Internal Chief Auditor, and CPAs (shall include the material items, methods, and results of audits of corporate finance or operations, etc.):

Communication between Independent Directors and Internal Chief Auditor

Directors of the Bank and the Internal Chief Auditors shall hold a forum at least once a year to fully communicate on issues such as internal control and internal audit business, etc. The minutes shall be submitted to the Board of Directors, while the Chief Auditor shall report to the Audit Committee on the implementation of audit business at least semi-annually.

Date	Key points of communication	Recommendations and Results
Audit Committee on February 24, 2020	Audit report of the second half of 2019	Report to the Board of Directors after approval
Audit Committee on April 6, 2020	Review of internal control system deficiencies in 2019	No objections
Audit Committee on August 10, 2020	Audit report of the first half of 2020	Report to the Board of Directors after approval
2020.12.07 Audit Committee	Establish 2021 internal audit plan	Report to the Board of Directors after approval
Audit Committee on March 8, 2021	Audit report of the second half of 2020	Report to the Board of Directors after approval

Communication between Independent Directors and CPAs: 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	Key points of communication	Recommendations and Results
Communication meeting on February 24, 2020	CPAs communicated on key audit matters of 2019	No objections
Audit Committee on February 24, 2020	CPAs reported on matters related to the audit of the 2019 financial statements	Report to the Board of Directors after approval
2020.08.10 Communication meeting	CPAs communicated in key audit matters of the financial statement of the first half of 2020	No objections
2020.08.10 Audit Committee	CPAs reported on key audit matters of the financial statements of the first half of 2020	Report to the Board of Directors after approval
2021.02.22 Communication meeting	[Individual meeting between CPAs and the Independent Directors] 1. Explanation of the audit results and key matters of 2020 financial statements by the CPAs. 2. Explanation of the recent amendment in the Securities and Exchange Act and the "Revised contents of the 8th Corporate Governance Evaluation System".	No objections
2021.02.22 Audit Committee	CPAs reported on key audit matters of the financial statements of 2020	Report to the Board of Directors after approval

IV. Responsibilities of the Audit Committee are as follows:

1. Formulate or amend internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
2. Assessment of the effectiveness of the internal control system.
3. The adoption of amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of the procedures for handling financial or business activities of a material nature, such as acquisition or disposal of assets, derivatives trading.
4. Matters bearing on the personal interest of a director.
5. Material assets of derivatives trading.

### III. Corporate Governance Report

6. Offering, issuance or private placement of any equity-based securities.
7. Appointment, dismissal, or compensation of CPAs.
8. Appointment or dismissal of Finance Officer, Accounting Officer or Internal Chief Auditor.
9. Annual financial statements signed or sealed by the Chairman, Mangers and Accounting Officer and the second quarter financial statements audited and attested by CPAs.
10. Other significant matters set forth by the Company or the competent authority.

#### (III) Specific management objectives and implementation of the diversification policy for Board members

1. The Bank has instituted "Corporate Governance Best Practices Principles", in which "Article 4 Strengthen Board Functions" clearly sets out the policy of diversification of Board members. The nomination and selection of members of the Board of Directors of the Bank is in accordance with the provisions of the articles of the Company Act and adopts a board nomination system. Besides evaluating the qualifications of the candidates, "Procedures for Election of Directors" and "Corporate Governance Best Practices Principles" are observed so as to ensure the diversity and independence of directors.
2. None of the seven directors of the current Board of Directors possess employee status and three independent directors constitute 43% of the Board. Among them, two independent directors have tenures of less than 3 years while one has a tenure of 3-9 years. One director aged between 45 to 50, three directors aged between 51 to 60, and three directors aged between 61 to 70. The board members possess extensive experience in financial accounting, industry knowledge, and operation management. In terms professional competence and industrial experience, Directors Chen-Chih, Tai and Chiung-Ting, Tsai specialize in bank management, financial analysis, and overall economic analysis, Director Tsai Chung-Chang specializes in industry and academic research and education promotion, Independent Director Hung-Liang, Chiang specializes in financial innovation, information security and risk management, and marketing strategy, Independent Director Chuan-Fu, Hou specializes in credit business and financial management, Independent Director Chao-Long, Chen specializes in medical research and international development cooperation. The board members are diverse and complementary, which is beneficial to the development of the Bank's deposit business, as well as enterprise 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:

Diversity standards  Name of director	Fundamental metrics							Skillset								
	Nationality	Gender	Age			Tenure of Independent Director		Operational judgment	Accounting and financial analysis	Business management	Risk management capabilities	Crisis management	Industry knowledge	International market perspective	Leadership	Decision-making
			45 to 50	51 to 60	61 to 70	Less than 3 years	3 to 9 years									
Chen-Chih, Tai	Republic of China	Male			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Chiung-Ting, Tsai	Republic of China	Male	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓
Jong-Chang Tsai	Republic of China	Male		✓				✓	✓	✓	✓	✓	✓	✓	✓	✓
Ching-Shun Ou	Republic of China	Male			✓			✓		✓	✓	✓	✓	✓	✓	✓
Hung-Liang, Chiang	Republic of China	Male		✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Chao-Long, Chen	Republic of China	Male			✓		✓	✓		✓	✓	✓	✓	✓	✓	✓
Chuan-Fu, Hou	Republic of China	Male		✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓

4. The specific management objectives and achievement of the Company's diversity policy are as follows:  
 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) Implementation of the Corporate Governance and Nomination Committee

## 1. Corporate Governance and Nomination Committee member information

In order to improve the nomination system for board members 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	Related professions
Convener	Independent Director	Hung-Liang, Chiang	Financial innovation, marketing strategy, information security and risk management
Committee Member	Vice Chairman	Chiung-Ting, Tsai	Investment decision, financial analysis, product positioning
Committee Member	Independent Director	Chao-Long, Chen	International development, technology development
Committee Member	Independent Director	Chuan-Fu, Hou	Credit business, financial management

## 2. Responsibilities of the "Corporate Governance and Nomination Committee"

With the authorization of the Board of Directors, the committee shall exercise the care of a prudent administrator to faithfully perform the following duties and present its recommendations to the Board of Directors for discussion:

- (1) Set out the standards of independence and diversity of background, such as in terms of expertise, skills, experience, gender, etc. required of board members and senior executives, and to search, review and nominate 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, each committee, and each director and senior executive, and the independence of the independent directors.
- (3) Establish and review on a regular basis, further education plans for directors and the succession plans of directors and senior executives.
- (4) Research, analysis, implementation, and recommendation of plans for the corporate governance system, and review on a regular basis of corporate governance standards and related regulations.
- (5) Review the effectiveness of the implementation of the corporate governance system.
- (6) Set out and supervise the implementation of ethical corporate management policies and plans to prevent unethical conduct.
- (7) Adopt CSR policies, systems, or related management approach.
- (8) Supervise the implementation and status of CSR matters, and the management executives shall regularly report to the Board of Directors.

## 3. Implementation of the Corporate Governance and Nomination Committee: 6 meetings were held in 2020, with an average attendance rate of 100%. The implementation status is as follows:

- (1) Conduct 2019 Board and functional committees performance evaluation.
- (2) Review the effectiveness of the corporate governance system and the implementation of ethical corporate management in 2019.
- (3) Review the results of corporate social responsibility implementation and communication with the stakeholders in 2019.
- (4) Review the renewal of liability insurance for all directors.
- (5) Review the "Risk Assessment Report on Dishonesty Practices of King's Town Bank".
- (6) Review the implementation and execution of corporate social responsibility in the first half of 2020.
- (7) Nominate candidates for the 15th term of Directors (including Independent Directors) of the Company.
- (8) Elect the convener of the Corporate Governance and Nomination Committee.
- (9) Formulate the "Regulations on the Implementation of the Whistleblower System for Commercial Banks in the Capital".
- (10) Formulate and review the intellectual property management plan and its implementation in 2020.
- (11) Formulate the "Code of Conduct for Institutional Investor Due Diligence of King's Town Bank"
- (12) Amend the "Code of Practice on Corporate Social Responsibility of King's Town Bank".
- (13) Amend the "King's Town Bank Procedures for Ethical Management and Guidelines for Conduct".
- (14) Amend the "Corporate Governance and Nomination Committee Organizational Rules of King's Town Bank".
- (15) Amend the "Organizational Rules of the Audit Committee of King's Town Bank".
- (16) Amend the "Performance Evaluation Method of the Board of Directors and Functional Committee of King's Town Bank".
- (17) Amend the "Code of Ethical Conduct of King's Town Bank".
- (18) Amend the "Procedures for the Election of Directors of King's Town Bank".



III. Corporate Governance Report

(V) The implementation status of corporate governance of the Bank, deviations from "Corporate Governance Best Practices Principles for Banking Industry" and reasons for deviation

Evaluation Item	Implementation Status			The implementation status of Corporate Governance Best-Practice Principles for Banking Industry and reasons for deviation
	Yes	No	Summary	
I. Shareholding structure and shareholder's interest				
(I) Did the Bank establish an internal procedure for handling shareholder proposals, inquiries, disputes, and litigations, and were such matters handled according to the internal procedure?	✓		(I) The Bank has established 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.	(I) No deviation.
(II) Did the Bank maintain a register of major shareholders with controlling power as well as a register of persons exercising ultimate control over those major shareholders?	✓		(II) The Bank keeps track of the list of major shareholders and ultimate controllers of major shareholders who effectively control the Company, and reports changes in information in accordance with relevant laws and regulations.	(II) No deviation.
(III) Did the Bank establish and enforce risk control and firewall systems with its affiliated businesses?	✓		(III) The Bank has formulated the "Enforcement Rules for Reporting Stakeholders' Information" and has established a database of stakeholder information with its affiliates in compliance with Articles 32 and 33 of the Banking Act and relevant law and regulations. In addition, the operation and financial business information and audit management of the investee subsidiaries are handled in accordance with the "Regulations Governing the Supervision and Management of Subsidiaries by King's Town Bank."	(III) No deviation.
II. Composition and responsibilities of the Board of Directors				
(I) In addition to Salary and Compensation Committee and Audit Committee established according to law, has the Bank voluntarily established other functional committees?	✓		(I) The Bank has established the Compensation Committee and Audit Committee, and established "Corporate Governance and Nomination Committee" in November 2017 to formulate standards for diversity and independence of Board members, conduct performance evaluation of the Board of Directors and committees, and initiate corporate governance system research, analysis, implementation and review of the effectiveness.	(I) No deviation.
(II) Has the TWSE/TPEX-listed Bank established standards to measure the performance of the Board, and does the Company implement such annually? Does it report the results of the performance evaluation to the BOD and use them as a reference for each Director's remuneration and nomination of term renewal?	✓		(II) The Bank has established the "Regulations Governing the Performance Evaluation of the Board of Directors and Functional Committees" which perform 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 directors' remuneration and nomination for re-election.	(II) No deviation.
(III) Has the Bank implemented evaluation on the independence of the CPAs regularly?	✓		(III) The Bank's Administration Management Department evaluates the independence and competence of the CPAs according to the "CPAs' Accountability, Independence and Competence Assessment Form" every year. The CPA or CPA's spouse is confirmed not a relative within the second degree of kinship of the employees, directors, supervisors, or manager 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	(III) No deviation.

Evaluation Item	Implementation Status			The implementation status of Corporate Governance Best-Practice Principles for Banking Industry and reasons for deviation
	Yes	No	Summary	
			within the Bank; therefore, not any violation of independence is found.	
III. Has the Bank allocated a sufficient number of qualified corporate governance staff and appointed a person in charge of the affairs related to corporate governance (including but not limited to providing information required for Director/Supervisor's operations, assisting Directors and Supervisors in complying with laws and regulations, handling the matters concerning the Board and Annual General Meeting in accordance with the law and making their records)?	✓		<p>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 Vice President Chien-Ko, Yang, 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. Terms of reference:</p> <ol style="list-style-type: none"> <li>1. Handling 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 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 the meeting issued within 20 days after the meeting.</li> <li>2. Assisting in the agenda and compliance of resolutions from Board of Directors meetings and the Shareholders' Meeting.</li> <li>3. Assisting Independent Directors in arranging meetings with the Internal Chief Auditor or CPAs in accordance with the Corporate Governance Best Practice Principles when the need to understand the Company's financial operations arises.</li> <li>4. Handling the pre-registration of the Annual General Meeting date in accordance with the law; preparing the notice of meeting, the Meeting Handbook, the minutes within statutory period.</li> <li>5. Assisting Directors and Independent Directors in performing their duties by providing the necessary information and arranging for continuing education for Directors.</li> <li>6. Status of continuing studies: Vice President Chien-Ko, Yang participated in the "The Challenges and Opportunities of Corporate Governance under the Changing Circumstances" organized by Taiwan Directors Association for 6 hours on June 5, 2020, the "In-Service Course for Anti-Money Laundering and Counter Terrorism Officers" organized by Taiwan Academy of Banking and Finance for 12 hours from July 13, 2020 to July 14, 2020, the "Accounting Officer Training Program" organized by National Cheng Kung University for 12 hours from July 23, 2020 to July 24, 2020, the "Building a Comprehensive Compliance System for Financial Institutions ~ Seminar on Moving Toward Corporate Governance 3.0" organized by Taiwan Academy of Banking and Finance for 15 hours from September 21, 2020 to September 22, 2020, the "Anti-Money</li> </ol>	No deviation.

### III. Corporate Governance Report

Evaluation Item	Implementation Status			The implementation status of Corporate Governance Best-Practice Principles for Banking Industry and reasons for deviation
	Yes	No	Summary	
			<p>"Laundering and Counter Financing" and "The Latest Fintech and Information Security Issues" organized by Taiwan Securities Association for 6 hours on October 26, 2020. Total hours of continuing education during the year are 54.5 hours.</p>	
<p>IV. Has the Bank established communication channels for its stakeholders (including but not limited to shareholders, employees, customers and suppliers) or created a stakeholders section on its corporate website? Does the Company promptly respond to the concerns of stakeholders regarding important corporate social responsibility issues?</p>	✓		<p>The Bank's corporate website has a stakeholder contact window in the King's Town/Stakeholder Area. Stakeholders can fully respond to the feedback through the service channels disclosed in each business unit or the Bank's website, and communication channels are smooth.</p>	No deviation.
<p>V. Information disclosure</p> <p>(I) Does the Bank have a corporate website to disclose information of financial standing, business and the status of corporate governance?</p> <p>(II) Does the Bank have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, and making the process of investor conferences available on the corporate website)?</p> <p>(III) Does the Bank publicly announce and file the annual financial reports within two months after the close of the given fiscal year and publicly announce and file the first, second, and third quarterly financial reports and the operation of each month ahead of the required deadline?</p>	✓	✓	<p>(I) The Bank has disclosed financial and business-related information, as well as corporate governance and other related information on the Company's website regarding King's Town.</p> <p>(II) The Bank discloses financial information, corporate presentation, and process in English and Chinese on its website. A spokesperson system and internal procedures for handling material information have been established, and an Investor Relations section has been set up in English for foreign investors to understand relevant information.</p> <p>(III) The Bank announces and reports its financial statements and revenue for each month in advance of the prescribed deadline.</p>	<p>(I) No deviation.</p> <p>(II) No deviation.</p> <p>(III) No deviation.</p>
<p>VI. Is there any other important information which facilitates a better understanding of the company's corporate governance practices (e.g. including but not limited to employee rights, employee wellbeing, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation standards, the implementation of customer policies, and purchasing of liability insurance for directors and supervisors)?</p>	✓		<p>(I) 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>(II) 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>(III) 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</p>	<p>(I) No deviation.</p> <p>(II) No deviation.</p> <p>(III) No deviation.</p>

Evaluation Item	Implementation Status			The implementation status of Corporate Governance Best-Practice Principles for Banking Industry and reasons for deviation
	Yes	No	Summary	
			<p>suppliers and stakeholders to help safeguard the rights and interests of all those involved.</p> <p>(IV) The Bank had acquired liability insurance for all directors on June 24, 2019, and renewed in June 2020.</p> <p>(V) 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 2020.</p> <p>(VI) The scope of "Regulations Governing the Performance Evaluation of the Board of Directors and Functional Committees by King's Town Bank" includes the performance evaluation of the entire Board, individual director, and the functional committees, and the evaluation is conducted in the first quarter of each year. The results of the performance evaluation of the Board of Directors and all functional committees in 2020 were "excellent" and were reported to the Board of Director on February 22, 2021.</p> <p>(VII) Every three years, the Bank shall have its performance evaluated by an external professional independent organization or a team of external experts and scholars. The external performance evaluation 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. The next external performance evaluation is expected to be conducted in the first quarter of 2022.</p>	<p>(IV) No deviation.</p> <p>(V) No deviation.</p> <p>(VI) No deviation.</p> <p>(VII) No deviation.</p>
<p>VII. 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 been improved: The Bank is ranked among the top 5% listed companies of the 6th corporate governance evaluation. Adjustments and refinements will be made to the newly released revised indicators that can still be scored, such as disclosing the Bank's total weight of waste for the past two years, water consumption for the two years of 2018 and 2019, and obtaining verification from an external verification unit, and other items to be disclosed on the website.</p>				

(VI) Implementation of Compensation Committee

1. Information on the members of the Compensation Committee

By identity	Criteria Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience (Note 1)			Status of Independence (Note 2)										Number of Other Public Companies in Which the Individual is Concurrently Serving as a Compensation Committee Member
		1	2	3	1	2	3	4	5	6	7	8	9	10	
Convener/ Independent Director	Ming-Tai, Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Independent Director	Chao-Long, Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Independent Director	Chuan-Fu, Hou			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil

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) 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;
- (3) Work experience required for commerce, law, finance, accounting or banking profession.

Note 2: Please check “✓” the corresponding boxes if the remuneration committee members meet the following conditions during the two years prior to the nomination and during the term of office.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not serving as 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 others’ names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Bank or is ranked 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 persons in the preceding three sub-paragraphs.
- (5) Not Directors, Supervisors, or employees of a corporate shareholder who directly holds 5% or more of the total outstanding shares of the Bank or the Directors, Supervisors or employees assumed by a representative authorized by a corporate shareholder or Supervisor of the Company in accordance with Article 27 Paragraph 1 or 2, the Company Act (This does not apply in cases where the person is an independent director of the Bank, its parent or subsidiary established in pursuant to this law or local laws).
- (6) Not Directors, Supervisors, or employees of a company controlled by a corporate shareholder that holds more than half of the board seats or 50% of the shares with voting rights of the Bank (This does not apply in cases where the person is an Independent Director of the Bank, its parent or subsidiary established in pursuant to this law or local laws).
- (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) None of the circumstances in the subparagraphs of Article 30 of the Company Act apply.

## 2. Information on the implementation of the Compensation Committee

- (1) The Bank's Compensation Committee consists of 3 members.  
 (2) The current term of members: May 25, 2020 to May 11, 2023. The most recent (2020) Compensation Committee had 6 meetings (A) held. The qualifications and attendance of the members are as follows:

Title	Name	Attendance in Person (B)	By Proxy	Actual attendance rate (%) (B/A)	Note
Convener	Hung-Liang, Chiang	6	0	100%	
Committee Member	Chao-Long, Chen	6	0	100%	
Committee Member	Chuan-Fu, Hou	3	0	100%	Elected for the first time on 2020.05.25, attended 3 meetings
Committee Member	Ming-Tai, Chen	3	0	100%	Discharged on 2020.05.11, attended 3 meetings

Other mentionable items:

## I. Discussions and results of resolutions of the Compensation Committee and the Company's handling of opinions of the committee members:

Remuneration Committee	Proposal content and subsequent treatment	Resolution	The Company's treatment of the Compensation Committee's opinion
13th meeting of the third-term Board of Directors 2020.01.06	Amendments to the Bank's "Employee Benefit Payment Methods" and "Salary Scale (with Job Title)" proposal review	Passed by the agreement of all committee members.	Reported to the Board of Directors and approved by the unanimous decision of the directors present
	The Bank's 2019 annual bonus payment standards for the Chairman and Vice-Chairman of the Board of Directors proposal review	Passed by the agreement of all committee members.	Reported to the Board of Directors and approved by the unanimous decision of the directors present
	The Bank's 2019 annual manager evaluation results and bonus payment criteria proposal review	Passed by the agreement of all committee members.	Reported to the Board of Directors and approved by the unanimous decision of the directors present
14th meeting of the third-term Board of Directors 2020.02.24	2019 Employee and Director compensation distributions proposal review	Passed by the agreement of all committee members.	Reported to the Board of Directors and approved by the unanimous decision of the directors present
	Amendments to the Company's "Compensation Committee Charter" proposal review	Passed by the agreement of all committee members.	Reported to the Board of Directors and approved by the unanimous decision of the directors present
15th meeting of the third-term Board of Directors 2020.04.27	2020 Manager promotion and salary adjustment proposal review	Passed by the agreement of all committee members.	Reported to the Board of Directors and approved by the unanimous decision of the directors present
	Amendments to the Bank's "Annual Employee Performance Evaluation Measures" and "Annual Bonus Measures" proposal review	Passed by the agreement of all committee members.	Reported to the Board of Directors and approved by the unanimous decision of the directors present
1st meeting of the fourth-term Board of Directors 2020.06.08	Nomination of the convener of the Compensation Committee	Nominated by all committee members	Relevant operations have been handled in accordance with the resolution
2nd meeting of the fourth-term Board of Directors 2020.08.10	The remuneration of directors and Presidents of the financial industry in 2019 and review and evaluation of the company's operating performance reference table	Passed by the agreement of all committee members.	Relevant operations have been handled in accordance with the resolution
3rd meeting of the fourth-term Board of Directors 2020.12.07	Amendments to the Bank's "Wealth Management Group Incentive Scheme" and "Wealth Management Individual Incentive Scheme" proposal review	Passed by the agreement of all committee members.	Reported to the Board of Directors and approved by the unanimous decision of the directors present
	The Bank's "Annual Employee Performance Evaluation Measures" and "Annual Bonus Measures" proposal review	Passed by the agreement of all committee members.	Relevant operations have been handled in accordance with the resolution

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- II. If the Board of Directors refuses to adopt or amend a recommendation of the remuneration committee, the date of the meeting, session, the content of the motion, resolution by the Board of Directors, and the Bank's response to the remuneration committee's opinion (e.g., if the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified) shall be specified: None.
- III. When any of the members of the Compensation Committee holds objection or reservation to a resolution and such objection or reservation is on record or raised through a written statement, the date, term, content of proposals, opinion from every member and the Company's response to the members' opinions shall be provided in detail: None.

#### 3. Scope of responsibilities of the Compensation Committee

The Compensation Committee shall exercise the care of a prudent administrator to faithfully perform the following duties and present its recommendations to the Board of Directors for discussion:

- (1) Periodically reviewing this Charter and making 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) Regularly assess the degree to which performance goals for the directors, and managerial officers of the Bank have been achieved, setting the types and amounts of their individual compensation.

The Committee shall perform the functions referred to in the preceding paragraph in the following manners:

- (1) Ensure that the compensation arrangements of the Company comply with applicable laws and regulations and are sufficient to recruit outstanding talent.
- (2) Performance assessments and compensation levels of directors, supervisors, and managerial officers shall take into account the general pay levels in the industry, individual performance assessment results, the time spent by the individual and their responsibilities, the extent of goal achievement, their performance in other positions, and the compensation 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) There shall be no incentive for the directors or managerial officers to pursue compensation by engaging in activities that exceed the tolerable risk level of the Company.
- (4) For directors and senior managerial officers, the percentage of remuneration to be distributed based on their short-term performance and the time for payment of any variable compensation 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 compensation.
- (6) The remuneration mentioned in the preceding two paragraphs includes cash remuneration, warrants, bonus and stock ownership, retirement benefits or severance pay, various allowances and stipends, and other substantive incentive measures; and it shall be consistent with the remuneration paid to Directors and managerial officers recorded in the Rules for Records in Annual Report of Public Companies. When the Board of Directors discuss the Committee's suggestions, it shall consider the amount of remuneration, payment methods, and the Company's future risks comprehensively.
- (7) If the Board does not accept or amends the recommendations of the Committee, it shall require a majority vote at a meeting attended by over two-thirds of the Directors. An explanation shall be provided in the resolution based on the aforementioned overall considerations and specifics and whether the remuneration passed in the resolution is superior to the recommendations of the Committee.
- (8) If the remuneration passed in the Board of Directors meeting is superior to the recommendations of the Committee, the differences and causes shall be recorded in the meeting minutes of the Board of Directors and published on an information reporting website designated by the competent authority within two days of the meeting.
- (9) If the decision-making and handling of any matter 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) Implementation of Corporate Social Responsibility and Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and reasons for deviation

Evaluation Item	Implementation Status			Implementation of Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for deviation
	Yes	No	Summary	
I. Does the Bank follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to company operation, and establish risk management-related policy or strategy?	✓		In order to fulfill corporate social responsibility and promote sustainable development, the Bank has established a "Code of Practice on Corporate Social Responsibility" approved by the Board of Directors, a list of significant environmental, social and corporate governance principles, taking into account international trends in sustainable development, policy directions of authorities, important issues of domestic and international industry, concerns of stakeholders, and the impact on the Bank's operations. Based on this list, we evaluate the risks and opportunities of each issue, develop corresponding management strategies, and disclose them through the annual CSR report.	No deviation.
II. Has the Bank established a dedicated unit or appointed a unit for promoting CSR? Is the unit authorized by the Board of Directors to implement CSR activities at upper management levels? Does the unit report the progress of such activities to the Board of Directors?	✓		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. In addition, a "Sustainability Working Group" has been established. The Vice Chairman is the convener of the group, and the Strategy and Operations Department is the integrating unit. Together with other departments and offices in the head office, the group is responsible for formulating and reviewing ESG policies, systems and management guidelines, compiling and planning bank-wide ESG activities, and holding regular meetings to report on implementation results, which are discussed by the Corporate Governance and Nomination Committee and then submitted to the Board of Directors. Three meetings of the Sustainability Working Group were held in 2020. On March 23, 2020 and October 26, 2020, the implementation plans and results will be presented to the Corporate Governance and Nomination Committee for discussion and presentation to the Board of Directors.	No deviation.
III. Environmental issues				
(I) Has the Bank established proper environmental management systems based on the characteristics of the industries?	✓		(I) In order to implement energy conservation, the Bank has established the "Energy Conservation and Environmental Protection Standards Implementation Guidelines" and the "Energy Operation Control Manual" to regularly review the energy consumption (water, electricity, waste, etc.) of the head office compared to the same period last year, and to review monthly the water and electricity consumption of each business unit for any irregularities in order to implement proper environmental management.	(I) No deviation.
(II) Is the Bank committed to improving resource efficiency and to the use of renewable materials with low environmental impact?	✓		(II) The Bank gives priority to the purchase and use of building materials, equipment and consumables that have been awarded the Green Building Material Label and the Environmental Protection Label and that meet regulatory requirements. In addition, the Bank will replace branch equipment, such as signboards, lighting tubes and air-cooled	(II) No deviation.



III. Corporate Governance Report

Evaluation Item	Implementation Status			Implementation of Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for deviation																																	
	Yes	No	Summary																																		
(III) Does the Bank evaluate current and future climate change potential risks and opportunities and take measures related to climate-related topics?	✓		<p>chilled water mainframes, with energy-efficient equipment, such as LED light tubes and split inverter air conditioners, in order to improve the efficiency of resource use throughout the Bank. The banking service industry consumes more paper due to the nature of its operations. The Bank actively promotes paperless operations and effectively reduces the use of paper through its electronic document system, knowledge management system, and promotion of electronic billing. We are committed to reducing the impact on the environment by fully purchasing PEFC paper, promoting duplex printing, and conducting monthly reviews of paper usage per unit to meet the demand for paper printing.</p> <p>(III) The Bank examines the potential impacts of extreme weather on business operations from three perspectives: operational, environmental and social. We develop strategies and management solutions to reduce the risks associated with climate change and evaluate the potential opportunities.</p>	(III) No deviation.																																	
(IV) Does the Bank inspect its greenhouse gas (GHG) emissions, water consumption and total weight of wastes in the past two years? Does the Bank formulate policies on energy conservation and carbon reduction, GHG reduction, water reduction or waste management?	✓		<p>(IV) The Bank has set reduction targets for electricity consumption, greenhouse gas emissions and water consumption; with 2017 as the base year, it is expected to reduce 15%, 15% and 10% respectively by 2022 compared to the base year, and disclose the annual greenhouse gas emissions, water consumption and total weight of waste on the website and CSR report to track the effectiveness.</p> <p>Greenhouse gas emissions in the last two years. Unit: T-CO<sub>2</sub>e/ year</p> <table border="1"> <thead> <tr> <th></th> <th>Scope I</th> <th>Scope II</th> <th>Total emissions</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>44</td> <td>2,451</td> <td>2,495</td> </tr> <tr> <td>2020</td> <td>29</td> <td>2,296</td> <td>2,325</td> </tr> </tbody> </table> <p>Water consumption and electricity consumption for the past two years:</p> <table border="1"> <thead> <tr> <th></th> <th>Electricity consumption (kWh)</th> <th>Water consumption (KL)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>4,599,209</td> <td>19,437</td> </tr> <tr> <td>2020</td> <td>4,510,454</td> <td>17,910</td> </tr> </tbody> </table> <p>Total weight of wastes for the past two years: Unit: kg</p> <table border="1"> <thead> <tr> <th></th> <th>General waste</th> <th>Resource recycle</th> <th>Total weight</th> </tr> </thead> <tbody> <tr> <td>November 2018 to December 2019</td> <td>8,666</td> <td>3,074</td> <td>11,741</td> </tr> <tr> <td>January 2020 to December 2020</td> <td>8,959</td> <td>3,330</td> <td>12,289</td> </tr> </tbody> </table> <p><b>Specific actions are as the following:</b> The banking service industry is a direct greenhouse gas emission items generally accounts for a low proportion, so if we can effectively achieve energy saving and carbon reduction, it will help to reduce indirect sources of energy</p>		Scope I	Scope II	Total emissions	2019	44	2,451	2,495	2020	29	2,296	2,325		Electricity consumption (kWh)	Water consumption (KL)	2019	4,599,209	19,437	2020	4,510,454	17,910		General waste	Resource recycle	Total weight	November 2018 to December 2019	8,666	3,074	11,741	January 2020 to December 2020	8,959	3,330	12,289	(IV) No deviation.
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Evaluation Item	Implementation Status			Implementation of Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for deviation
	Yes	No	Summary	
			<p>emissions. The Bank incorporates energy-saving and carbon-reduction measures when formulating greenhouse gas management policies.</p> <p><b>Energy conservation and carbon reduction:</b></p> <ul style="list-style-type: none"> <li>Newly installed and replaced lighting fixtures are fully equipped with energy-saving T5 or LED light fixtures.</li> <li>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.</li> <li>Adjust the computer room layout and reorganize the circuit to improve the energy efficiency of the computer room.</li> <li>Regulate the billboard light on and off time period according to the daylight time and season.</li> <li>The use of some elevators will be suspended during non-peak hours.</li> <li>Electrical appliances or equipment, such as photocopiers, shredders, computers, lights, elevators, etc., are set to sleep, standby, or auto-sensing functions.</li> </ul> <p><b>Reduction of water use:</b></p> <ul style="list-style-type: none"> <li>Purchase and use products with the Water Conservation Label.</li> <li>Monthly review of the water consumption of the head office and each business unit for any irregularities.</li> </ul> <p><b>Waste disposal management:</b></p> <ul style="list-style-type: none"> <li>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 recycling rate.</li> <li>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 environmental-friendly cups in order to realize the effort of waste reduction starting from the employees.</li> <li>We promote paperlessness by using e-filing system and knowledge management system for internal and external document transmission, and double-sided printing of necessary paper documents, etc. We also organize activities to encourage our customers to use e-billing, so that we can exert our influence to reduce the use of paper.</li> </ul>	
IV. Social issues (I) Does the Bank formulate appropriate management policies and procedures according to	✓	(I)	The Bank's "Code of Practice on Corporate Social Responsibility" stipulates that the Company shall comply with international human rights and related laws and	(I) No deviation.

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Evaluation Item	Implementation Status			Implementation of Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for deviation
	Yes	No	Summary	
relevant regulations and the International Bill of Human Rights?			regulations, and at the same time make reference to the spirit and basic principles of human rights protection as outlined in various international human rights conventions, including the United Nations "Universal Declaration of Human Rights", the "Global Covenant", the "Guiding Principles on Business and Human Rights", and the "International Labor Organization Declaration on Fundamental Principles and Rights at Work", and has established the "Human Rights Policy of King's Town Bank" to protect the basic human rights of all employees, customers and stakeholders. The human rights risk assessment is conducted annually and disclosed on the Company's website.	
(II) Does the Bank formulate and implement reasonable employee benefit measures (including remuneration, vacation and other benefits) and appropriately reflect operating performance or results in employee compensation?	✓		(II) The Bank has established the "Rules for the Implementation of King's Town Bank Employee Benefits", "Rules for Special Leave for King's Town Bank Employees", and "King's Town Bank Employee Stock Ownership Association Charter" to provide employees with various welfare measures, including employee stock ownership trusts, marriage and maternity benefits, and bonuses for three festivals. In addition, we have established the "King's Town Bank Working Rules" and "Annual Evaluation Rules for Employees of King's Town Bank" to evaluate employees' attitude, work performance, learning and growth, leadership and management, reward and punishment records every six months, and effectively link the evaluation results with employees' year-end bonuses, salary adjustments, and promotions.	(II) No deviation.
(III) Does the Bank provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	✓		(III) The Bank is committed to building a safe and healthy working environment, and regularly implements relevant education and training to reduce the risk factors of employee safety and health. <b>Health promotion:</b> <ul style="list-style-type: none"> <li>Health screening activities are held every two years, and consultation services are provided based on the results of the screening.</li> <li>In order to create a healthy workplace environment, we have established the "King's Town Bank Abnormal Load-Promoting Disease Prevention Program," "King's Town Bank Workplace Maternal Health Protection Program," "King's Town Bank Sexual Harm Prevention Program," and "Unlawful Assault Prevention Program in the Performance of Duty" to prevent physical and mental damage caused by unsatisfactory working conditions, improper working hours, or other unlawful assaults in the workplace.</li> <li>Nutritionist is employed in the cafeteria of the head office building to plan and prepare lunch for the staff.</li> </ul> <b>Environmental safety:</b> <ul style="list-style-type: none"> <li>The Bank has established "Safety and Hygiene Code of Practice", which defines regular maintenance and inspection of equipment or apparatus, and clearly defines work safety and hygiene standards to reduce</li> </ul>	(III) No deviation.

Evaluation Item	Implementation Status			Implementation of Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for deviation
	Yes	No	Summary	
(IV) Has the Bank established effective career development training plans?	✓		<p>the chance of hazards.</p> <ul style="list-style-type: none"> <li>In 2020, there were 2 training sessions for self-defense and firefighting teams and 2 training sessions for first aid.</li> <li>Occupational safety and health education and training for new recruits.</li> </ul> <p>(IV) The Bank has established training programs for staff at all levels and conducts or encourages participation in various internal and external courses according to the qualifications, duties, and professional abilities of employees.</p> <ul style="list-style-type: none"> <li>We organized various on-the-job training for new employees, operation managers and operation supervisors, and be familiar with practical operations.</li> <li>We sent our staff to participate in various professional courses conducted by external organizations to strengthen their abilities in the professional field.</li> <li>We hired external professional lecturers to train middle and senior executives and to improve leadership, execution, and organization.</li> </ul>	(IV) No deviation.
(V) Does the Bank comply with relevant laws and regulations and international standards on customer health and safety, customer privacy, marketing and labeling of products and services? Does the Bank develop relevant consumer protection policies and complaint procedures?	✓		<p>(V) Handle the Bank's marketing and labeling of products and services in accordance with the relevant regulations and circulars of the competent authorities and international standards, and the relevant fees, risks and other cautions are stated in the forms. Regarding customer privacy, we have established institute management policies such as "Measures for the Security and Protection of Personal Data Files", "Guidelines for Personal Data Risk Assessment Process", "Guidelines for Crisis Management during Personal Data Leakage", "Self-regulatory Guidelines for Customer Data Confidentiality", etc. to implement the protection, management, and utilization of customer personal information.</p> <p><b>Consumer rights policy:</b> The Bank has established "King's Town Bank Policies and Strategies for Fair Treatment of Customers", "King's Town Bank Regulations for Consumer Protection" and "Operational Guidelines for Handling Customer Grievances" to set out the measures to be implemented in consumer protection policies, and has designated a dedicated unit to review the effectiveness of the consumer protection mechanism and report regularly to the Board of Directors.</p> <p><b>Consumer rights grievances procedures:</b> Consumer disputes are handled in accordance with the "Operational Guidelines for Handling Customer Grievances", and customer complaint service hotline and e-mail address have been set up to provide consumers with procedures for filing complaints.</p>	(V) No deviation.
(VI) Does the Bank formulate supplier management policies that require suppliers to follow relevant regulations on issues such as environmental protection,	✓		<p>(VI) The Bank has established the "Supplier Management Regulations", which require suppliers to follow relevant regulations on environmental protection, labor health and safety, human rights and ethical risks, and to work with suppliers to fulfill their corporate social responsibility and</p>	(VI) No deviation.

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Evaluation Item	Implementation Status		Implementation of Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for deviation
	Yes	No	
occupational safety and health, or labor rights? How is the implementation?			<p>demonstrate a quality image.</p> <p><b>Implementation:</b></p> <ul style="list-style-type: none"> <li>To realize the ethical management policy of the Bank, contracts are signed only after having full comprehension of the status of implementation of ethical management of the other party and contract terms shall include clauses stipulating compliance to the Bank's ethical management policies to prevent any business transactions with agents, suppliers or other business partners involved in unethical behavior.</li> <li>When we enter into contracts with suppliers, we stipulate human rights and environmental sustainability clauses in the contracts.</li> <li>We have established the "King's Town Bank Supplier CSR Self-assessment Form", which covers such aspects as energy conservation management, occupational safety and health, human rights protection and environmental protection, etc. We actively promote suppliers to conduct self-assessment, and through the self-assessment mechanism, we understand the status of suppliers' fulfillment of CSR, which serves as a reference item for continuous cooperation with suppliers. In 2020, 13 suppliers have completed the self-assessment, and all the self-assessment results were not in violation of the Bank's CSR philosophy.</li> <li>For suppliers, such as building construction and renovation co-contractors, involved with high-risk tasks, relevant advocacy was carried out in accordance with Contractor Handover Procedure Hazardous Factors Notice during the kick-off meeting. In addition to requiring contractors to comply with Occupational Health and Safety Regulations, on-site personnel were provided with occupational safety and health training as well as outreach and guidance on preventing hazardous events to reduce workplace injuries. Total of 5 outreach sessions were organized in 2020 and there were no casualties due to workplace accidents.</li> <li>For suppliers engaged in high-risk work, such as, contractor for building construction and renovation, 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 6 field visits and inspections performed in 2020 without any special or significant non-conformity detected.</li> </ul>

Evaluation Item	Implementation Status			Implementation of Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for deviation
	Yes	No	Summary	
V. Does the Bank refer to international reporting rules or guidelines to publish CSR Report to disclose non-financial information of the Bank? Has the said Report acquire third party certification party verification or statement of assurance?	✓		2018 Corporate Social Responsibility Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards Core Options issued in 2016, and Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies. The report is externally audited by an independent third party, British Standards Institution (BSI) in terms of levels of consistency with GRI Standards' core options.	No deviation.
VI. If the Bank has established corporate social responsibility principles based on the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, please describe the implementation and any deviations from the Principles: No deviation.				
VII. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility:				
1. The Bank has issued its first CSR report in 2015 and has been issuing it for six years since then. The seventh report is expected to be issued in June 2021. The report covers corporate governance, customer service, social responsibility, workplace well-being and environmental sustainability. The report is published annually to provide stakeholders and outsiders with a better understanding of our corporate social responsibility operations.				
2. See the Bank's website - CSR: <a href="https://customer.ktb.com.tw/new/about/b0b73fac">https://customer.ktb.com.tw/new/about/b0b73fac</a>				

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

Evaluation Item	Implementation Status		Summary	Implementation of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and reasons for deviations
	Yes	No		
I. Establishment of corporate conduct and ethics policy and implementation measures				
(I) Does the Bank have policies and practices for ethical corporate management passed by the BOD and clearly state them in regulations and publicly available documents? Do the BOD and senior management make commitments to actively implement those business policies?	✓		(I) 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”; also, the “ethical corporate management, anti-corruption, and anti-bribery policy and commitment” was disclosed on the Bank’s global website.	(I) No deviation.
(II) Does the Bank establish an evaluation mechanism for the risk of unethical conduct that regularly analyzes and evaluates business activities with higher risks of unethical conduct in the business scope? Does the Company formulate a plan to prevent unethical conducts, which at least covers the precautionary measures prescribed in Article 7 Paragraph 2 of the “Ethical Corporate Management Best-Practices Principles for TWSE/GTSM Listed Companies”?	✓		(II) 1. The “Procedures for Ethical Management and Guidelines for Conduct” specify the prevention programs and measures for accepting improper benefits, political contributions, donations or sponsorships, infringement on intellectual property rights, conflict of interests, disclosure of confidential information, and insider trading. 2. In August 2020, the Bank prepared and the Board of Directors approved the Bank’s dishonesty risk assessment report, which analyzes and assesses the business activities within the Bank’s business scope that have a higher risk of dishonesty or are more prone to dishonesty, including the prevention mechanism and internal control measures related to the behaviors in Article 7, Paragraph 2 of the “Ethical Corporate Management Best-Practices Principles for TWSE/GTSM Listed Companies”.	(II) No deviation.
(III) Does the Bank establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequences of violation and complaint procedures in such policies?	✓		(III) 1. In addition to the “Ethical Corporate Management Best-Practice Principles” and “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.	(III) No deviation.

Evaluation Item	Implementation Status		Summary	Implementation of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and reasons for deviations
	Yes	No		
			<ol style="list-style-type: none"> <li>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.</li> <li>3. The Bank has formulated relevant disciplinary regulations; also, the personnel who have committed serious violations of ethical conduct will be dismissed or fired.</li> <li>4. The Bank has established a HR Evaluation Committee to conduct review and retrial of employee-related disciplinary action.</li> <li>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.</li> <li>6. In order to prevent the unethical 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.</li> <li>7. The Bank regularly reviews and amends plans to prevent unethical conducts every year.</li> </ol>	



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Evaluation Item	Implementation Status			Implementation of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and reasons for deviations
	Yes	No	Summary	
II. Implementation of ethical corporate management				
(I) Does the Bank evaluate business partners' ethical records and include ethics-related clauses in the business contracts signed with the counterparties?	✓		(I) The Bank does not engage in business activities with those who have a record of dishonest conduct, and when it enters into contracts with counterparties, the contracts include a statement of the relevant matters in the integrity management clause. The contracts are reviewed for good faith provisions during the contract review process.	(I) No deviation.
(II) Has the Bank established an exclusively (or concurrently) dedicated unit under the BOD to implement ethical corporate management, and report to the BOD on a regular basis (at least once per year) on ethnic operation policies as well as precautionary measures against unethical conduct and their implementation information?	✓		(II) The Bank has designated the Corporate Governance and Nominating Committee, which is under the Board of Directors as a dedicated unit to drive ethical management of the Bank. The Committee provided assistance in incorporating ethics and moral values into the Bank's business strategy and in adopting appropriate prevention measures against corruption and malfeasance to ensure ethical management in compliance with the requirements of laws and regulations. The committee also reported on a regular basis to the board of directors on supervision of ethical management policy implementation and unethical behavior prevention plans. Last reported on February 22, 2021.	(II) No deviation.
(III) Does the Bank establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement such policy properly?	✓		(III) The Bank's supervisors at all levels are responsible for assisting the Company in promoting the policy of honest management. All employees may file complaints about conflicts of interest verbally or in writing to the supervisors at all levels, to the head of each business authority and responsibility department, to the head of the Human Resources Department, or to express their opinions directly through the President's mailbox.	(III) No deviation.
(IV) To implement relevant policies on ethical conduct, has the Bank established effective accounting and internal control systems and assign an internal audit unit to develop relevant auditing plans according to the assessment results of unethical conduct risks? Does the Bank inspect the implementation of such auditing plans or assign CPAs to implement the auditing?	✓		(IV) 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 are 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	(IV) No deviation.

Evaluation Item	Implementation Status		Implementation of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and reasons for deviations	
	Yes	No		Summary
(V) Does the Bank regularly hold internal and external educational trainings on operational integrity?	✓	(V)	<p>effective continuously.</p> <p>The Bank conducts regular education and training for directors, senior management and all employees related to integrity management, including:</p> <ol style="list-style-type: none"> <li>1.The "Promotion of Whistleblower System" was arranged in October 2020. The course mainly focused on the regulations of the whistle-blowing system, the channels of reporting, and the way to receive cases.</li> <li>2.The "Integrity Management and Anti-Corruption and Anti-Bribery Policy Promotion" course was held in August 2020, which focused on the prevention of dishonest behavior in Procedures for Ethical Management and Guidelines for Conduct.</li> <li>3.The "Education on Internal Material Information Handling Procedures and Prevention of Insider Trading Related Laws and Regulations, As Well As Self-Regulatory Regulations On Merger And Acquisition Information Disclosure" was arranged in August 2020. The course is mainly to promote internal procedures for handling material information, prevention of insider trading and other related laws and regulations, as well as self-regulatory rules for merger and acquisition information disclosure.</li> <li>4.The "Principles of Fairness in the Financial Services Industry" was arranged in June 2020, which focused Financial Consumer Protection Act, the financial industry fairness dealing policy, and case studies of financial consumer disputes.</li> <li>5.The "Promotion of the Anti-Money Laundering and Counter-terrorism Financing Act" was arranged in August 2020. The content was focused on the prevention of money laundering and counter-terrorism-related regulations and money laundering patterns, as well as the characteristics of corruption and profanity crimes and money laundering patterns.</li> <li>6.The "Promotion of Personal Data Protection Act" was arranged in November 2020. The course content was mainly to promote the Personal Data Protection Act.</li> <li>7.The "Regulatory Compliance Education and Training" was arranged in every month of 2020.</li> <li>8.In summary, there were 18,577 persons/times and total 20,276 persons/hours arranged in 2020 totally.</li> </ol>	(V) No deviation.
<p>III. Grievance System</p> <p>(I) Has the Bank established a grievance and rewards system and a reporting hotline? Can the employees</p>	✓	(I)	The Bank has established the "Implementation Rules for the Reporting System of King' Town	(I) No deviation.

III. Corporate Governance Report

Evaluation Item	Implementation Status		Implementation of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and reasons for deviations
	Yes	No	
with alleged violations be reached by an appropriate contact person for follow-up?			
(II) Has the Bank established standard operating procedures and confidentiality measures for the investigation of reported incidents?	✓	(II)	(II) No deviation.
(III) Does the Bank have proper measures in place to protect whistleblowers from reprisals?	✓	(III)	(III) No deviation.

Evaluation Item	Implementation Status		Summary	Implementation of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and reasons for deviations
	Yes	No		
IV. Enhancing information disclosure Has the Bank disclosed its ethical corporate management policies and results of implementation on the Company's website and the Market Observation Post System?	✓		The Bank discloses the "Ethical Corporate Management Best-Practice Principles", "Code of Conduct for Integrity Management" and "Corporate Governance Best Practices Principles" on its website and the Market Observation Post System. The Bank also discloses its integrity management practices and measures through its website, annual reports, CSR reports and other external documents, and expresses its "Ethical Corporate Management and Anti-Corruption and Anti-Bribery Policy Commitments" on its website.	No deviation.
V. If the Bank has its own code of ethics in accordance with the "Ethical Corporate Management Best-Practices Principles for TWSE/GTSM Listed Companies", please describe the differences between its operation and the code: No deviation.				
VI. Other important information which facilitates a better understanding of the Company's ethical corporate management practices: 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

- I. 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, 2020 to December 31, 2020, 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.
- II. 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.
- III. 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.
- IV. 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.
- V. The Bank hereby declares that this statement was approved by the board of directors on February 22, 2021.

To:

Financial Supervisory Commission

Undersigned:

Chairman: Chen-Chih, Tai

President: Jih-Cheng, Chang

Chief Auditor: Ching-Chu, Pai

Compliance Officer  
of the Head Office: Chih-Cheng, Yu

February 22, 2021

## Matters to be improved for the internal control system of King's Town Bank and the improvement plan

(Base date: 2020.12.31)

Matters to be enhanced	Improvement Project	Projected date for completion
I. Strengthen the risk control mechanism for credit facilities secured by equity securities.	<ol style="list-style-type: none"> <li>1. Under the section of "Pledging of stock in excess of the limit set by the regulations so that 100% of the stock of the same company can be pledged," the Bank's highly pledged stock guarantees the credit facility, and the related financing structure is similar to the prevailing credit facility in the syndicated loan market, which strengthens the credit structure and debt security by pledging an equivalent percentage of ownership of the business.</li> <li>2. With regard to Article 74 and Article 74-1 of the Banking Act, the Bank has amended the "Principle of Segregation of Banking and Industry" in the "Regulations on the Financing of Equity Guarantees". It is clearly stated that the Bank must strictly abide by the credit policy of no involvement in industrial operations. When the loan is overdue, the Bank will immediately implement a debt transfer strategy, which will result in a premium for the operating rights due to the high value of the pledged shares that were initially structured with a specific core strategy value, thus strengthening the willingness of the buyer to purchase. Even if it is not possible to sell the pledged shares, the Bank shall comply with Articles 74 and 74-1 of the Banking Act and shall not take on pledged shares in excess of the requirements of the Banking Law.</li> <li>3. With respect to the section "Contracts related to Pledging of Securities with Customers", the Bank has amended the "Securities Collateral Provision and Consent to Sale" to specify matters related to the receipt of dividends and the exercise of voting rights during the pledging period.</li> </ol>	The enhanced risk control mechanism for equity-secured financing has been submitted to the 72nd board meeting of 14th session on May 11, 2020 for discussion and approval.
II. Strengthen the risk control of marketable securities investment.	<ol style="list-style-type: none"> <li>1. Reduction of investment limit by industry sector: In order to address the concentration risk arising from fluctuations in the industry, the Bank's "Rules Governing Investment in Bonds and Bills" were amended to reduce the investment limit for the same industry from 40% to 30% of the Bank's total investable securities.</li> <li>2. In order to strengthen the risk control of the investment, the Bank's "Risk Limit Control Practice Points" are revised as follows. <ol style="list-style-type: none"> <li>(1) Debt securities: The DV01 interest rate risk monitoring indicators of the debt securities investment site were originally reviewed in the middle and last day of each month and reported to the Risk Management Committee on a monthly basis, but the frequency of review was increased to at least three times per month to enhance the immediacy of monitoring.</li> <li>(2) Equity and fund: The VaR limit for equity and fund positions shall not exceed 1% of the Bank's net asset value after settlement, and shall be evaluated at least three times a month as a market risk monitoring indicator for holding positions.</li> </ol> </li> <li>3. Enhancing the stop-loss mechanism for trading positions: In response to the rapid fluctuation of the financial market and to control the risk of investment transactions, the Bank sets up a separate "Trading Part Investment Stop-Loss Practice Guidelines" and establish additional monthly stop-loss limits for various commodities trading parts, monthly stop-loss limits for traders and a stop-rights mechanism to control the market risk of various investment commodities and the operational risk of traders.</li> </ol>	The report on investment risk of marketable securities was submitted to the 5th meeting of the 15th session on July 27, 2020.
III. Strengthen the supervision of entrusting others to handle debt collection operations.	<ol style="list-style-type: none"> <li>1. On May 6, 2020, the outsourcing company was requested to submit written improvement measures to strengthen the promotion and education of the collection laws and regulations and the concept of legal enforcement, and to handle the collection business in accordance with the contract.</li> <li>2. Review the appropriateness of the outsourcing contract and the suitability of the outsourcing company.</li> <li>3. In the online education and training course on promotion of law, in regard to the procedures for compliance with the regulations on debt collection practices, it is added that "the Bank should verify the validity and</li> </ol>	The improvement measures to entrust debt collection operations to others have been reported to the 10th meeting of the 15th session on October 12, 2020.

### III. Corporate Governance Report

Matters to be enhanced	Improvement Project	Projected date for completion
	<p>correctness of the review information upon receipt of the correspondence to be printed by the external collection agency" to strengthen the compliance of the relevant personnel.</p> <p>4. The Bank has included the improvement of debt collection enforcement procedures and training of enforcement practices by external collection agencies as key items for internal audits to avoid recurrence of similar disputes.</p>	

2. A separate audit report shall be disclosed where an independent registered public accounting firm has reviewed the Company's internal control system: None.

(XII) In the past 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 Business 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. After the second instance court, the case was appealed and is now being heard by the third instance court.
- (2) Violation of laws that resulted in the Financial Supervisory Commission imposing punishment in accordance with Article 61-1 of the Banking Act. Or a penalty imposed by the Bank on its internal staff for violation of the internal control system, the result of which may have a material impact on shareholders' equity or securities prices. Or for situation that applies to Article 2 of Regulations for FSC to handle violation of financial regulations, impose punishment. On September 7, 2020, the Financial Supervisory Commission corrected the deficiencies involved in the Bank's debt collection practices.  
[Improvement measures] The Bank has revised relevant control measures and operational procedures to strengthen control.
- (3) Disclose any security incident arising from employee fraud or material contingencies or failure to faithfully abide by security maintenance work. If actual losses, whether singly or in aggregate, exceed NT\$50 million in any given year: None.
- (4) Other matters that must be disclosed pursuant to Financial Supervisory Commission designation: No

(XIII) Significant Resolutions of the Shareholders' Meeting and the Board of Directors for the year of 2020 and as of the end of February 2021

Classification	Date	Case	Resolution	Implementation
Shareholders' Meeting	2020.05.12	Proposal of 2019 Financial Statements	779,692,167 rights voted in favor, and 114,571 rights voted against, so the proposal was passed as voted.	The relevant reports and statements have been filed with the competent authority for inspection and announcement in accordance with the law and regulations of the Company Act and the Securities and Exchange Act.
		Proposal of 2019 Profit Distribution Plan	781,341,970 rights voted in favor, and 177,769 rights voted against, so the proposal was passed as voted.	The distribution base date was scheduled on June 3, 2020 and the payment date was scheduled on June 19, 2020. (Cash dividend per share: NT\$1.5)
		Proposal of Amendment to the Company's Articles of Association	780,281,229 rights voted in favor, and 1,226,582 rights voted against, so the proposal was passed as voted.	The content of the revised document was published on May 26, 2020 on the Company's website and implemented according to the revised content.
		Proposal of Amendment to the Company's Rules Governing the Proceedings of Shareholder Meetings	781,333,228 rights voted in favor, and 174,583 rights voted against, so the proposal was passed as voted.	The content of the revised document was published on May 26, 2020 on the Company's website and implemented according to the revised content.
		Proposal of Amendment to the Company's Directors Election Process	781,342,930 rights voted in favor, and 176,239 rights voted against, so the proposal was passed as voted.	The content of the revised document was published on May 26, 2020 on the Company's website and implemented according to the revised content.
Board of Directors	2020.03.16	Repurchased the Company's issued shares for the 22nd time.	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.04.06	Increase investment in shares of "Financial	Passed by the attending	Relevant operations have been

Classification	Date	Case	Resolution	Implementation
		Information Co., Ltd."	directors unanimously by being consulted by the Chairman.	handled in accordance with the resolution
		Proposal of land acquisition for Tung-Shing Section Lot #0169-0008, Beitun District, Taichung, Taiwan	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.04.27	Proposal of Amendment to the Bank's Organizational Chart and Hierarchical Responsibility Schedule	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
		Proposal of nine land and building acquisitions, including, South Gate Section Lot 1462, Central and Western District, Tainan City, adjacent to the head office building	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.07.13	Proposal of 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
	2020.08.24	Proposal of three land acquisitions at Tung-Shing Section Lot #169, 169-1 and 169-7, Beitun District, Taichung, Taiwan	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
		Increase investment in shares of Taiwan Futures Exchange	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.09.07	Proposal of land acquisition of Hsinchu City Guangpu Phase II Self-Owned Municipal Land Rezoning Business District	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.10.12	Proposal of investment in Wan Taig Securities Co., Ltd.	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.10.26	Proposal of six land acquisition of Xiqi Section Lot #1497, 1497-1, 1497-2, 1497-3, 1497-4, 1497-5, Dounan Township, Yunlin County	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.11.23	Evaluation of the independence and competence 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
		Proposal of Amendment to the Bank's Organizational Chart and Hierarchical Responsibility Schedule	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.11.27	Acquisition of Wan Taig Securities Co., Ltd. by share swap	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.12.07	Proposal of three land acquisitions of Sanmin Section Lot #265, 266 and 267, Taoyuan District	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2020.12.21	Proposal of 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
		Amendment of Hierarchical responsibility Schedule for The Human Resources Department	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2021.01.18	Wealth Management Department renamed as "Investment Service Department"	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
	2021.02.22	Discussion of the "Statement of Internal Control System of King's Town Bank" for 2020	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution
		"Statement on Internal Control System for Anti-Money Laundering and Counter-Terrorism" 2020	Passed by the attending directors unanimously by being consulted by the Chairman.	Relevant operations have been handled in accordance with the resolution



### III. Corporate Governance Report

Classification	Date	Case	Resolution	Implementation
		Produced and submitted the Bank's 2020 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
		2020 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
		Proposal of 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

- (XIV) For the year of 2020 and as of the end of February 2021, 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 2020 and as of the end of February 2021: None.

## V. Information on CPA Professional Fees

### (I) Breakdown of CPA Professional Fees

Name of the CPA firm	Name of CPA		Duration of audit	Remarks
Ernst & Young Global Limited	Huang, Shih-Chieh	Chang, Cheng-Tao	2020.1.1~2020.12.31	

Fee levels		Fee items	Audit fees	Non-audit fees	Total
1	Under NT\$2,000,000		-	✓	-
2	NT\$2,000,000 - NT\$4,000,000		✓	-	✓
3	NT\$4,000,000 - NT\$6,000,000		-	-	-
4	NT\$6,000,000 - NT\$8,000,000		-	-	-
5	NT\$8,000,000 - NT\$10,000,000		-	-	-
6	NT\$10,000,000 and above		-	-	-

Unit: NT\$ thousand

Name of the CPA firm	Name of CPA	Audit fees	Non-audit fees					Audit Period	Note
			System Design	Business Registration	Human Resource	Others	Subtotal		
Ernst & Young Global Limited	Huang, Shih-Chieh, Chang, Cheng-Tao	2,880	-	-	-	540	540	2020.1.1~2020.12.31	-

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\$40 thousand.

(II) Change of CPA firm and the audit fees for the year of the change less that of the previous year, and the amount of audit fees before and after the change, and reasons for the change: None.

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

## VI. Information on replacement of CPAs within the past two fiscal years or any subsequent interim period

### (I) Regarding the former CPAs:

Date of Replacement	February 25, 2019		
Reason for replacement and explanation	Internal job rotation of the CPA Firm		
Statement on whether the authorizing party or the CPA terminated or declined the engagement	Situation	Counterparty	CPA
	Voluntarily terminated the engagement		N/A
	Declined (further) engagement		N/A
The opinion and reason for issuing an audit report expressing other than an unqualified opinion in the last two years years	Nil		
Different opinions from the Bank	Yes		Accounting principles or practices
			Disclosure of financial statements
			Scope or procedure of auditing
			Others
	Nil	✓	
	Description: None		
Other disclosures (where Article 10, Subparagraph 6, Item 1-4 of the Regulations shall be disclosed)	Nil		

### (II) Regarding the succeeding CPAs:

CPA Firm	Ernst & Young Global Limited
Name of CPA	Huang, Shi-Chieh and Chang, Cheng-Tao
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	Nil
The matters on which the succeeding accountant's opinion is different from the opinion of the predecessor accountant in writing	Nil

(III) The succeeding CPA's reply to Article 10, Subparagraph 6, Item 1 and Item 2-3 of the Regulations: None.

## VII. Information about Chairman, President, and Financial or Accounting Manager of the Company who has worked with the CPA firm which conducts the audit of the Company or affiliate to said firm in the most recent year: None.

## VIII. 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	2020		As of February 28, 2021	
		Shareholding increase (decrease)	Pledged share increase (decrease)	Shareholding increase (decrease)	Pledged share increase (decrease)
Chairman (major shareholder)	Tiangang Investment Co., Ltd. Representative: Chen-Chih, Tai (major shareholder)	0	11,000,000	0	0
		0	0	0	0
Vice-Chairman (major shareholder)	Tiangang Investment Co., Ltd. Representative: Chiung-Ting, Tsai	0	Note	0	0
		0	0	0	0
Director	Fu Chiang Investment Ltd. Representative: Tsai, Chung-Chang (took office on May 12, 2020)	0	0	0	0
		0	0	0	0

III. Corporate Governance Report

Title	Name	2020		As of February 28, 2021	
		Shareholding increase (decrease)	Pledged share increase (decrease)	Shareholding increase (decrease)	Pledged share increase (decrease)
Director	Fu Chiang Investment Ltd.	0	0	0	0
	Representative: Ching-Shun, Ou (took office on May 12, 2020)	0	0	0	0
Independent Director	Chuan-Fu, Hou (took office on May 12, 2020)	0	0	0	0
Independent Director	Chao-Long, Chen	0	0	0	0
Independent Director	Hung-Liang, Chiang	0	0	0	0
President	Jih-Cheng Chang	0	0	276,000	0
Senior Vice President	Qi-Wei, You	0	0	25,000	0
Chief Auditor	Ching-Chu, Pai	0	0	40,000	0
Executive Vice President	Chien-Wei, Pan (took office on January 30, 2020)	0	0	50,000	0
Senior Vice President	Chih-Cheng, Yu	0	0	130,000	0
Vice President	Pen-Chen, Su	0	0	75,000	0
Financial Officer (Vice President)	Chih-Jin, Wu	0	0	50,000	0
Vice President and Corporate Governance Director	Chien-Ko, Yang	100,000	0	100,000	0
Vice President	Hung-Sung, Shen	0	0	50,000	0
Vice President	Shu-Chen, Tsai (took office on February 10, 2020)	32,000	0	100,000	0
Vice President	Lu, Ying-Shih (took office on May 1, 2020)	0	0	35,000	0
Accounting Executive	Yu-Hsuan, Chen	0	0	0	0
Director	Tiangang Investment Co., Ltd.	0	Note	0	0
	Representative: Wang, Hsien-Tsund (discharged on May 12, 2020)	0	0	0	0
Director	Tiangang Investment Co., Ltd.	0	Note	0	0
	Representative: Chin-Chung, Chuang (discharged on May 12, 2020)	0	0	0	0
Independent Director	Representative: Ming-Tai, Chen (discharged on May 12, 2020)	0	0	0	0
Vice President	Representative: Ou, Yu-Yin (discharged on May 31, 2020)	0	0	0	0
Vice President	Representative: Shea-Lin, Chen (discharged on August 25, 2020)	-77,000	0	0	0

Note: The number of shares pledged by Tiangang Investment Co., Ltd. is 11,000,000 shares in the same column as the chairman of the Board of Directors in 2020.

(II) Transfer of Equity Interests: No equity interests were transferred to/from related parties, thus it is not applicable.

(III) Pledge of equity: The counterparties of equity pledge are not related parties, thus it is not applicable.

**IX. Relationship information, if among the Company's ten largest shareholders anyone is a related party or a relative within the second degree of kinship of another**

Relationships among the company's ten largest shareholders

Base date: 2021.02.28

Name	Share Ownership		Shares Held by Spouse & Dependents		Shares Held under Nominee Accounts		Among ten largest shareholders, name and relationship with anyone who is a related party or a relative within the second degree of kinship		Note
	Quantity of stock (shares)	Ratio of Shareholding	Quantity of stock (shares)	Ratio of Shareholding	Quantity of stock (shares)	%	Title/name	Relationship	
Chen-Chih, Tai (*)	78,209,000	6.98%	5,890,000	0.53%	0	0%	Nil	Nil	
Tien-Tsan, Tsai	72,752,033	6.49%	10,346,139	0.92%	0	0%	Tiangang Investment Co., Ltd.	Spouse of the representative	
							Tianye Investment, Ltd.	Representative's relative within the second degree of kinship	
							Hsien-Tsung, Wang, Chen, Yi Ying	Kinship within second-degree	
Mercuries Life Insurance Co. Ltd.	71,351,000	6.36%	0	0%	0	0%	Nil	Nil	
Representative of the aforementioned companies Chen, Hsiang-Chieh	0	0%	0	0%	0	0%	Nil	Nil	
Jincheng Construction Co., Ltd.	47,610,000	4.25%	0	0%	0	0%	Nil	Nil	
Representative of the aforementioned companies Chiu, Chun-Chun	4,000,000	0.36%	0	0%	0	0%	Nil	Nil	
Hsinray Investment Co., Ltd.	46,571,869	4.15%	0	0%	0	0%	Nil	Nil	
Representative of the aforementioned companies Chiu, Chun-Chun	4,000,000	0.36%	0	0%	0	0%	Nil	Nil	
Tiangang Investment Co., Ltd. (*)	39,399,025	3.51%	0	0%	0	0%	Nil	Nil	
Representative of the aforementioned companies Tsai S., Mei-Yun	10,346,139	0.92%	72,752,033	6.49%	0	0%	Tien-Tsan, Tsai	Spouse;	
							Hsien-Tsung, Wang, Chen, Yi Ying	Kinship within second-degree	
							Tianye Investment, Ltd.	Representative's relative within the second degree of kinship	
Tianye Investment, Ltd.	34,690,325	3.09%	0	0%	0	0%	Nil	Nil	
Representative of the aforementioned companies Yi-Ying, Chen	23,756,000	2.12%	0	0%	0	0%	Tien-Tsan, Tsai	Kinship within second-degree	
							Tiangang Investment Co., Ltd.	Representative's relative within the second degree of kinship	
Hsien-Tsung, Wang	29,277,882	2.61%	12,419,667	1.11%	0	0%	Tien-Tsan, Tsai	Kinship within second-degree	
							Tiangang Investment Co., Ltd.	Representative's relative within the second degree of kinship	

Name	Share Ownership		Shares Held by Spouse & Dependents		Shares Held under Nominee Accounts		Among ten largest shareholders, name and relationship with anyone who is a related party or a relative within the second degree of kinship		Note
	Quantity of stock (shares)	Ratio of Shareholding	Quantity of stock (shares)	Ratio of Shareholding	Quantity of stock (shares)	%	Title/name	Relationship	
Yi-Ying, Chen (*)	23,756,000	2.12%	0	0%	0	0%	Tien-Tsan, Tsai	Kinship within second-degree	
							Tianye Investment, Ltd.	Name	
							Tiangang Investment Co., Ltd.	Representative's relative within the second degree of kinship	
Special Account for Investment of the Central Bank of Norway in custody	17,079,000	1.52%	0	0%	0	0%	Nil	Nil	

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

**X. Quantity of shareholdings of the same investee by the Bank and Directors, Supervisors, Presidents, Executive/Seinor Vice Presidents, Vice Presidents, Heads of the various departments and branches, and direct or indirect subsidiaries in proportion to the combined holdings of all**

Base date: 2020.12.31

Invested Companies	Investment made by the Bank		Investment made by directors, supervisors, presidents, executive/seinor vice presidents, vice presidents, heads of branches, and direct or indirect subsidiaries		Total Ownership	
	Quantity of stock (shares)	Shareholding ratio	Quantity of stock (shares)	Shareholding ratio	Quantity of stock (shares)	Shareholding ratio
Taiwan Depository and Clearing Corp.	1,417,557	0.36%	0	0%	1,417,557	0.36%
Taipei Forex Inc.	80,000	0.40%	0	0%	80,000	0.40%
Taiwan Futures Exchange	1,841,504	0.50%	0	0%	1,841,504	0.50%
Financial Information Co., Ltd.	6,119,158	1.17%	0	0%	6,119,158	1.17%
Taiwan Stock Exchange Corporation	21,529,909	2.87%	0	0%	21,529,909	2.87%
Sunshine Asset Management Co., Ltd.	37,211	0.62%	0	0%	37,211	0.62%
King's Town Bank International Leasing Co., Ltd.	71,695,280	100%	0	0%	71,695,280	100%
Wan Taig Securities Co., Ltd.	19,901,336	99.51%	0	0%	19,901,336	99.51%
Taiwan Incubator SME Development Co.	3,417,440	4.84%	0	0%	3,417,440	4.84%

IV. Capitalization

**Chapter 4 Capitalization**

**XI. Capital and Shares**

(I) Sources of capital

Base date: 2021.02.28

Unit: Shares; NT\$

Year and month	Issue price	Authorized capital		Paid-in capital		Note	
		Shares	Amount	Shares	Amount	Sources of capital	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 of NT\$14.4 million, bonus of NT\$25.2 million, special reserve of 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 of NT\$45.9 million and special reserve of 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 of 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 of 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 of 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 of 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 of 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 of 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 of 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 of NT\$240 million, special reserve of NT\$160 million, and employee bonus of 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 of NT\$228.665 million, additional paid-in capital of NT\$277.835 million, and employee bonus of 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 of NT\$274.4 million, additional paid-in capital of NT\$277.83 million, and employee bonus of NT\$5.77 million	(81) MOF. Sec. (I) No. 02348 dated 09.14.1992
1993.08		270,000,000	2,700,000,000	270,000,000	2,700,000,000	Earnings and special reserve of NT\$281.232 million, additional paid-in capital of NT\$144.768 million, and employee bonus of NT\$1 million	(82) MOF. Sec. (I) No. 01649 dated 05.17.1993
1994.03	NT\$53 per share	335,000,000	3,350,000,000	335,000,000	3,350,000,000	Earnings of NT\$390.415 million, additional paid-in capital of NT\$9.585 million, and capital increase in cash of NT\$250 million	(83) MOF. Sec. (I) No. 28035 dated 07.05.1994
1995.03	NT\$43 per share	440,130,000	4,401,300,000	440,130,000	4,401,300,000	Capital increase in cash of NT\$100 million, earnings of NT\$599.204 million, additional paid-in capital of NT\$332.096 million, and employee bonus of NT\$20 million	(84) MOF. Sec. (I) No. 31862 dated 06.10.1995
1996.10		545,762,200	5,457,622,000	545,762,200	5,457,622,000	Earnings of NT\$624.985 million and additional paid-in capital of NT\$431.327 million	(85) MOF. Sec. (I) No. 41979 dated 07.12.1996
1997.11		646,727,022	6,467,270,220	646,727,022	6,467,270,220	Earnings of NT\$578.507 million and additional paid-in capital of NT\$431.151 million	(86) MOF. Sec. (I) No. 65313 dated 08.16.1997
1998.12		724,334,265	7,243,342,650	724,334,265	7,243,342,650	Earnings of NT\$523.849 million and additional paid-in capital of NT\$252.223 million	(87) MOF. Sec. (I) No. 79377 dated 09.15.1998
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 of NT\$3.6 billion	(94) FSC. I. Tzi No. 0940132082 dated 08.15.2005
2008.11		1,800,000,000	18,000,000,000	1,069,334,265	10,693,342,650	Treasury stock shares canceled for an amount of NT\$150,000,000	(97) FSC. III Tzi No. 0970050338 dated 09.17.2008 (97) FSC. III Tzi No. 0970055145 dated 10.20.2008
2008.12		1,800,000,000	18,000,000,000	1,051,234,265	10,512,342,650	Treasury stock shares canceled for an amount of NT\$181,000,000	(97) FSC. III Tzi No. 0970068208 dated 12.15.2008

## IV. Capitalization

Year and month	Issue price	Authorized capital		Paid-in capital		Note	
		Shares	Amount	Shares	Amount	Sources of capital	Others
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 canceled 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 canceled 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 canceled 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 canceled for an amount of NT\$100,000,000	(108) MOEA. So.Sun.Tzi No. 10801141640 dated 10.21.2019
2020.05		1,800,000,000	18,000,000,000	1,121,234,265	11,212,342,650	Treasury stock shares canceled for an amount of NT\$100,000,000	(109) MOEA. So.Sun.Tzi No. 10901076840 dated 05.22.2019



#### IV. Capitalization

##### Type of Shares

Base date: 2021.02.28

Unit: Shares

Type of shares	Authorized capital			Note
	Outstanding shares	Unissued shares	Total	
Ordinary share	1,121,234,265	678,765,735	1,800,000,000	Common stock
Preference stock	0	0	0	

##### (II) Composition of Shareholders

Base date: 2021.02.28

Unit: person; share; %

Composition of Shareholders	Government agencies	Financial institutions	Other juridical	Foreign institutions and foreigners	Individuals	Treasury stock	Total
Amount							
Number of people (persons)	0	7	111	223	35,077	0	35,418
Shareholding (shares)	0	119,727,064	284,279,012	181,008,452	536,219,737	0	1,121,234,265
Shareholding ratio (%)	0%	10.68%	25.35%	16.14%	47.83%	0%	100%

##### (III) Diversification of Shareholdings

NT\$10 per share

Base date: 2021.02.28

Range of shares	No. of shareholders	Shareholding (shares)	Shareholding ratio (%)
1 to 999	16,261	4,216,674	0.38%
1,000 to 5,000	13,421	29,308,062	2.61%
5,001 to 10,000	2,669	20,668,085	1.84%
10,001 to 15,000	840	10,495,866	0.94%
15,001 to 20,000	553	10,130,577	0.90%
20,001 to 30,000	482	12,423,741	1.11%
30,001 to 40,000	237	8,482,203	0.76%
40,001 to 50,000	154	7,129,838	0.64%
50,001 to 100,000	303	22,353,158	1.99%
100,001 to 200,000	171	25,140,954	2.24%
200,001 to 400,000	109	31,372,343	2.80%
400,001 to 600,000	56	26,244,396	2.34%
600,001 to 800,000	22	15,217,140	1.36%
800,001 to 1,000,000	26	23,961,561	2.14%
Over 1,000,001	114	874,089,667	77.95%
Total	35,418	1,121,234,265	100%

Note: Distribution of preferred shares: None.

##### (IV) List of major shareholders

Base date: 2021.02.28

Name of major shareholder	Shareholding (shares)	%
Chen-Chih, Tai	78,209,000	6.98%
Tien-Tsan, Tsai	72,752,033	6.49%
Mercuries Life Insurance Co. Ltd.	71,351,000	6.36%
Jincheng Construction Co., Ltd.	47,610,000	4.25%
Hsinray Investment Co., Ltd.	46,571,869	4.15%
Tiangang Investment Co., Ltd.	39,399,025	3.51%
Tianye Investment Company	34,690,325	3.09%
Hsien-Tsung, Wang	29,277,882	2.61%
Yi-Ying, Chen	23,756,000	2.12%
Special Account for Investment of the Central Bank of Norway in custody of Citibank(Taiwan)	17,079,000	1.52%

Note: The top ten shareholders are listed.

## (V) Information on stock price, net value, earnings, dividends per share for the last two years

Unit: NT\$

Item		Year	2019	2020	As of February 28, 2021
Market price per share	Highest		34.65	40.20	41.50
	Lowest		27.80	25.25	37.60
	Average		32.09	35.47	39.13
Net value per share	Before distribution		36.28	41.66	41.95
	After distribution		34.79	-	-
Earnings per share	Weighted average shares (thousand shares)		1,137,777	1,120,378	1,118,387
	Earnings per share		2.99	4.90	0.99
Dividends per share	Cash dividend		1.50	-	-
	Stock dividends	Paid out of retained earnings	-	-	-
		Paid out of capital surplus	-	-	-
	Accumulated undistributed dividend		-	-	-
Return on investment	Price / Earnings Ratio (Note 1)		10.73	7.24	-
	Price / Dividend Ratio (Note 2)		21.39	-	-
	Cash dividend yield rate (Note 3)		4.67	-	-

Note 1: P/E Ratio = Average Market Price per Share / Earnings per Share

Note 2: Price/Dividend Ratio = Average Market Price per Share / Cash Dividend per Share

Note 3: Cash Dividend Yield = Cash Dividend per Share / Average Market Price per Share

Note 4: The dividend payment for 2020 has not been approved by the shareholders general meeting.

Note 5: In February 2021, the net value per share and earnings per share were calculated by the Bank internally.

## (VI) Dividend Policy and 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 2020 is NT\$1.8 per share.

#### IV. Capitalization

(VII) 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.

(VIII) Remuneration of employees, directors and supervisors

1. The percentages or ranges with respect to employee, director, and supervisor compensation, as set forth 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 2020 to issue cash remuneration for NT\$630,000 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. The actual distribution of remuneration of employees, directors, and supervisors in the previous year: The Bank passed the 2019 earnings distribution resolution in the shareholders meeting on May 12, 2020 with NT\$0 to directors and supervisors and NT\$400,000 in cash to employees.

(IX) Repurchase of the Bank's stock shares in 2020 and as of the end of February 2021:

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

Period no.	21st time (period)	22nd time (period)
Purpose of repurchase	Transferred to employees	Maintain corporate credit and shareholders' equity
Repurchase period	11/14/2019 ~ 12/09/2019	03/17/2020 ~ 03/27/2020
Price range for repurchase	30~35	28~35
Type and amount of the repurchased shares	3,000,000 shares	10,000,000 shares
Amount of the repurchased shares	98,421,625	276,923,886
Ratio of repurchased shares to shares repurchase planned	100%	100%
Capital adequacy ratio before the repurchase of the Bank's shares	Base date: 09/30/2019 Ratio: 14.70	Base date: 02/29/2020 Ratio: 17.09
Capital adequacy ratio after the repurchase of the Bank's shares	Base date: 09/30/2019 Ratio: 14.66	Base date: 02/29/2020 Ratio: 16.95
Shareholdings that have been canceled and transferred	3,000,000 shares (Note 1)	10,000,000 shares (Note 2)
Cumulative number of shares held by the Bank	0 share	0 share
Ratio of cumulative number of shares held by the Bank to the total issued shares (%)	0%	0%
Transfer of repurchased shares to the employees	Transferred	Not applicable
Circumstances in which the Board will take restrictive measures if the transfer is not completed within three years after the share repurchase	None	Not applicable
Note 1: The 21st repurchase of treasury stock was transferred to employees at a transfer price of NT\$39.65 per share, and the transfer of stock was completed on 02.26.2021.		
Note 2: The 22nd repurchase of treasury shares was canceled and capital decreased according to the resolution of the Board of Directors on 04.27.2020; also, the change of registration for the capital decreased was approved by the competent authority on 05.22.2020.		

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

#### XII. Issuance of financial bond

None.

#### XIII. Issuance of preferred shares

None.

**XIV. Issuance of overseas depositary receipt**

None.

**XV. Issuance of employee stock warrant and restricted employee shares**

None.

**XVI. Merger and acquisition or transfer of other financial institutions**

None.

**XVII. Implementation of the Bank's capital allocation plans**

(I) Plan content: The Bank did not issue financial bonds or handle cash replenishment in 2020.

(II) Implementation: None.

## Chapter 5 Operational Overview

### I. Business activities

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

##### 1. Deposit Business

Accept check deposits, savings deposits, time deposits, general deposits, agency collection/payment, and domestic exchanges

##### 2. Loan Business

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 Business

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 Business

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: NT\$ thousands; %

Item	2020.12.31	2019.12.31	Amount of increase/decrease	Growth rate (%)
New Taiwan Dollar Deposit Business	201,359,610	176,392,985	24,966,625	14.15
Foreign Currency Deposit Business	25,793,407	15,422,458	10,370,949	67.25
Loan Business	187,824,034	157,597,636	30,226,398	19.18
Balance of trust	32,409,117	31,542,846	866,271	2.75

Unit: NT\$ million; %

Item	2020.12.31	2019.12.31	Amount of increase/decrease	Growth rate (%)	
Investment Business	CD of Central Bank of the Republic of China (Taiwan)	18,900	17,700	1,200	6.78%
	Domestic treasury bonds	39,299	37,036	2,263	6.11%
	Domestic corporate bonds	1,100	0	1,100	-
	Stock	5,772	3,590	2,182	60.78%
	Fund	2,600	1,910	690	36.13%
	REITS	387	387	0	0.00%
	ETN	0	6	-6	-100.00%
	Foreign currency securities (excluding foreign stocks)	34,982	36,323	-1,341	-3.69%
	Long-term equity investments	2,352	2,017	335	16.61%
Total	105,392	98,969	6,423	6.49%	

## 2. Ratio of each business to operating income

Unit: NT\$ thousands; %

Item	2020		2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Revenue	8,906,920	100.00	8,492,984	100.00
Loan Business	4,622,649	51.90	4,281,930	50.42
Corporate Banking	4,317,894	48.48	3,958,483	46.61
Consumer Banking	304,755	3.42	323,447	3.81
Trust Business	29,997	0.34	31,481	0.37
Foreign Exchanges Business	501,302	5.63	609,865	7.18
Wealth Management	239,542	2.69	373,497	4.40
Investment Business	3,449,115	38.72	3,056,155	35.98
Others	64,315	0.72	140,056	1.65

## V. Operational Overview

### (III) 2021 Business Plan

#### 1. Deposit Business

- (1) Grasp the trend of digital development, drive the innovation of business models, actively create a digital financial environment, provide more diversified and convenient financial services for citizens and businesses, and enhance the competitiveness of the financial industry.
- (2) Design products that meet the market need 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 a full range of services to customers, promote the digitalization of financial transactions, increase the digital platform application and online transaction functions, and optimize digital channel services to enhance customer loyalty and adherence 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 our credit products in accordance with market changes and provide suitable financial products according to the characteristics of different customer segments, and provide different lending solutions for various capital needs to meet the financial needs of our customers.
- (2) Review the income of credit products, continue to 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 breadth and enhance market visibility.

#### 3. Foreign Exchanges Business

- (1) Continue to develop foreign currency digitalization products for Internet banking and mobile banking in response to the epidemic and the increasing demand for digital financial services.
- (2) Continue to promote foreign exchange deposit products to attract and maintain stable foreign exchange funds.
- (3) Promote and optimize Western Union's digital service platform "KING'S PAY" to provide more convenient cross-border remittance services to the public.
- (4) Continue to streamline the foreign exchange operation process and various application forms for the public in order to enhance operational efficiency and service satisfaction.

#### 4. Wealth Management

- (1) Introduce ESG-related financial products as a priority to support the concept of corporate sustainable management.
- (2) Lower the threshold for purchasing financial products and optimize the online trading interface process to meet the investment needs of financial novices,
- (3) Plan and implement professional training courses for specialized staff, reserve and general staff to strengthen our financial management capabilities.
- (4) Streamline and promote paperless workflow to enhance operational efficiency.
- (5) Enhance internal audit and internal control management mechanism through monitoring technology.

#### 5. Trust Business

- (1) Upholding the stance of professional finance and honest service, provide a good financial service experience, establish a culture-centered "fair hospitality" culture, which is incorporated into our routine education and training to ensure the rights and interests of our customers.
- (2) Integrate the Bank's internal resources with various financial products to design customized trust products and provide a full range of high-quality services such as personal or corporate financial planning, transaction security, asset transfer and property protection to increase the Bank's handling fee income.
- (3) Update the operating procedures, regularly promote and strengthen the inspection of the operations in accordance with the regulations of the competent authorities; make every effort to improve the trust service functions and develop a full range of trust business for customers' needs in line with government policies,

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 branches 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 branches in the Yunlin, Chiayi and Tainan region, and 5 offices in the Kaohsiung region. All of the offices of the Bank are full-featured branches for a diversified business 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

As the COVID-19 epidemic continues to spread, coupled with ongoing global political and economic conflicts, these unanticipated events have not only changed business models and reshaped industry value chains, but have also made it difficult to predict customer demand. In order to get a head start in the ever-changing future, AI has been introduced to help the Company grasp the current situation and assist in decision making. Compared with traditional AI, which can only provide advice on relatively simple cause-and-effect relationships, the new generation of explanatory AI can provide multi-disciplinary analysis results for different application contexts, and it is expected that finance, health, manufacturing and retail will be the key industries to be introduced first.

As COVID-19 isolated the world in 2020, the world was experiencing dramatic changes in the ecological environment and financial markets, but new investment opportunities were being created in the midst of the crisis. The use of new technologies such as telematics driven by the impact of the epidemic is still the future trend, especially the new technology research and development in the United States and China's technology economy of scale, coupled with Taiwan's core technology semiconductor components. In addition, the crisis of the epidemic has made the world pay more attention to the urgency of ESG investment, especially after the election of Biden to the U.S. presidency, in order to implement campaign promises to combat the threat of climate change, etc., will promote legislation requiring companies to disclose more ESG information, Taiwan companies are similarly required to pay attention to and implement relevant issues.

##### 3. Advantages and disadvantages of competitive niche and development prospects

###### (1) Competitive favorable factors of the Bank

- A. Operating performance indicators (return on equity, non-performing loans ratio and coverage ratio) are better than the average for 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) Competitive unfavorable factors of the Bank

- A. The deposit and loan business is relatively small in scale; also, most of the branches are located in the Yunlin, Chiayi and Tainan region instead of in the northern and central area of Taiwan that is not conducive to business development.
- B. Facing the pure Internet banking business model, traditional banks have become more eager to transform themselves digitally.

##### 4. Response measures

- (1) Regularly evaluate branch performance and regional development in order to adjust our business locations and increase our competitiveness.
- (2) Focus on core products, integrate marketing resources, implement cross-marketing, expand business dealings with core customers, and increase overall customer contribution.



## V. Operational Overview

- (3) Engage in insurance agency business to enhance the protection of customers' rights and interests and improve operational performance.
- (4) Continue to build a new generation of Personal Internet Banking, Corporate Internet Banking and Mobile Banking in response to the needs of the digital financial era to provide customers with a more user-friendly interface and transaction functions.

### (V) Financial Instruments Research and Business Development Overview

#### 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 2020, the balance of loans to SMEs was NT\$113,303,964 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. We understand the actual operating conditions of customers and carry out customized financial and financing structure planning to clarify the source of repayment and reduce overall credit risk.
- C. Actively promote supply chain financing business and regional core industry credit business to enhance product competitiveness.

##### (2) Consumer finance:

- A. Actively promote our home mortgage loan business, such as preferential home mortgage loan, wealth management home loan, with an overall mortgage balance of \$19,349,938 thousand as of the end of 2020.
- 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 2020: as of the end of December 2020, the balance of specific money trust (fund business) asset was NT\$8,791,795 thousand, and the balance of other trust (including real estate trust and other money trust businesses) asset was NT\$23,617,322 thousand. The total trust assets were NT\$32,409,117 thousand, and the total trust fee income was NT\$94,588 thousand.

##### (4) Wealth management business:

Major financial instruments and new business segments and their size/gains and losses in the last two years

- A. Continue to increase the number of protection insurance products and strengthen the control of personal risks to meet customer needs.
- B. Continue to track changes in the market, deliver investment information and allocation recommendations in real-time, and remove products with poor performance or low inventory to focus on the return on investment of our customers' total assets.
- C. The wealth management service fee income in 2020 was NT\$255,243 thousand.

#### 2. Research and development expenses and results incurred over the last two years, and future research and development plans

##### (1) Research and development expenses

Year	2020	2019
Amount	101,513	58,122

Unit: in NT\$ thousand

##### (2) Research and development results

- A. Completed digital deposit account project
- B. Completed internal staff assessment automation project
- C. Completed message notification platform integration project

- D. Completed mobile payment project
- E. Completed new mobile network and mobile banking overseas debt project
- F. Completed KING's Pay Western Union Fast Remittance Project
- G. Completed the EACH project
- H. Completed the HSM integration project
- I. Completed the card-free withdrawal project
- J. Completed customer risk rating projects
- K. Established marketing platform
- L. Completed log management system to purchase additional LOG&SIEM license
- M. Completed lending entry system project
- N. Completed the bilingual personal Internet banking project

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

Project in the most recent year	Further R&D expense (NT\$ thousand)	Projected date for completion
Transfer with bank phone number	0	January 2021
Computer room reconstruction project	0	March 2021
Core system upgrade project	0	March 2021
Temporary account opening optimization project	6,000	March 2021
English official website	0	April 2021
JKO pay	500	April 2021
Privileged account management	0	June 2021
KTB Guardian integrated into mobile banking	0	July 2021
OPEN API project	500	September 2021
Credit granting process automation project	0	October 2021
Calling system	7,000	December 2021
New Taiwan Dollar and foreign currency core system integration project	8,000	December 2022
Database auditing system upgrade	10,000	June 2022
Legal compliance integration platform project	0	December 2022

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

## V. Operational Overview

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

#### 1. Short-term business development plan

- (1) Grasp the trend of digitalization, drive the innovation of business models, provide more diversified and convenient financial services to the public and enterprises, and enhance the competitiveness of the financial industry.
- (2) Actively provide a full range of services to our customers, promote digital financial transactions, and use digital technology to develop new channels and digitalize branch services to enhance loyalty and adhesion to the Bank..

#### 2. Long-term business development plan

- (1) Focus on niche financial instruments and promote businesses that focus on service fee income in response to changes in the financial environment and business needs.
- (2) Continuously streamline operations, reduce operational risks, improve operational service efficiency, and provide customers with quality financial services.
- (3) Review the economic development of each region and the performance of our branches, and propose branch relocation plans in a timely manner to enhance our competitiveness.
- (4) Strengthen the leadership and management skills of supervisors at all levels and accelerate the cultivation of reserve staff in order to strengthen the foundation of sustainable management of the Bank.
- (5) Fulfill our corporate social responsibility, promote employee welfare and cultivate local communities.

## II. The information of employees within the past two years and up to the printing date of the annual report

### (I) Information on Employees

Year		2019	2020	As of February 28, 2021
No. of employees	Managerial positions	270	277	290
	Employees	678	676	663
	Total	948	953	953
Average age		39.5	39.9	39.3
Average year of services		12.1	12.4	12.8
Academic distribution ratio	Master degree and above	9%	9.8%	9%
	Bachelor's degree	83%	81.9%	83%
	Below senior high school	8%	8.4%	8%
Professional certificate held by employees	Qualification exams for Securities Specialists	141	137	149
	Qualification exams for Senior Securities Specialists	91	88	89
	Qualification exams for Securities Investment Analysts	8	8	8
	Qualification exams for Futures Trading Analysts	66	69	62
	Qualification exams for Investment Trust and Consulting Professionals	62	62	63
	Proficiency Test for Trust Operations Personnel	708	683	700
	Proficiency Test for Financial Planning Personnel	193	186	177
	Proficiency Test for Bank Internal Control and Audit	648	640	656
	Basic Proficiency Test for International Banking Personnel	104	101	102
	Basic Proficiency Test for Bank Lending Personnel	207	206	206
	Advanced Proficiency Test for Bank Lending Personnel	10	8	8
	Qualification exams for Personal insurance agent	6	7	6
	Qualification exams for Property insurance agent	5	5	5
	Qualification exams for Personal insurance broker	3	3	3
	Qualification exams for Property insurance broker	4	4	4
	Qualification exams for Personal insurance representative	823	806	819
	Qualification exams for Property insurance representative	780	765	783
	Qualification exams for Investment-orientated insurance product representative	505	514	509
	Qualification exams for Foreign Currency Payment and Non-Investment Commodity Test	490	499	511
	Certified Financial Specialist for Small and Medium Enterprises	26	27	26
	Qualifications of structured product sales personnel	162	155	143
	Professional Exam for Anti-Money Laundering and Countering Terrorism Financing Specialist	285	285	305
	Basic Competency Test for Risk Management	6	4	10
	Basic Test on the FinTech Knowledge	19	23	27
	Basic Competency Test for Corporate Governance	-	6	8
	Chartered Financial Analyst (CFA)	2	1	3
	Financial Risk Management Analyst (FRM)	-	1	1
	Certified Anti-Money Laundering Specialist	1	1	1
	Lawyer	1	2	2
	International Certified Internal Auditor	1	1	1
Certified Information Systems Auditor	1	1	1	

(II) The Bank's personnel related to the transparency of financial information have obtained the relevant licenses specified by the competent authorities as follows:

Relevant department	Relevant certifications specified by the competent authority	No. of person obtained
Auditing Department	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	13
	CIA International Internal Auditor	1
	Certified Information Systems Auditor	1
Administration Management Department	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	10
	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
	Basic Competency Test for Corporate Governance	5
Treasury Department	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	9
Risk Management Department	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	13
	Enterprise Internal Controller Competency Test (Securities and Futures Institute)	1
Compliance Department	Bank Internal Controller and Internal Auditor Test (Taiwan Academy of Banking and Finance)	9
	Anti-Money Laundering and Counter-Terrorism Financing personnel test (Taiwan Academy of Banking and Finance)	7

(III) Employee education and training

In response to changes in the financial environment and to maintain corporate competitiveness, the Bank has strengthened the development of its human resources and promoted the concept of 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 2020 education and training courses are as follows:

Courses	Number of classes	Total number of persons	Total hours	Total cost (NT\$)
Profession training	928	102,590	27,688	3,795,051
Training for new recruits	3	47	1,880	
Regulations	9	398	3,774	
Information security education training	3	2,750	2,741	
Communication skills development training	2	120	1,280	
Labor safety training	2	14	282	
Self-defense firefighting team training	2	70	140	
Total	949	105,898	37,785	

## V. Operational Overview

### (IV) Managers participating in continuing education and training related to corporate governance:

In 2020, 11 managers participated in a total of 66 hours of classes in corporate governance.

Title	Name	Training date	Organizer	Course name	Training hours
President	Jih-Cheng, Chang	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Chief Auditor	Ching-Chu, Pai	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Administration Management Department	Chien-Ko, Yang	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Compliance Department	Chih-Cheng, Yu	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Investment Service Department	Qi-Wei, You	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Auditing Department	Yu-Che, Cheng	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Treasury Department	Hui-Chen, Yu	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Rende Branch	Chiung-Chiang, Tsai	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Liujia Branch	Chun-Mi, Wu	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Lunbei Branch	Mei-Ling, Lin	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6
Guanmiao Branch	Chien-Jung, Lin	2020.10.26	Securities and Futures Institute	"Anti-money Laundering and Counter-Terrorism Financing" and "The Latest Fintech and Information Security Issues"	6

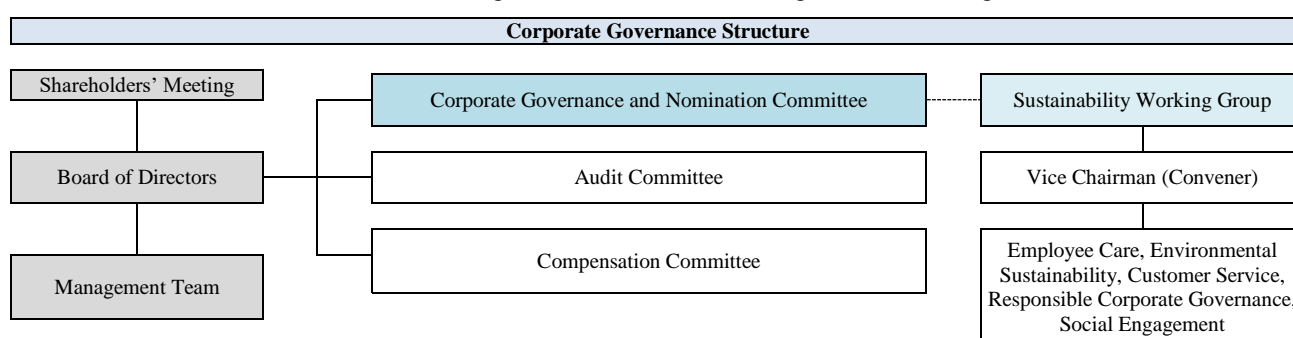
### (V) Protection measures for employees' working environment and employees' personal safety

1. The Bank has security systems and security personnel at its business premises to maintain the safety of the workplace and its 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 2020, there were two sessions of labor safety and firefighting team training. A total of 74 people attended a total of 140 hours of training.

### III. Corporate social responsibilities and ethical conduct

The goal of "becoming a better company" is the goal that King's Town Bank strives to achieve. A successful company does not only pursue the growth of profits, but in the process, through the influence of the Company, allows the effective distribution of resources, the stability of society, and the vitality of the environment. In addition to the Corporate Governance and Nomination Committee, which is the supervisory unit for CSR, King's Town Bank has also established the Sustainability Working Group, with the Vice-Chairman as the convener, to plan, execute, promote and review the implementation of corporate responsibility. King's Town Bank's implementation of corporate social responsibility is reflected in five aspects:

- (I) Strengthen corporate governance, implement compliance with laws and regulations, and emphasize risk control.
- (II) Protect customers' rights and interests, develop digital finance and enhance customer experience.
- (III) Cultivate local talents, constructing a happy workplace, and affirm gender equality.
- (IV) Serve the community, bridge the gap between urban and rural areas, and support arts and cultural activities.
- (V) Promote sustainable finance, create a green environment, and mitigate climate change.



King's Town Bank Summary of 2020 Corporate Social Responsibility Initiatives
<b>Customer care</b>
<ol style="list-style-type: none"> <li>1. In 2020, we launched a number of digital financial products and services, such as "Goyee Digital Deposit Account", "KING's Pay", ATM card-free withdrawal service, new "Taiwan PAY" payment function for mobile banking, and new mobile banking account notification function.</li> <li>2. In 2020, the number of personal Internet banking and mobile banking users will grow by 24.4% and the number of transactions will reach 1,017,000, up 28.68% from 2019. Over 70% of King's Town Bank's branches are located in Southern Taiwan, so when developing digital finance, we can best understand the difficulties of middle and old age people in using digital products. King's Town Bank continues to educate customers on the operation of digital products through Digital Angels, so every customer can enjoy convenient and safe digital financial services. The November 2020 Customer Satisfaction Survey shows that 90.52% of our customers are satisfied with the digital services provided by King's Town Bank, including 91.73% of customers aged 60 or older who are satisfied with King's Town Bank's digital services.</li> <li>3. King's Town Bank values the customer experience and takes every feedback from our customers seriously, for which we continue to optimize our products and services. A total of 2,406 valid questionnaires were collected in the customer satisfaction survey conducted in November 2020, and the survey result was 90.34%. A total of 53 complaints were received in 2020, all of which were completed with an average processing time of 2.27 days.</li> </ol>
<b>Environmental protection</b>
<ol style="list-style-type: none"> <li>1. Completed the ISO50001 energy management system revision and verification operation in September 2020.</li> <li>2. Participated in the "2020 Annual Tainan Environmental Education Management and Promotion Plan" of the Environmental Protection Bureau of Tainan City Government, and made green purchases for a total of NT\$21,432,899.</li> <li>3. The Bank used 4,510,454 kWh of electricity in 2020, which was 12.05% lower than that of 2017.</li> <li>4. The Bank used 17,910 cubic meters of water in 2020, which was 18.38% less than in 2017.</li> <li>5. Greenhouse gas emissions of 2,325 (metric tons of CO<sub>2</sub>e/year) in 2020 already represent an 18.8% reduction in emissions from 2017.</li> <li>6. Since 2012, we have installed solar energy installations at the head office and are planning to build solar energy branches. At the end of 2010, King's Town Bank generated 42,805 kWh of green electricity, which is equivalent to a reduction of 21.79 tons of carbon emissions.</li> </ol>

## V. Operational Overview

### King's Town Bank Summary of 2020 Corporate Social Responsibility Initiatives

#### Social welfare and community participation

1. In 2020, the Bank organized and participated in 302 community care activities with 2,268 volunteers, 7,236 volunteer hours, and 20,182 beneficiaries.
2. In 2020, the Bank successfully stopped 126 frauds with a value of approximately NT\$10 million, and the Bank's meritorious officers have been repeatedly awarded by local police units.
3. King's Town Bank has brought together the best staff from all departments to be the lecturers of high school financial education, so students can have a better understanding of financial knowledge. A total of 8 seminars were held in 2020, benefiting 114 students.
4. Participated in the "Flagship Youth Employment Project" of the Labour Force Development Department, our senior staff members served as workplace training instructors to provide a "learning-by-doing" pathway for newcomers, helping them to gain practical and useful professional skills for their future career development.
5. Sponsored the Tainan Arts Festival, the Angel Heart Family Foundation, the Teach for Taiwan Foundation, the Twilight Elite Development Association, and supported the farmers by purchasing Guanmiao pineapple gift boxes, as well as participated in various local community activities.

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

	2019	2020	Growth rate
Number of full time employees (person)	818	824	0.73%
Full-time employee average salary (Thousands)	756	791	4.63%
Full-time employee salary means (Thousands)	695	723	4.03%

#### V. Information equipment

##### (I) Configuration and maintenance of major information systems

###### 1. Host

- (1) Core system host hardware: use IBM i Series P9 model 9009-41A host.
- (2) Core system host software: use IBM OS/400, DB2/400.
- (3) Foreign exchange host hardware: use IBM i Series P5 9406-520 host.
- (4) Foreign exchange host software: use IBM OS/400, DB2/400.

###### 2. Open system Microsoft platform part

- (1) Hardware:
  - Open system servers: Use IBM, Lenovo or HP servers.
  - Disk drives: Use HP, IBM and Lenovo disk drives.
- (2) Software:
  - Operating systems: Windows Server, Red Hat Enterprise Linux.
  - Database: Mainly MSSQL DB.

##### (II) Future development and purchase plan

###### 1. Host: Foreign exchange host upgrade.

###### 2. Network

- (1) Expand the capacity of the information center network equipment and replace the firewall of the main gateway at the branch side.
- (2) Application Firewall (WAF) retirement upgrade.
- (3) Endpoint Protection System MDR upgrade build.
- (4) Endpoint management system enhancement.
- (5) Strengthen the information security monitoring system.

##### (III) Emergency backup and security protection measures

###### 1. Emergency backup measures

- (1) Host: use IBM POWER HA off-site redundancy solution to synchronize the local data to the DR redundancy center to ensure the DR data synchronization.
- (2) Open system platform: important servers use Storage Area Network (SAN) technology for data redundancy offsite to ensure DR data synchronization.
- (3) Network: Build the important routers and switches in HA mode in terms of network system redundancy to ensure the quality of network connection. Use fiber optic MPLS line with 4G redundancy for business unit line.

2. Safety protection measures

- (1) In addition to implementing general security measures in the server room, strengthening fire safety facilities, environmental monitoring, and early warning functions, the Bank has strengthened its information security measures by using firewalls, anti-virus systems, intrusion detection, and other information security equipment from major international manufacturers, and by layering security measures in the external service system according to the service area of influence. We continue to build a safe and efficient internal operational management and external collaborative trading environment to enhance our core competencies.
- (2) Network traffic contract with ISP to adopt information security fleet solution, and activate traffic cleaning service for website malicious attack protection when necessary.
- (3) Cooperate with the automatic information security monitoring system mechanism to achieve effective monitoring and timely protection and maintain the security of the network and system environment.



## VI. Labor-management relations

### (I) Employee benefits

#### 1. Company's welfare measures

- (1) Welfare: Employee deposit and loan privileges, group insurance, sports, recreational activities, etc.
- (2) In addition to the establishment of Employee Benefits Committee by the Bank for handling related welfare matters, employees of the Bank may also apply for subsidies for marriage, childbirth, funeral, etc. in accordance with the regulations.

#### 2. Employee Benefits Committee

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

- (1) Subsidies for marriage, childbirth, funeral, illness or injury.
- (2) Bonus for Spring Festival, Dragon Boat Festival and Mid-Autumn Festival.
- (3) Club subsidies for activity clubs.

#### 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. The Bank had instituted Regulations for Employee Retirement in accordance to Labor Standards Act and Labor Pension Act to handle employees' retirement matters. Employees who met any of the following criteria below may apply for voluntary retirement:

- Having served in the Bank for more than 15 years, and reached the age of 55 years old.
- Having served in the Bank for more than 25 years.
- Having served in the Bank for more than 10 years. and reached the age of 60 years old.

#### 2. The Regulations for Employee Retirement instituted in accordance to Labor Standards Act is a defined benefit plan. Since 2012, 15% of the total salary has been allocated to the pension fund on a monthly basis and deposited in the Bank of Taiwan in the name of Supervisory Committee of Labor Retirement Reserve. When an employee retires, pension is calculated according to the base number of years of service and the average monthly salary of the half year before retirement.

#### 3. The Regulations for Employee Retirement is a defined contribution plan instituted in accordance to Labor Pension Act, where 6% of employees' salary is allocated to labor pension every month. In 2020 and 2019, the amount of expenses recognized for defined contribution plan was NT\$31,667,000 and NT\$31,157,000 respectively.

### (III) Employer-employee agreements and measures taken to safeguard employee interests

#### 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 2020 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 2021, and the estimates expected currently and for the future to be disclosed and their corresponding measures: None

**VII. Important contracts**

Nature of contract	Counterparty	Term of contract	Major contents	Limitations
Contract of mandate	Leader International Asset Management Service Co., Ltd.	2020.10.27-2021.10.26	Outsourced collections for overdue accounts	None
Contract of mandate	Jungshin Asset Management Co., Ltd.	2020.10.27-2021.10.26		None
Contract of mandate	Asia Credit Management Co., Ltd.	2020.10.27-2021.10.26		None
Contract of mandate	United Credit Services	2020.10.27-2021.10.26		None

**VIII. Types 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

**Chapter 6: Financial Overview****I. Condensed balance sheets and income statements for the past five years****(I) Condensed consolidated balance sheets**

Unit: NTS thousand

Item	Year	Financial information for the past five years				
		2016	2017	2018	2019	2020
Cash and cash equivalents, due from the Central Bank and call loans to other banks		39,288,559	18,978,280	18,187,099	14,711,349	16,524,929
Financial assets at fair value through profit and loss		5,585,356	21,606,855	31,786,797	34,979,793	45,032,063
Financial assets at fair value through other comprehensive income		-	-	53,487,356	50,891,550	48,819,322
Investments in debt instruments measured at amortized costs		-	-	17,597,996	17,698,135	18,897,382
Bonds and securities purchased under agreements to resell		3,106,295	2,565,772	624,167	150,022	200,248
Receivables - net		1,470,477	2,669,418	3,642,416	4,907,384	5,933,698
Discounts and advances - net		124,251,450	142,947,865	152,229,752	155,350,678	184,901,230
Available-for-sale financial assets		63,973,405	59,078,492	-	-	-
Held-to-maturity financial assets		-	17,600,000	-	-	-
Other financial assets - net		3,052,381	2,309,637	4,705	4,396	363
Real estate and equipment - net		2,461,730	2,393,890	2,388,923	2,713,818	3,376,707
Right-of-use assets		-	-	-	215,683	217,504
Investment property - net		-	-	-	-	115,036
Deferred tax assets		235,828	275,018	266,927	145,188	185,987
Other assets - net		658,481	751,034	878,581	974,912	1,253,470
Total asset value		244,083,962	271,176,261	281,094,719	282,742,908	325,457,939
Central Bank and inter-bank deposits		10,381,448	22,269,428	19,937,251	14,533,849	21,117,468
Loans from the Central Bank and other banks		7,811,960	5,315,680	3,438,640	4,395,830	4,597,650
Financial liabilities at fair value through profit and loss		34,946	127,902	25,784	6,002	13,062
Securities sold under Repurchase Agreements		15,553,347	21,359,805	29,316,496	28,218,020	21,990,934
Payables		2,260,933	2,431,811	2,311,881	1,252,826	1,601,260
Current tax liabilities		577,283	564,198	404,846	78,459	573,272
Deposits and remittances		173,752,830	180,388,401	188,432,924	191,798,662	226,932,674
Other financial liabilities		70,000	900,000	1,230,000	500,000	890,000
Liability reserve		491,765	473,759	420,427	383,414	394,957
Lease liability		-	-	-	217,256	219,898
Deferred tax liabilities		55,482	50,135	59,890	135,832	299,314
Other liabilities		293,472	334,262	332,519	291,249	244,360
Total liabilities	Before distribution	211,283,466	234,215,381	245,910,658	241,811,399	278,874,849
	After distribution	213,002,818	235,936,103	247,622,510	243,488,750	Note 2
Profit and/or loss attributable to the owners of parent company		32,800,496	36,960,880	35,184,061	40,931,509	46,581,457
Equity	Before distribution	11,512,343	11,512,343	11,512,343	11,312,343	11,212,343
	After distribution	11,512,343	11,512,343	11,512,343	11,312,343	Note 2
Capital reserve		62,323	62,323	99,585	56,095	55,622
Retained earnings	Before distribution	19,593,229	23,478,293	24,355,709	25,553,798	29,159,013
	After distribution	17,873,877	21,757,571	22,643,857	23,876,447	Note 2
Other equity		1,762,241	2,037,561	-468,711	4,107,695	6,252,901
Treasury Stock		-129,640	-129,640	-314,865	-98,422	-98,422
Non-controlling interest		-	-	-	-	1,633
Total equity	Before distribution	32,800,496	36,960,880	35,184,061	40,931,509	46,583,090
	After distribution	31,081,144	35,240,158	33,472,209	39,254,158	Note 2

Note 1: Financial information from 2016 to 2020 has been verified by CPAs.

Note 2: The dividend payment for 2020 has not been approved by the shareholders' general meeting.

## (II) Condensed individual balance sheet

Unit: NTS thousand

Item	Year	Financial information for the past five years				
		2016	2017	2018	2019	2020
Cash and cash equivalents, due from the Central Bank and call loans to other banks		38,829,461	18,938,467	18,163,828	14,667,749	16,362,037
Financial assets at fair value through profit or loss		5,585,356	21,606,855	31,459,508	34,733,596	44,721,848
Financial assets at fair value through other comprehensive income		-	-	53,412,766	50,810,145	48,717,089
Investments in debt instruments measured at amortized costs		-	-	17,597,996	17,698,135	18,897,382
Bonds and securities purchased under agreements to resell		3,106,295	2,565,772	624,167	150,022	200,248
Receivables - net		1,073,268	950,065	1,028,136	1,270,450	891,330
Discounts and advances - net		124,251,450	142,947,865	152,229,752	155,350,678	184,901,230
Available-for-sale financial assets		63,791,755	58,723,646	-	-	-
Held-to-maturity financial assets		-	17,600,000	-	-	-
Investments accounted for using equity method - net		997,671	1,066,561	988,643	699,890	1,167,990
Other financial assets - net		2,952,381	2,189,637	4,705	4,396	363
Real estate and equipment - net		2,461,369	2,392,392	2,387,498	2,706,831	3,373,133
Right-of-use assets		-	-	-	215,683	217,504
Deferred tax assets		235,828	267,833	265,736	142,041	180,966
Other assets - net		653,899	745,778	870,298	956,932	1,204,398
Total asset value		243,938,733	269,994,871	279,033,033	279,406,548	320,835,518
Central Bank and inter-bank deposits		10,381,448	22,269,428	19,937,251	14,533,849	21,117,468
Loans from the Central Bank and other banks		7,746,960	4,775,680	2,458,640	1,655,830	907,650
Financial liabilities at fair value through profit and loss		34,946	127,902	25,784	6,002	13,062
Securities sold under Repurchase Agreements		15,553,347	21,359,805	29,316,496	28,218,020	21,990,934
Payables		2,242,415	2,419,466	2,299,446	1,223,956	1,432,333
Current tax liabilities		527,028	544,736	366,893	71,953	566,736
Deposits and remittances		173,827,862	180,719,981	188,677,300	191,812,314	227,147,197
Other financial liabilities		-	-	-	-	-
Liability reserve		491,765	473,759	420,427	383,414	394,957
Lease liability		-	-	-	217,256	219,898
Deferred tax liabilities		55,482	50,135	59,890	135,832	299,314
Other liabilities		276,984	293,099	286,845	216,613	164,512
Total liabilities	Before distribution	211,138,237	233,033,991	243,848,972	238,475,039	274,254,061
	After distribution	212,857,589	234,754,713	245,560,824	240,152,390	Note 2
Profit and/or loss attributable to the owners of parent company		32,800,496	36,960,880	35,184,061	40,931,509	46,581,457
Equity	Before distribution	11,512,343	11,512,343	11,512,343	11,312,343	11,212,343
	After distribution	11,512,343	11,512,343	11,512,343	11,312,343	Note 2
Capital reserve		62,323	62,323	99,585	56,095	55,622
Retained earnings	Before distribution	19,593,229	23,478,293	24,355,709	25,553,798	29,159,013
	After distribution	17,873,877	21,757,571	22,643,857	23,876,447	Note 2
Other equity		1,762,241	2,037,561	-468,711	4,107,695	6,252,901
Treasury Stock		-129,640	-129,640	-314,865	-98,422	-98,422
Non-controlling interest		-	-	-	-	-
Total equity	Before distribution	32,800,496	36,960,880	35,184,061	40,931,509	46,581,457
	After distribution	31,081,144	35,240,158	33,472,209	39,254,158	Note 2

Note 1: Financial information from 2016 to 2020 has been verified by CPAs.

Note 2: The dividend payment for 2020 has not been approved by the shareholders' general meeting.

VI. Financial Overview

(III) Condensed consolidated income statement

Unit: NTS thousand

Item	Year	Financial information for the past five years				
		2016	2017	2018	2019	2020
Interest Revenue		6,227,659	6,232,248	6,872,966	6,833,454	6,513,084
Less: Interest expense		-1,324,638	-1,431,778	-1,855,473	-2,078,065	-1,267,131
Net interest income		4,903,021	4,800,470	5,017,493	4,755,389	5,245,953
Net Revenue Other than Interest		2,621,738	4,204,975	1,983,321	3,737,595	3,660,967
Net revenue		7,524,759	9,005,445	7,000,814	8,492,984	8,906,920
Bad debt expenses, commitment and guarantee liability provisions		-111,058	-670,584	-1,643,112	-2,655,404	-744,664
Operating expenses		-1,833,880	-1,874,278	-1,784,391	-1,933,699	-1,899,734
Net income before tax from continuing operating units		5,579,821	6,460,583	3,573,311	3,903,881	6,262,522
Income tax (expense) profit		-798,363	-850,049	-695,510	-504,194	-771,551
Net income from continuing operations		4,781,458	5,610,534	2,877,801	3,399,687	5,490,971
Profit or loss from discontinued operations		-	-	-	-	-
Net profit (net loss) for the current period		4,781,458	5,610,534	2,877,801	3,399,687	5,490,971
Other comprehensive income (after tax) for the current period		423,634	269,202	-3,303,535	4,469,693	2,113,257
Total comprehensive income (after tax) for the current period		5,205,092	5,879,736	-425,734	7,869,380	7,604,228
Net profit attributable to the owners of parent company		4,781,458	5,610,534	2,877,801	3,399,687	5,490,966
Net profit attributable to non-controlling interest		-	-	-	-	5
Total comprehensive income attributable to parent company		5,205,092	5,879,736	-425,734	7,869,380	7,604,223
Comprehensive income attributable to non-controlling equity		-	-	-	-	5
Earnings per share		4.17	4.89	2.51	2.99	4.90

Note: Financial information from 2016 to 2020 has been verified by CPAs.

(IV) Condensed individual income statement

Unit: NTS thousand

Item	Year	Financial information for the past five years				
		2016	2017	2018	2019	2020
Interest Revenue		6,209,013	6,162,590	6,729,884	6,649,901	6,233,702
Less: Interest expense		-1,323,391	-1,423,685	-1,836,231	-2,046,344	-1,217,287
Net interest income		4,885,622	4,738,905	4,893,653	4,603,557	5,016,415
Net Revenue Other than Interest		2,468,993	4,139,696	1,945,302	3,676,700	3,692,430
Net revenue		7,354,615	8,878,601	6,838,955	8,280,257	8,708,845
Bad debt expenses, commitment and guarantee liability provisions		-59,645	-639,497	-1,606,593	-2,553,305	-636,327
Operating expenses		-1,797,290	-1,838,849	-1,727,785	-1,881,401	-1,841,317
Net income before tax from continuing operating units		5,497,680	6,400,255	3,504,577	3,845,551	6,231,201
Income tax (expense) profit		-716,222	-789,721	-626,776	-445,864	-740,235
Net income from continuing operations		4,781,458	5,610,534	2,877,801	3,399,687	5,490,966
Profit or loss from discontinued operations		-	-	-	-	-
Net profit after tax for the current period		4,781,458	5,610,534	2,877,801	3,399,687	5,490,966
Other comprehensive income (after tax) for the current period		423,634	269,202	-3,303,535	4,469,693	2,113,257
Total comprehensive income (after tax) for the current period		5,205,092	5,879,736	-425,734	7,869,380	7,604,223
Earnings per share		4.17	4.89	2.51	2.99	4.90

Note: Financial information from 2016 to 2020 has been verified by CPAs.

## (V) Name of CPAs and audit opinions

Item \ Year	2016	2017	2018	2019	2020
CPAs	Hu, Tzu-Jen; Chang, Cheng-Tao	Hu, Tzu-Jen; Chang, Cheng-Tao	Hu, Tzu-Jen; Chang, Cheng-Tao	Huang, Shih-Chieh; Chang, Cheng-Tao	Huang, Shih-Chieh; Chang, Cheng-Tao
Audit opinion	Unqualified opinion	Unqualified opinion	Unqualified opinion (emphasis on items or other matters)	Unqualified opinion (emphasis on items or other matters)	Unqualified opinion (other matters)

## II. Financial analysis and capital adequacy for the past five years

## (I) Financial Analysis - Consolidated

Unit: NT\$ thousand

Descriptions	Year	Financial analysis for the past five years				
		2016	2017	2018	2019	2020
Operating ability	Loan-to-deposit ratio (%)	72.67	80.49	82.04	82.18	82.78
	Non-performing loans ratio (%)	0.02	0.02	0.02	0.01	0.01
	Interest expense to average deposits balances ratio (%)	0.77	0.81	1.02	1.11	0.62
	Interest income to average credit loan balances ratio (%)	4.88	4.62	4.44	4.46	3.86
	Total asset turnover (times)	0.031	0.033	0.025	0.03	0.03
	Average operation revenue per employee	7,871	9,351	7,129	8,501	8,819
	Average profit per employee	5,002	5,826	2,931	3,403	5,437
Profitability	Return on Tier I Capital (%)	19.45	19.84	10.46	11.24	16.16
	Return on assets (%)	1.99	2.18	1.04	1.21	1.81
	Return on equity (%)	15.61	16.08	7.98	8.93	12.55
	Net profit rate (%)	63.54	62.3	41.11	40.03	61.65
	Earnings per share (NT\$)	4.17	4.89	2.51	2.99	4.9
Financial structure	Liabilities to total assets ratio	86.51	86.32	87.45	85.48	85.63
	Ratio of real estate and equipment to equity	7.51	6.48	6.79	6.63	7.25
Growth rate	Asset growth rate (%)	2.75	11.10	3.66	0.59	15.11
	Profit growth rate (%)	25.09	15.78	-44.69	9.25	60.42
Cash flows	Cash flow ratio	-10.00	-49.75	-13.67	-3.01	22.46
	Cash flow adequacy ratio	361.36	280.31	145.75	137.28	118.55
	Cash flow for operating to cash flow from investing ratio	-247.81	-3050.87	16159.67	377.62	1052.44
Liquidity reserve ratio (%)	29.29	28.46	24.34	25.26	21.97	
Total credit loan balances for Stakeholders	181,243	166,103	202,990	198,132	244,286	
Total credit extension balance of the stakeholder as a percentage of total credit balance (%)	0.14	0.11	0.13	0.13	0.13	
Operation scale	Asset market asset	0.47	0.50	0.49	0.48	0.51
	Market share of net worth (%)	0.91	0.98	0.88	0.95	1.04
	Market share of deposits (%)	0.51	0.51	0.52	0.50	0.54
	Market share of loans (%)	0.50	0.55	0.56	0.54	0.61
Reasons for changes in financial ratios for the past two years	<ol style="list-style-type: none"> <li>The decrease in interest expense to average deposits balances ratio was due to the decrease in interest expense as a result of the global central bank's interest rate cut in the current period.</li> <li>The increase in average profit per employee, profitability ratio and profit growth rate was mainly due to the Bank's prudent risk management and credit policy, which maintained a certain level of asset quality and resulted in a decrease in the charge for doubtful accounts and an increase in profit in the current period.</li> <li>The increase in asset growth rate was due to the increase in investment in financial instruments and the scale of lending in the current period.</li> <li>The increase in cash flow ratio and cash flow for operating to cash flow from investing ratio was due to the increase in net cash inflow from operating activities as a result of the increase in deposit size during the period.</li> </ol>					

Note: The above financial information has been verified by CPAs.

VI. Financial Overview

(II) Individual financial analysis

Unit: NTS thousand

Descriptions	Year	Financial analysis for the past five years				
		2016	2017	2018	2019	2020
Operating ability	Loan-to-deposit ratio (%)	72.64	80.34	81.94	82.18	82.7
	Non-performing loans ratio (%)	0.02	0.02	0.02	0.01	0.01
	Interest expense to average deposits balances ratio (%)	0.77	0.81	1.01	1.10	0.60
	Interest income to average credit loan balances ratio (%)	4.87	4.57	4.35	4.34	3.70
	Total asset turnover (times)	0.03	0.033	0.025	0.03	0.03
	Average operation revenue per employee	7,841	9,465	7,169	8,493	9,072
	Average profit per employee	5,098	5,981	3,017	3,487	5,720
Profitability	Return on Tier I Capital (%)	19.46	19.94	10.41	11.2	16.27
	Return on assets (%)	1.99	2.18	1.05	1.22	1.83
	Return on equity (%)	15.61	16.08	7.98	8.93	12.55
	Net profit rate (%)	65.01	63.19	42.08	41.06	63.05
	Earnings per share (NT\$)	4.17	4.89	2.51	2.99	4.90
Financial structure	Liabilities to total assets ratio	86.5	86.26	87.35	85.31	85.42
	Ratio of real estate and equipment to equity	7.50	6.47	6.79	6.61	7.24
Growth rate	Asset growth rate (%)	2.66	10.68	3.35	0.13	14.83
	Profit growth rate (%)	24.98	16.42	-45.24	9.73	62.04
Cash flows	Cash flow ratio	-9.83	-48.8	-13.11	0.41	25.01
	Cash flow adequacy ratio	365.88	146.78	145.75	143.04	131.17
	Cash flow for operating to cash flow from investing ratio	-242.69	-2929.6	15221.43	132.46	1070.03
Liquidity reserve ratio (%)		29.29	28.46	24.34	25.26	21.97
Total credit loan balances for Stakeholders		181,243	166,103	202,990	198,132	244,286
Total credit extension balance of the stakeholder as a percentage of total credit balance (%)		0.14	0.11	0.13	0.13	0.13
Operation scale	Asset market asset	0.47	0.50	0.49	0.47	0.50
	Market share of net worth (%)	0.91	0.98	0.88	0.95	1.04
	Market share of deposits (%)	0.51	0.51	0.52	0.50	0.54
	Market share of loans (%)	0.50	0.55	0.56	0.54	0.61
Reasons for changes in financial ratios for the past two years	1. The decrease in interest expense to average deposits balances ratio was due to the decrease in interest expense as a result of the global central bank's interest rate cut in the current period.					
	2. The increase in average profit per employee, profitability ratio and profit growth rate was mainly due to the Bank's prudent risk management and credit policy, which maintained a certain level of asset quality and resulted in a decrease in the charge for doubtful accounts and an increase in profit in the current period.					
	3. The increase in asset growth rate was due to the increase in investment in financial instruments and the scale of lending in the current period.					
	4. The increase in cash flow ratio and cash flow for operating to cash flow from investing ratio was due to the increase in net cash inflow from operating activities as a result of the increase in deposit size during the period.					

Note: The above financial information has been verified by CPAs.

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

1. Operating ability
  - (1) Loan-to-deposit ratio = Total loans / Total deposits
  - (2) Non-performing loans ratio = Total non-performing loans / Total loans
  - (3) Interest expense to average deposits balances ratio = Total interest expense / Average annual deposit balance
  - (4) Interest income to average credit loan balances ratio = Total interest income / Average annual loan balance
  - (5) Total asset turnover = Net earnings / Average total assets
  - (6) Average operation revenue per employee = Net earnings / Total no. of employees
  - (7) Average profit per employee = Net earnings after tax / Total no. of employees
2. Profitability
  - (1) Return on Tier I Capital = Profit or loss before tax / Average total amount of Tier I Capital
  - (2) Return on assets = Profit or loss after tax / Average total assets
  - (3) Return on equity = Profit or loss after tax / Average net shareholders' equity
  - (4) Net profit rate = Profit or loss after tax / net income
  - (5) Earnings per share = (Income attributable to owners of parent company - Preferred shares dividends) / Weighted average number of shares issued.
3. Financial structure
  - (1) Debt ratio = Total liabilities / Total assets.
  - (2) Ratio of real estate and equipment to equity = 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 = (Income before tax of the current year - Income before tax of the previous year) - Income before tax of the previous year
5. Cash flow
  - (1) Cash flow ratio = Net cash flow from operating activities / (Interbank lending and overdraft + Commercial paper payable + Financial liabilities at fair value through profit or loss + Bills and bonds sold under repurchase agreement + Payables with maturity within one year)
  - (2) Cash flow adequacy ratio = Net cash flow from operating activities for the past five years / (Capital expenditures + Inventory increment + Cash dividends) for the past five years.
  - (3) Cash flow for operating to cash flow from investing ratio = Net cash flow from operating activities / Net cash flow from investing activities
6. Liquidity reserve ratio = Central bank required current assets / Allowance for liquidity of liabilities.
7. Operation scale
  - (1) Asset market asset = Total assets / Total assets of all financial institutions available for making deposits and loans
  - (2) Market share of net worth = Net worth / Total net worth of all financial institutions available for making deposits and loans
  - (3) Market share of deposits = Total deposits / Total deposits of all financial institutions available for making deposits and loans
  - (4) Market share of loans = Total amount of loans / Total amount of all financial institutions available for making deposits and loans



VI. Financial Overview

(III) Consolidated capital adequacy

Unit: NT\$ thousand, %

Descriptions	Year	Capital adequacy for the past five years					
		2016	2017	2018	2019	2020	
Total self-owned capital	Common stock equity	30,567,318	34,540,390	33,752,396	35,718,515	41,798,281	
	Other Tier 1 capital other than common stock equity	0	0	0	0	0	
	Tier II Capital	1,286,745	1,371,984	670,827	1,160,997	5,099,791	
	Total self-owned capital	31,863,063	35,912,374	34,423,223	36,879,512	46,898,072	
Risk-weighted assets	Credit risk	Standardized approach	172,253,077	189,364,260	197,892,405	203,419,934	235,788,899
		Internal ratings-based approach	0	0	0	0	0
		Asset securitization	16,802	0	0	0	0
	Operational risk	Basic indicator approach	12,491,079	13,659,885	13,772,518	14,518,830	15,364,635
		Standard method/Alternative standardized approach	0	0	0	0	0
		Advanced measurement method	0	0	0	0	0
	Market risk	Standardized approach	13,318,991	24,201,891	30,537,017	27,297,382	37,874,809
		Internal models approach	0	0	0	0	0
	Total risk-weighted assets		198,079,949	227,226,036	242,201,940	245,236,146	289,028,343
	Capital adequacy ratio		16.09%	15.80%	14.21%	15.04%	16.23%
Tier 1 capital to risk-based assets ratio		15.44%	15.20%	13.94%	14.56%	14.46%	
Ratio of common equity to risk-based assets		15.44%	15.20%	13.94%	14.56%	14.46%	
Leverage ratio		11.71%	11.95%	11.17%	11.81%	12.27%	

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: The above financial information for the past five years has been audited and verified by CPAs.

(IV) Individual capital adequacy

Unit: NT\$ thousand, %

Descriptions	Year	Capital adequacy for the past five years					
		2016	2017	2018	2019	2020	
Total self-owned capital	Common stock equity	30,127,483	34,063,996	33,293,116	35,406,623	41,214,286	
	Other Tier 1 capital other than common stock equity	0	0	0	0	0	
	Tier II Capital	837,909	885,604	211,547	849,105	4,448,388	
	Total self-owned capital	30,965,392	34,949,600	33,504,663	36,255,728	45,662,674	
Risk-weighted assets	Credit risk	Standardized approach	171,480,858	187,587,490	195,257,564	199,737,743	230,396,305
		Internal ratings-based approach	0	0	0	0	0
		Asset securitization	16,802	0	0	0	0
	Operational risk	Basic indicator approach	12,384,281	13,437,529	13,510,439	14,230,138	15,006,874
		Standard method/Alternative standardized approach	0	0	0	0	0
		Advanced measurement method	0	0	0	0	0
	Market risk	Standardized approach	12,955,691	23,492,259	29,882,439	26,804,987	37,254,379
		Internal models approach	0	0	0	0	0
	Total risk-weighted assets		196,837,632	224,517,278	238,650,442	240,772,868	282,657,558
	Capital adequacy ratio		15.73%	15.57%	14.04%	15.06%	16.15%
Tier 1 capital to risk-based assets ratio		15.31%	15.17%	13.95%	14.71%	14.58%	
Ratio of common equity to risk-based assets		15.31%	15.17%	13.95%	14.71%	14.58%	
Leverage ratio		11.56%	11.85%	11.11%	11.85%	12.28%	

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:
- The above financial information for the past five years has been audited and verified by CPAs.
  - 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".
  - The formula for capital adequacy ratio in the capital adequacy tables (3) and (4) shown above is as follows:
    - Total self-owned capital = Common stock equity + Tier I Capital other than common stock + Tier II Capital.
    - Total 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.
    - The ratio of Tier I capital to risk-weighted assets = (Common stock equity + Tier 1 capital other than common stock) / Total risk-weighted assets
    - Ratio of common stock equity to risk assets = Common stock equity / Total risk-weighted assets.
    - Leverage ratio = Net Tier I capital / Total exposure
  - The leverage ratio has been disclosed since 2015.

**III. Audit committee review report of the 2020 financial reports**

京城商業銀行股份有限公司

審計委員會審查報告書

本公司民國一〇九年度個體及合併財務報告，業經安永聯合會計師事務所查核完竣，並出具查核報告，連同營業報告書及盈餘分配案等，經本審計委員會審查，認為尚無不合，爰依照證券交易法第十四條之四、公司法第二百零九條規定備具報告書，敬請 鑒核。

此致

本公司一一〇年股東常會

審計委員會

召集人：

姜宏亮 

中 華 民 國 一 一 〇 年 二 月 二 十 二 日

**IV. 2020 Financial reports**

Please refer to Appendix I on page 101 of the annual report for the independent auditor's report, financial reports and notes for the year 2020.

**V. Individual financial reports verified by independent auditor for 2020**

Please refer to Appendix II on page 226 of the annual report for the individual financial reports verified by independent auditor for 2020.

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

## Chapter 7: Review and analysis of financial condition and results, and risk management matters

### I. Financial status

Unit: NTS thousand

Item	Year		Variation	
	2019	2020	Amount	%
Cash and cash equivalents, due from the Central Bank and call loans to other banks	14,711,349	16,524,929	1,813,580	12.33%
Financial assets at fair value through profit and loss	34,979,793	45,032,063	10,052,270	28.74%
Financial assets at fair value through other comprehensive income	50,891,550	48,819,322	-2,072,228	-4.07%
Investments in debt instruments measured at amortized costs	17,698,135	18,897,382	1,199,247	6.78%
Bonds and securities purchased under agreements to resell	150,022	200,248	50,226	33.48%
Receivables - net	4,907,384	5,933,698	1,026,314	20.91%
Discounts and advances - net	155,350,678	184,901,230	29,550,552	19.02%
Other financial assets - net	4,396	363	-4,033	-91.74%
Real estate and equipment - net	2,713,818	3,376,707	662,889	24.43%
Right-of-use assets	215,683	217,504	1,821	0.84%
Investment property - net	-	115,036	115,036	-
Deferred tax assets	145,188	185,987	40,799	28.10%
Other assets - net	974,912	1,253,470	278,558	28.57%
Total asset value	282,742,908	325,457,939	42,715,031	15.11%
Central Bank and inter-bank deposits	14,533,849	21,117,468	6,583,619	45.30%
Loans from the Central Bank and other banks	4,395,830	4,597,650	201,820	4.59%
Financial liabilities at fair value through profit and loss	6,002	13,062	7,060	117.63%
Securities sold under Repurchase Agreements	28,218,020	21,990,934	-6,227,086	-22.07%
Payables	1,252,826	1,601,260	348,434	27.81%
Current tax liabilities	78,459	573,272	494,813	630.66%
Deposits and remittances	191,798,662	226,932,674	35,134,012	18.32%
Other financial liabilities	500,000	890,000	390,000	78%
Liability reserve	383,414	394,957	11,543	3.01%
Lease liability	217,256	219,898	2,642	1.22%
Deferred tax liabilities	135,832	299,314	163,482	120.36%
Other liabilities	291,249	244,360	-46,889	-16.10%
Total liabilities	241,811,399	278,874,849	37,063,450	15.33%
Equity	11,312,343	11,212,343	-100,000	-0.88%
Capital reserve	56,095	55,622	-473	0.84%
Retained earnings	25,553,798	29,159,013	3,605,215	14.11%
Other equity	4,107,695	6,252,901	2,145,206	52.22%
Treasury Stock	-98,422	-98,422	-	-%
Profit and/or loss attributable to the owners of parent company	40,931,509	46,581,457	5,649,948	13.80%
Non-controlling interest	-	1,633	1,633	-%
Total shareholders' equity	40,931,509	46,583,090	5,651,581	13.81%

#### Description of differences.

- The increase in financial assets at fair value through profit or loss was mainly due to the increase in investments in bonds, equities and money market funds, and the increase in valuation gains due to the recovery in market prices of domestic financial assets.
- 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 Bank undertakes.
- The increase in receivables - net was due to the increase in notes and accounts receivable as compared to the previous period due to the growth in business volume of the subsidiary's leasing business.
- The decrease in other financial assets, net was due to the decrease in the balance of temporary payments compared to the previous period.
- The increase in net real estate and equipment was due to the acquisition of additional property and equipment for business purposes during the period.
- The increase in deferred income tax assets and deferred income tax liabilities was due to the increase in the calculation of the excess of allowance for doubtful accounts and the increase in the unrecognized gain on valuation of financial assets in the current period compared with the previous period.
- The increase in other net assets was due to the increase in the amount retained in the Bank's treasury clearing account compared to the previous period.
- The increase in financial liabilities at fair value through profit or loss was due to the increase in foreign exchange translation adjustments in the current period compared to the previous period.
- The increase in accounts payable was due to the increase in the exchange of notes and investment settlements in the current period compared to the previous period.
- The increase in income tax liabilities was due to higher income tax expense as a result of the increase in net income for the period.
- The increase in other equity was due to the increase in valuation benefits from the recovery in the price of overseas bonds.

**II. Financial performance**

Unit: in NT\$ thousands; %

Item	Year	2019	2020	Increase (Decrease)	
				Amount	Proportion (%)
Net interest income		4,755,389	5,245,953	490,564	10.32%
Net Revenue Other than Interest		3,737,595	3,660,967	-76,628	-2.05%
Bad debt expenses, commitment and guarantee liability provisions		-2,655,404	-744,664	-1,910,740	-71.96%
Operating expenses		-1,933,699	-1,899,734	-33,965	-1.76%
Net income before tax from continuing operating units		3,903,881	6,262,522	2,358,641	60.42%
Net income from continuing operations		3,399,687	5,490,971	2,091,284	61.51%
Profit or loss from discontinued operations		-	-	-	-
Net profit (net loss) for the current period		3,399,687	5,490,971	2,091,284	61.51%

**Analysis of variance:**

Under the Bank's prudent risk management and credit policy, the quality of assets was maintained at a certain level, resulting in a decrease in the charge for doubtful accounts and an increase in the net income before and after-tax from the continuing operating units compared to the previous period.

**III. Cash flows****(I) Analysis on liquidity for the past two years**

Item	Year	December 31, 2019	December 31, 2020	Variation (%)
Cash flow ratio		-3.01	22.46	846.18
Cash flow adequacy ratio		137.28	118.55	-13.64
Cash flow for operating to cash flow from investing ratio		377.62	1052.44	178.70

**Analysis of variance in increase/ decrease:**

The increase in cash flow ratio and cash flow adequacy ratio for the period was due to the increase in net cash inflow from operating activities as a result of the increase in Central Bank and inter-bank deposits in the current year compared to the previous year.

**(II) Cash flow analysis for the next year**

Unit: NT\$ thousand

Cash balance amount at the beginning of the year (1)	Expected net annual cash flow from operating activities (2)	Expected annual cash flow (3)	Amount of cash surplus (deficit) (1) + (2) + (3)	Remedial measures for cash inadequacy	
				Investment plans	Financing plans
10,582,934	2,559,053	-1,911,661	11,230,326	-	-

**IV. Impact of major capital expenditures on financial operations in 2020**

(I) Use of major capital expenditure and source of funds: None.

(II) Expected gains: None.

**V. 2020 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 Bank'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 for profits or losses of re-investment**

The main source of profit in 2020 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) Improvement plans**

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 plans for the next 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.

**VI. Risk management**

(I) Organizational structure and policies of risk management

1. Organizational structure of risk management



(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, and the department head of the Treasury Department, Digital Service and Channel Management Department, Risk Management Department, Credit Assessment Department, Administration Management Department, International Banking Department, Compliance Department, and the Strategy and Operations Department and other personnel designated by the President act as the Members of the Committee. The Chief Auditor may attend the Committee meeting, but is not entitled with voting rights. The Committee has a meeting held once a month with the following missions to fulfill:

- A. Add and amend the Bank's risk management policy.
- B. Coordinate the risk management issues of the Bank, such as credit risk, market risk, and operational risk.
- C. Review the ratio of the Bank's self-owned capital to risk assets (referred to 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) Information Security Management Committee

In November 2015, the Information Security Management Committee was established with the aim of reducing the risk and impact caused by information security issues, as well as to refine the Bank's ISMS, in response to all information security related laws and regulations and in compliance with relevant government regulations. The committee is responsible for the review of policies and regulations for ISMS and the overall implementation of information security. In addition, the Information Security Section of the Risk Management Department shall report to the Board of Directors on the implementation status annually. The Committee has one convener appointed who is the President or an individual appointed by the President. The members are the head of the Risk Management Department, the Information Technology Department, the Digital Service and Channel Management Department, the Compliance

Department, and the department head or the designated individual of the department designated by the convener. The Auditing Department may attend the Committee meeting, but is not entitled with voting rights. 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. Propose the information security policy of the Bank.
- 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

The Information Security Policy was instituted specifically as a means to protect the confidentiality, integrity, and availability of the Bank's information assets, including software, hardware, communications, personnel, documents, data, and the physical environment, from risk of breaches, damage, or loss due to external threats or improper management by internal personnel. In addition, in accordance with the policy, relevant procedures and manuals were instituted as reference for all employees, outsourced service providers, and visitors.

(II) Qualitative and quantitative information about the various risks

1. Credit risk management system and accrued capital:

Credit risk management system

2020

Item	Contents
I. Credit risk strategies, goals, policies and procedures	<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、Credit risk goals Maintain adequate capital and create maximum risk-adjusted return within the scope of credit risk that the Bank 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 Bank's total issuance of credit to those who use residential real estate as collateral, 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 procedures 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 Assessment</p>

VII. Review and Analysis of Financial Condition and Results and Risk Management Matter

Item	Contents
	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.
II. Credit risk management organization and framework	<ol style="list-style-type: none"> <li>The board of directors is our highest decision-making body for credit risk management and has the ultimate liability in terms of credit risk management.</li> <li>Risk Management Committee 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.</li> <li>Credit Review Committee 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.</li> <li>The Risk Management Department is responsible for planning, setting up and integrating the Bank's credit risk management operations, performing overall credit risk management monitoring of the Bank, regularly compiling credit risk information of the Bank and reporting it to the Risk Management Committee and the Board of Directors, and calculating credit risk capital and disclosing risk information in accordance with the regulations of the competent authorities.</li> <li>All departments at headquarters are responsible for establishing and managing the credit risk regulations and operational procedures for its business, monitoring their implementation, and assisting the Risk Management Department to complete the control of credit risk for the entire bank. The head office business units are responsible for identifying and managing the credit risk of all financial instruments and ensure that when engaging in new instruments or transactions</li> <li>All departments in the Bank are responsible for identifying, assessing and measuring risks and adopting appropriate risk management approaches. Comply with the Bank'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.</li> <li>The credit review team of the business unit is responsible for holding credit review meetings for credit cases within the authority of the unit manager to strengthen the review of credit business in order to ensure credit rights and risk control.</li> </ol>
III. Scope and features of credit risk reporting and measurement system	<p>The Bank 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"> <li>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)</li> <li>Control of credit risk concentration (monitor the top 20 clients who receive credit)</li> <li>Analysis of credit business structure (according to types of loan)</li> <li>Asset quality (nonperforming loans, NPL ratio, allowance for bad debts, coverage ratio)</li> </ol> <p>The credit risk measurement system includes credit rating maintenance, on-balance sheet risk-weighted asset maintenance and others.</p>
IV. Credit risk avoidance or mitigation policies, and monitoring the continued effectiveness of risk avoidance and mitigation tools	<ol style="list-style-type: none"> <li>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 Bank's claims.</li> <li>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.</li> </ol>
V. Approaches adopted for statutory capital charges	Standardized approach

Note: This form is applicable to banks which adopt the standardized approach.

Risk exposure amount and accrued capital after risk mitigation under the credit risk standardized approach

December 31, 2020

Unit: NT\$ thousand

Type of exposure	Risk exposure amount after risk mitigation	Accrued capital
Sovereigns	37,553,207	0
Non-central government public sectors	0	0
Banks (including multilateral development banks and qualifying central counterparties)	8,649,549	151,198
Corporations (including securities and insurance companies)	188,521,856	14,233,209
Retail claims	43,098,224	3,005,519
Residential Real Estate	10,222,912	494,464
Equity securities investments	2,693,293	215,463
Equity securities investments of funds and venture capital firms	0	0
Other assets	5,819,372	331,708
Total	296,558,413	18,431,561

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

## Risk management system of securitization

2020

Item	Contents
I. Securitization management strategies and procedures	[Trading Book]: 1. In order to implement risk management, we conduct investment decisions and process management based on the Bank's 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. [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.
II. Securitization management organization and framework	[Trading Book]: 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 Bank'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. [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.
III. Scope and features of securitization risk reporting and measurement systems	[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. [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.
IV. Securitization risk hedging or mitigation policies, and monitoring the continued effectiveness of risk avoidance and mitigation tools	[Trading Book]: 1. 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. 2. 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. [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.
V. Approaches adopted for statutory capital charges	[Trading Book]: Adopt the standardized approach for market risk. [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.

## Risk exposure amount for securitization and capital accrual

December 31, 2020

Unit: NT\$ thousand

Bank's Role	Type of risk exposure Type of book	Type of asset	Traditional				Accrued capital (2)	Combination		Total		
			Risk exposure amount					Risk exposure amount Keep or buy (3)	Accrued capital (4)	Risk exposure amount (5)=(1)+(3)	Accrued capital (6)=(2)+(4)	Accrued capital before securitization
			Keep or buy	Provide liquid financing amount	Provide credit enhancement	Subtotal (1)						
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

## Note

- For the field of "Assets," it is subdivided by the type of assets that are securitized (such as credit cards, home equity loans, and car loans), or the type of securities invested (such as mortgage-backed securities, commercial real estate-backed securities, asset-backed securities, and collateralized debt obligations). RMBS is a type of beneficiary securities for mortgage securitization or asset-backed securities. REITs are real estate investment trust beneficiary securities.
- For the exposure of the banking book, the exposure after risk reduction shall be entered.



VII. Review and Analysis of Financial Condition and Results and Risk Management Matter

3. For the field of "Providing Liquidity Facility," the exposure of funds already appropriated and not yet appropriated shall be included.

3. Operational risk management system and accrued capital

Operational risk management system

2020

Item	Contents
I. Operational risk management strategies and processes	<ol style="list-style-type: none"> <li>1. Operational risk management strategies Make appropriate adjustments in response to the changes in the Bank's operating environment and risks involved to maintain the consistency with the Bank's business strategy and objectives, which also cover all important operational risks related to the business.</li> <li>2. 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.</li> </ol>
II. Operational risk management organization and framework	<ol style="list-style-type: none"> <li>1. <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.</li> <li>2. <u>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.</li> <li>3. <u>Risk Management Department</u> is responsible for planning, building and coordinating the Bank's operational risk management, and it regularly compiles the information on the Bank's operational risk and reports it to the Risk Management Committee.</li> <li>4. <u>All departments at headquarters</u> are responsible for establishing and managing the credit risk regulations and operational procedures for its business, monitoring their implementation, and assisting the Risk Management Department to complete the control of operational risk for the entire bank.</li> <li>5. <u>All departments in the Bank</u> are responsible for identifying, assessing and measuring risks and adopting appropriate risk management approaches. Comply with the Bank's rules on operational risk to conduct daily operations and operational risk management.</li> </ol>
III. Scope and features of operational risk report and measurement system	<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"> <li>1. The content and scope are shown as follows: <ol style="list-style-type: none"> <li>(1) Self-assessment of risk control operation of the "Rules and Regulations of the Bank".</li> <li>(2) Self-assessment of risk control in compliance with various rules and regulations of all units' operating procedures.</li> <li>(3) Self-assessment of risk control for new products (business), activities, processes and systems.</li> <li>(4) Managing authorization and limits of credit issuance operations of all business units.</li> <li>(5) Managing authorization and limits of loan, foreign exchange and investment businesses of the Finance Department.</li> <li>(6) Report progress to the point of contact at the financial supervisory authority.</li> <li>(7) Implementation of data collection on losses attributable operational risk.</li> <li>(8) Implementation of key risk indicator (KRI).</li> <li>(9) Implementation of the compliance with the three reinforcing pillars of the New Basel Accord.</li> <li>(10) Education and training sessions on risk management conducted by supervisory units of businesses.</li> </ol> </li> <li>2. In order to effectively measure operational risk, the measurement system is divided into operational risk event maintenance, authorized credit limit maintenance and others and establish the following operational measures: <ol style="list-style-type: none"> <li>(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.</li> <li>(2) Essentials for Business Units' Risk Control Self-Assessment: Use the Risk Control Assessment Form to assess the Bank's operating procedures, rules and regulation, new products (businesses), activities, processes, systems and other operations.</li> <li>(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.</li> </ol> </li> </ol>
IV. Operational risk hedging or risk mitigation policies, and monitoring the continued effectiveness of risk hedging and mitigation tools	<p>When the Bank conducts business related to operational risk, it evaluates the probability and severity of losses that may arise from the event or transaction and adopts risk avoidance, risk offset or transfer, risk control, risk commitment and other countermeasures (e.g., outsourcing operations, taking out employees' integrity insurance...etc.). We also regularly maintain and develop the operational risk management system in accordance with our business and risk exposures to ensure the system continues to operate effectively.</p>
V. Approaches adopted for statutory capital charges	<p>Basic indicator approach.</p>

## Accrued capital for operational risks

December 31, 2020

Unit: NTS thousand

Year	Gross operating profit	Accrued capital
2018	6,759,952	1,200,550
2019	8,236,739	
2020	9,014,307	
Total	24,010,998	1,200,550

## 4. Market risk management system and accrued capital

## Market risk management system

2020

Item	Contents
I. Market risk management strategies and processes	<ol style="list-style-type: none"> <li>Market risk management strategies Make appropriate adjustments in response to the changes in the Bank's operating environment and risks involved to maintain the consistency with the Bank'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.</li> <li>Market risk management process Establish market risk management measures. Effectively identify, measure, communicate and monitor market risks associated with all main products and transactions.</li> </ol>
II. Market risk management organization and framework	<ol style="list-style-type: none"> <li>The board of directors is our highest decision-making body for market risk management and has the ultimate liability in terms of market risk management.</li> <li>Investment Management Committee 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 Bank's investment position and profitability.</li> <li>Risk Management Committee 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.</li> <li>Risk Management Department is responsible for planning, building and coordinating the Bank's operational risk management. The department handles the liquidation and settlement of the Bank'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 Bank's operational risk and reports it to the Risk Management Committee.</li> <li>All departments at headquarters are responsible for establishing and managing the credit risk regulations and operational procedures for its business, monitoring their implementation, and assisting the Risk Management Department to complete the control of market risk for the entire bank.</li> <li>All departments in the Bank are responsible for identifying, assessing and measuring risks and adopting appropriate risk management approaches. Every business transactions unit of the Bank is responsible for identifying, assessing and measuring risks and adopting appropriate risk countermeasures. Comply with the Bank'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.</li> </ol>
III. Scope and features of market risk reporting and measurement systems	<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 Bank'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> <ol style="list-style-type: none"> <li>Investment limit and early warning management for market risk: <ol style="list-style-type: none"> <li>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 Bank); (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 Bank); (d) Limits for balance in any one particular bond and bill on watch (required by the Bank), and limits for non-statutory investment grade bonds and bills on watch (required by the Bank); (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 Bank); (f) Investment ceiling on a particular country with a sovereign credit rating of Baa1 to Baa3/BBB+ to BBB- in accordance with the Bank's National Risk Management Guidelines (required by the Bank). (g) Total balance of investment in various securities in China (required by the Bank), and the balance of investment in bonds and bills in China overall (required by the Bank). Balance of investment in bonds and bills (required by the Bank) issued by non-financial institutions (including leasing companies and asset management companies). (h) Balance of transactions for bond repurchase (required by the government authority). (i) Balance of investment in Islamic fixed income securities (required by the government authority).</li> <li>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.</li> <li>Foreign exchange transactions: (a) Limits of uncovered total position between NTD and foreign currencies</li> </ol> </li> </ol>

VII. Review and Analysis of Financial Condition and Results and Risk Management Matter

Item	Contents
	<p>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> <p>(2) Stop-loss of individual unhedged contract in derivatives investment. °</p> <p>(3) Restriction and enforcement of exchange losses of commercial positions and traders of the whole Bank.</p> <p>3. Market risk stress testing (Impact of profits and losses in comprehensive scenarios / Minimum capital calculated needed for the market risk).</p>
IV. 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 Bank'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.
V. Approaches adopted for statutory capital charges	Standardized approach

Accrued capital for market risks

December 31, 2020

Unit: NTS thousand

Type of risk	Accrued capital
Interest rate risk	1,387,326
Equity securities risk	1,520,697
Foreign exchange risk	72,328
Commodity risk	0
Total	2,980,350

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 various assets and liabilities, the maturity gap and maturity structure changes were regularly analyzed as the basis for fund allocation, liquidity management and liquidity risk reduction. To control interest rate risk, the correlation between various assets and liabilities and market interest rate were regularly analyzed to assess market interest rate risk, and accordingly, deposit interest rate pricing and asset allocation were adjusted. 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 the 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 instruments. We value the security of investments and consider the liquidity of the secondary market to reduce our operational risk.

## NTD maturity date structure analysis table

December 31, 2020

Unit: NTS 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
Primary inflow upon maturity	271,668,534	58,914,710	19,568,759	12,704,457	22,535,530	47,400,525	110,544,553
Primary outflow upon maturity	295,381,414	22,504,724	13,713,522	32,329,569	41,352,446	47,315,088	138,166,065
Period gap	-23,712,880	36,409,986	5,855,237	-19,625,112	-18,816,916	85,437	-27,621,512

Note: This table refers to the amount of NTD of the whole Bank.

## USD maturity date structure analysis table

December 31, 2020

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 1 year
Inward remittance of due fund	1,723,931	165,331	7,215	16,684	32,500	1,502,201
Outward remittance of due fund	1,704,434	801,093	349,349	128,208	121,001	304,783
Period gap	19,497	-635,762	-342,134	-111,524	-88,501	1,197,418

Note: This table refers to the amount of US dollars of the whole Bank.

(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 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. In 2020, we added "Card-less withdrawal service" to our ATMs.

## VII. Review and Analysis of Financial Condition and Results and Risk Management Matter

- (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 2020, 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: Lin, a financial manager in the Business Department, embezzled more than \$60 million from a customer's deposit. The criminal department received the judgment of the Tainan Branch of the Taiwan High Court on 27.08.2020, and the defendant has filed an appeal. The civil lawsuit against the Bank and Lin for damages (amounting to NT\$9,849,062) is currently being heard by the Tainan District Court (2019 Appeal No. 216).
- (XII) Other important risks and the countermeasures: The results from our 2020 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.

### **VII. Crisis management and response mechanisms**

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 Bank 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.

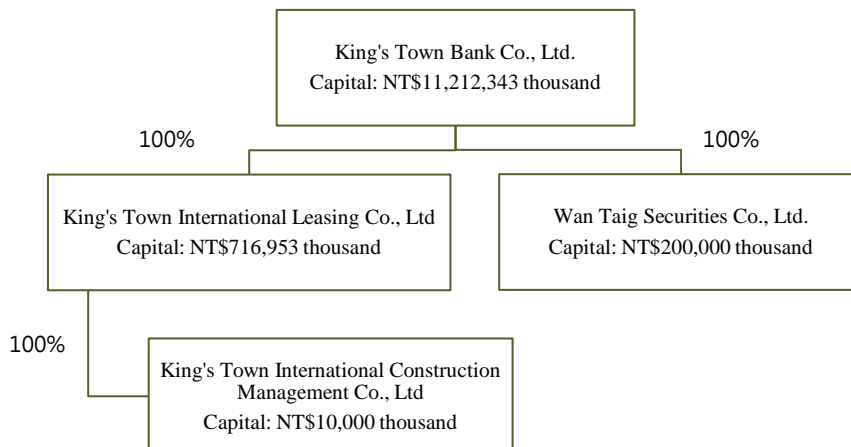
### **VIII. Other important matters: None.**

## Chapter 8: Special notes

### I. Information regarding the Bank's affiliates

#### (I) Consolidated operating report for affiliates

##### 1. Organizational chart of affiliates (Base date: February 28, 2021)



##### 2. Profiles of the affiliates

Unit: NT\$ thousand

Name of enterprise	Date of establishment	Address	Paid-in capital	Principal business
King's Town International Leasing Co., Ltd	2015.01.22	8F., No. 167, Dunhua N. Rd., Songshan Dist., Taipei City	653,230	Finance lease
Wan Taig Securities Co., Ltd.	1990.11.22	2F., No. 193, Xinrong Rd., West Dist., Chiayi City	200,000	Securities business
King's Town International Construction 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 affiliates

Base date: February 28, 2021

Name of enterprise	Title	Company name or representative	Shareholdings	
			No. of shares (shares)	Shareholding ratio (%)
King's Town International Leasing Co., Ltd	Chairman	Representative of King's Town Bank Co., Ltd.: Chien-Chih, Liu	71,695,280	100%
	Director	Representative of King's Town Bank Co., Ltd.: Chen-Chih, Tai		
	Director	Representative of King's Town Bank Co., Ltd.: Chiung-Ting, Tsai		
	Supervisor	Representative of King's Town Bank Co., Ltd.: Chien-Ko, Yang		
Wan Taig Securities Co., Ltd.	Chairman	Representative of King's Town Bank Co., Ltd.: Jung-Chi, Li	20,000,000	100%
	Director	Representative of King's Town Bank Co., Ltd.: Qi-Wei, You		
	Director	Representative of King's Town Bank Co., Ltd.: Chih-Cheng, Yu		
	Director	Representative of King's Town Bank Co., Ltd.: Chih-Hung, Lin		
	Supervisor	Li, Kuei-Mei	0	0%
King's Town International Construction Management Co., Ltd	Chairman Director Director Supervisor	Representative of King's Town Bank International Leasing Co., Ltd.: Ming-Hui, Chen	1,000,000	100%
		Representative of King's Town Bank International Leasing Co., Ltd.: Chen-Chih, Tai		
		Representative of King's Town Bank International Leasing Co., Ltd.: Chiung-Ting, Tsai		
		Representative of King's Town Bank International Leasing Co., Ltd.: Chien-Ko, Yang		

## VIII. Special Notes

### 4. Operation overview of affiliates

Base date: December 31, 2020

Unit: NT\$ 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 International Leasing Co., Ltd	716,953	5,592,536	4,753,769	838,767	1,871,832	180,785	134,216	1.87
Wan Taig Securities Co., Ltd.	200,000	478,158	147,458	330,699	28,419	2,135	2,706	0.14
King's Town International Construction Company	10,000	23,211	4,275	18,937	17,119	9,147	7,413	7.41

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 108 to 112 of the annual report.

(III) Relationship statement: Please refer to page 102 of the annual report.

**II. Private placement of securities and bank debentures: None.**

**III. Subsidiaries holding or disposing of the Bank's stock: None**

**IV. Other supplementary notes**

2020 key events:

Date	Events
03/02	Relocation of Neihu Branch (1F., No. 394, Ruiguang Rd., Neihu Dist., Taipei City)
04/30	The Bank's appraisal system was officially launched.
04/30	Rated the top 5% among the publicly traded companies in the 6th Corporate Governance Evaluation.
05/11	Completed the installation of the Bank's 66 ATMs.
05/14	Introduced Taiwan Pay QR Code collection service.
05/18	Launched foreign currency digital deposit account.
05/25	Completed the price trust management system and optimized customer information disclosure.
06/20	Mobile Banking has new billing notification function.
07/15	The digital account counter was upgraded
07/22	Launched "KING'S PAY" which cross-border Western Union remittance website.
07/27	Relocation of Beigang Branch (No. 61, Minzhu Rd., Beigang Township, Yunlin County)
10/27	Approved by the competent authority to invest in "Wan Taig Securities Co. Ltd."
11/27	The Board of Directors resolved to acquire "Wan Taig Securities Co. Ltd.". On January 5, 2021, the Bank acquired all the shares of the company and became a 100% subsidiary of the Bank.
12/10	ATMs has "Cardless Withdrawal Service".
12/21	Launch ATM self/interbank cardless withdrawal function.
2021/01/28	Nominated in the 2021 Bloomberg Gender Equality Index for the first time.

**V. Events with material impact in accordance with subparagraph 2, paragraph 3, article 36 of the Securities and Exchange Act: None.**

**Chapter 9: Head office and branches of the Bank**

Name	Address	Telephone
<b>Tainan Region</b>		
Head Office	No. 506, Section 1, Ximen Road, West Central District, Tainan City	886-6-213-9171
Trust Department	8F., No. 506, Section 1, Ximen Road, West Central District, Tainan City	886-6-213-9922
International Banking Department	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
Business 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, 359, 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	886-6-283-3046
Yunong Branch	1, 2F., No. 619-2, 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	1, 2F., 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
<b>Greater Taipei Region</b>		
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. 394, 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
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
<b>Taoyuan and Hsinchu</b>		
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
Nankang 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	886-3-563-9998
<b>Taichung and Changhua</b>		
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	886-4-728-8998
<b>Yunlin Region</b>		
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	No. 61, Minzhu Rd., Beigang Township, Yunlin County	886-5-783-6181
<b>Chiayi Region</b>		
Chiayi Branch	No. 175, Linsen W. Rd., West Dist., Chiayi City	886-5-224-2135
Xingye Branch	No. 784, 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., Minxiong Township, Chiayi County	886-5-226-2372
Dalin Branch	1F., No. 291, Xianghe Rd., Dalin Township, Chiayi County	886-5-265-1541



IX. Head Office and Branches of the Bank

Name	Address	Telephone
Kaohsiung region		
Zhongzheng 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 Auditors' Report**  
**From January 1 to December 31, 2020 and 2019**

Address: No. 506, Section 1, Ximen Road, Xiancaoli, West Central District, Tainan  
Tel: +886-6-213-9171

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

## Statement of Declaration

For the year ended December 31, 2020, pursuant to "Criteria Governing 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 declared by

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

Person in Charge: Chen-Chih Tai

February 22, 2021

## Independent Auditors' Report

King's Town Bank Co., Ltd.

### **Audit opinion**

We have audited the accompanying consolidated balance sheets of King's Town Bank Co., Ltd. and Subsidiaries as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows, and notes to the consolidated financial statements (including a summary of significant accounting policies) from January 1 to December 31, 2020 and 2019.

In our opinion, the financial statements referred to above present fairly in all significant aspects of the consolidated financial position of King's Town Bank Co., Ltd. and its subsidiaries as of December 31, 2020 and 2019 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," as well as International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and effected by the Financial Supervisory Commission.

### **Basis for opinion**

We have audited the accompanying consolidated financial reports in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountant," Jin-Guan-Yin-Fa-Zi No. 10802731571 Letter 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 section. 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.

### **Key audit matters**

Key audit matters are those matter that, in our professional judgment, were of most significant in our audit of the consolidated financial statements of King's Town Bank Co., Ltd. in 2020. These matters were addressed in the context 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 these matters.

### Financial instrument evaluation

King's Town Bank Co., Ltd. and its subsidiaries invest in different types of financial assets. As of December 31, 2020, the total financial assets measured at fair value were NT\$ 93,851,385 thousand, accounting for about 29% 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\$ 42,130,155 thousand, accounting for 45% 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., and its subsidiaries.

### Appropriated allowance for bad debt from loans

As of December 31, 2020, the book value of the loans of King's Town Bank Co., Ltd. and its subsidiaries was NT\$ 184,901,230 thousand, accounting for 57% 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, XIII, 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.

## **Other Matters - Mentioning of the Audit Result of Other Certified Public Accountants (CPAs)**

We did not audit the financial statements of certain subsidiaries furnished to the consolidated financial statements. The financial statements of these subsidiaries were audited by other independent accountants. Therefore, the opinions issued by this CPA regarding to the amounts listed in such subsidiary financial reports from the consolidated financial statements mentioned above are based on the audit report from other CPAs. The assets of the aforementioned subsidiaries as of December 31, 2020 were NT\$480,477 thousand, accounting for 0.15% of the total consolidated assets; the net income for the fiscal year 2020 was NT\$5,327 thousand accounting for 0.06% of the net consolidated income.

## **Responsibilities of Management and Those Charged with Governance for 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 cease 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.

## **Independent 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 material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 of 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 reasonability 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures 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. and its subsidiaries 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 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 2020 consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Others**

King's Town Bank Co., Ltd. has prepared 2020 and 2019 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 competent authorities 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

CPA

Cheng-Tao Chang

February 22, 2021



King's Town Bank Co., Ltd. and its subsidiaries  
Consolidated Balance Sheets  
December 31, 2020 and 2019

Unit: NTD thousand

Assets			December 31, 2020		December 31, 2019	
Code	Item	Note	Amount	%	Amount	%
10000	Assets					
11000	Cash and cash equivalents	IV/VI.1	\$3,982,321	1	\$3,548,667	1
11500	Due from the central bank and call loans to banks	IV/VI.2	12,542,608	4	11,162,682	4
12000	Financial assets measured at FVTPL	IV/VI.3/VIII	45,032,063	14	34,979,793	13
12100	Financial assets measured at FVTOCI	IV/VI.4, 27/VIII	48,819,322	15	50,891,550	18
12200	Debt instrument investments measured at amortized cost	IV/VI.5, 27	18,897,382	6	17,698,135	6
12500	Securities purchased under agreements to resell	IV/VI.6	200,248	-	150,022	-
13000	Receivables, net	IV/VI.7	5,933,698	2	4,907,384	2
13500	Discounts and loans, net	IV/V/VI.8	184,901,230	57	155,350,678	55
15500	Other financial assets, net	IV/VI.9	363	-	4,396	-
18500	Property, plant, and equipment, net	IV/VI.10, 27	3,376,707	1	2,713,818	1
18600	Right-of-use assets	III/IV/VI.28	217,504	-	215,683	-
18700	Investment property	VI.11	115,036	-	-	-
19300	Deferred income tax assets	IV/VI.31	185,987	-	145,188	-
19500	Other assets, net	VI.12	1,253,470	-	974,912	-
	Total assets		<u>\$325,457,939</u>	<u>100</u>	<u>\$282,742,908</u>	<u>100</u>

(Please refer to the Notes to the Consolidated Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries  
Consolidated Balance Sheets (continued)  
December 31, 2020 and 2019

Unit: NTD thousand

Liabilities and Equity			December 31, 2020		December 31, 2019	
Code	Item	Note	Amount	%	Amount	%
20000	Liabilities					
21000	Deposits from Central Bank and other banks	IV/VI.13	\$21,117,468	7	\$14,533,849	5
21500	Due to the Central Bank and banks	VI.14	4,597,650	1	4,395,830	2
22000	Financial liabilities measured at FVTPL	IV/VI.15	13,062	-	6,002	-
22500	Securities sold under agreements to repurchase	IV/VI.16	21,990,934	7	28,218,020	10
23000	Payables	VI.17	1,601,260	1	1,252,826	1
23200	Current income tax liabilities	IV/VI.31	573,272	-	78,459	-
23500	Deposits and remittances	VI.18	226,932,674	70	191,798,662	68
25500	Other financial liabilities	VI.18	890,000	-	500,000	-
25600	Provisions	IV/VI.20, 21, 27	394,957	-	383,414	-
26000	Lease liabilities	III/IV/VI.28	219,898	-	217,256	-
29300	Deferred income tax liabilities	IV/VI.31	299,314	-	135,832	-
29500	Other liabilities	VI.22	244,360	-	291,249	-
	Total liabilities		278,874,849	86	241,811,399	86
31000	Equity attributable to shareholders of the parent	VI.23				
31100	Share capital		11,212,343	3	11,312,343	4
31500	Capital surplus		55,622	-	56,095	-
32000	Retained earnings					
32001	Legal reserve		11,438,543	4	10,418,637	4
32003	Special reserve		115,319	-	538,481	-
32011	Unappropriated retained earnings		17,605,151	5	14,596,680	5
32500	Other equity interest	IV	6,252,901	2	4,107,695	1
32600	Treasury stock	IV	(98,422)	-	(98,422)	-
	Total equity attributable to shareholders of the parent		46,581,457	14	40,931,509	14
38000	Non-controlling interest		1,633	-	-	-
	Total equity		46,583,090	14	40,931,509	14
	Total liabilities and equity		\$325,457,939	100	\$282,742,908	100

(Please refer to the Notes to the Consolidated Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries  
Consolidated Statements of Comprehensive Income  
From January 1 to December 31, 2020 and 2019

Unit: NTD thousand

Code	Item	Note	2020		2019	
			Amount	%	Amount	%
41000	Interest revenue	IV	\$6,513,084	73	\$6,833,454	80
51000	Less: Interest expenses	IV	(1,267,131)	(14)	(2,078,065)	(24)
	Net interest income	VI.24	5,245,953	59	4,755,389	56
	Non-interest net income					
49100	Net service fee income	IV/VI.25	1,909,280	21	1,840,557	22
49200	Gain on financial assets and financial liabilities measured at FVTPL	IV/VI.26	2,028,072	23	1,461,468	17
49310	Realized gain or loss on financial assets at FVTOCI	IV	306,334	3	128,683	1
49600	Net exchange (loss) gain	IV	(134,144)	(1)	181,050	2
49700	Impairment loss on assets	IV/VI.27	(512,890)	(6)	(27,311)	-
49800	Other non-interest net income	IV	64,315	1	153,148	2
	Net income		8,906,920	100	8,492,984	100
58200	Allowances for bad-debts, commitments and guarantees	IV/VI.7, 8, 27	(744,664)	(8)	(2,655,404)	(32)
58400	Operating expenses					
58500	Employee benefits expenses	VI.21, 29	(1,052,771)	(12)	(1,024,169)	(12)
59000	Depreciation and amortization expenses	IV/VI.10, 11, 28, 29	(132,118)	(1)	(125,212)	(1)
59500	Other business and administrative expenses	IV	(714,845)	(8)	(784,318)	(9)
61000	Net income before taxes from continuing operations		6,262,522	71	3,903,881	46
61003	Income tax (expense)	IV/VI.31	(771,551)	(9)	(504,194)	(6)
64000	Net income after tax		5,490,971	62	3,399,687	40
65000	Other comprehensive income (loss)					
65200	Items that will not be reclassified to profit or loss	IV/VI.30, 31				
65201	Remeasurements of the defined benefit plans		(2,903)	-	6,589	-
65204	Gain or loss on evaluation of equity instruments at FVTOCI		379,435	4	430,495	5
65220	Income tax expenses related to items that will not be reclassified subsequently to profit or loss		349	-	(19,752)	-
65300	Items that may be reclassified subsequently to profit or loss	IV/VI.30, 31				
65301	Exchange differences from the translation of financial statement		(3,825)	-	(85,655)	(1)
65308	Gain or loss from debt instrument investment measured at FVTOCI		1,739,742	20	4,124,894	49
65320	Income tax related to components of other comprehensive income that will be reclassified to profit or loss		459	-	13,122	-
	Other comprehensive income (after tax)		2,113,257	24	4,469,693	53
66000	Total comprehensive income (after tax)		\$7,604,228	86	\$7,869,380	93
67100	Current period after tax net profit and loss attributable to					
67101	Owners of the parent company		\$5,490,966		\$3,399,687	
67111	Non-controlling interest		\$5		\$-	
67300	Current period after tax comprehensive profit and loss attributable to					
67301	Owners of the parent company		\$7,604,223		7,869,380	
67311	Non-controlling interest		\$5		\$-	
	Earnings per share (NTD)	VI. 32				
67500	Basic earnings per share		\$4.90		\$2.99	
67700	Diluted earnings per share		\$4.90		\$2.99	

(Please refer to the Notes to the Consolidated Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries  
Consolidated Statement of Changes in Equity  
From January 1 to December 31, 2020 and 2019

Unit: NTD thousand

Items	Share capital	Capital surplus	Retained Earnings			Other equity items		Treasury stock	Total	Non-controlling interest	Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences from the translation of financial statement	Unrealized (loss) profit of financial assets in other comprehensive income measured at fair value through profit and loss				
Balance on January 1, 2019	\$11,512,343	\$99,585	\$9,555,297	\$100,930	\$14,699,482	\$28,431	\$(497,142)	\$(314,865)	\$35,184,061	\$ -	\$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)		(1,711,852)
Net income for the year ended December 31, 2019	-	-	-	-	3,399,687	-	-	-	3,399,687	-	3,399,687
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	(13,163)	(72,533)	4,555,389	-	4,469,693	-	4,469,693
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	3,386,524	(72,533)	4,555,389	-	7,869,380	-	7,869,380
Cost of treasury stock repurchase								(410,080)	(410,080)		(410,080)
Disposal of treasury stocks	(200,000)	(43,490)			(383,033)			626,523	-		-
Disposal of equity instruments at FVTOCI					(93,550)		93,550		-		-
Balance on 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	-	40,931,509
The 2019 appropriation and distribution of earnings											
Appropriation of legal reserve			1,019,906		(1,019,906)				-		-
Reversal of special reserve				(423,162)	423,162				-		-
Common stock cash dividends					(1,677,351)				(1,677,351)		(1,677,351)
Net income for the year ended December 31, 2020	-	-	-	-	5,490,966	-	-	-	5,490,966	5	5,490,971
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	(2,554)	(3,366)	2,119,177	-	2,113,257	-	2,113,257
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	5,488,412	(3,366)	2,119,177	-	7,604,223	5	7,604,228
Cost of treasury stock repurchase								(276,924)	(276,924)		(276,924)
Disposal of treasury stocks	(100,000)	(473)			(176,451)			276,924	-		-
Disposal of equity instruments at FVTOCI					(29,395)		29,395		-		-
Change in non-controlling interest										1,628	1,628
Balance on December 31, 2020	\$11,212,343	\$55,622	\$11,438,543	\$115,319	\$17,605,151	\$(47,468)	\$6,300,369	\$(98,422)	\$46,581,457	\$1,633	\$46,583,090

(Please refer to the Notes to the Consolidated Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries  
Consolidated Statement of Cash Flows  
From January 1 to December 31, 2020 and 2019

Unit: NTD thousand

Items	2020	2019	Items	2020	2019
	Amount	Amount		Amount	Amount
Cash flows from operating activities:			Cash flows from investing activities:		
Profit before tax for the period	\$6,262,522	\$3,903,881	Acquisition of property and equipment	(721,055)	(396,868)
Adjustments:			Proceeds from disposal of property and equipment	6,027	41,921
Non-cash income and expense items			Acquisition of investment property	(115,488)	-
Expected credit impairment loss/bad debt expense	744,664	2,655,404	Acquisition of subsidiaries (less the cash received)	(142,895)	-
Impairment loss on assets	512,890	27,311	Net cash (outflow) from investing activities	(973,411)	(354,947)
Depreciation and amortization expenses	132,118	125,212	Cash flows from financing activities:		
Net interest income	(5,245,953)	(4,755,389)	Due to the Central Bank and banks increase	201,820	957,190
(Gains) on disposal and retirement of property, plant and equipment	(106)	(19,291)	Securities sold under agreements to repurchase (decrease)	(6,227,086)	(1,098,476)
(Gains) on disposal of other assets	(88)	(1)	Cash dividend paid	(1,677,351)	(1,711,852)
(Gain) on bargain purchase	(7,661)	-	Repayment of the principal amount of lease liabilities	(79,264)	(78,122)
Changes in operating assets and liabilities			Cost of treasury stock repurchase	(276,924)	(410,080)
Due from the Central Bank and call loans to banks (increase)	(655,248)	(172,399)	Net cash inflow (outflow) from financing activities	(8,058,805)	(2,341,340)
Financial assets measured at FVTPL (increase)	(10,037,748)	(3,192,996)	Effect of exchange rate changes on cash and cash equivalents	(3,825)	(85,655)
Receivables (increase)	(1,124,378)	(1,473,729)	Current cash and cash equivalents increase (decrease)	1,208,558	(4,122,294)
Discount and loan (increase)	(30,116,447)	(5,679,720)	Cash and cash equivalents at beginning of year	9,374,376	13,496,670
Financial assets measured at FVTOCI decrease	3,696,285	7,123,745	Cash and cash equivalents at end of the year	\$10,582,934	\$9,374,376
Debt instrument investments measured at amortized cost (increase)	(1,200,000)	(100,000)	Composition of cash and cash equivalents		
Other assets decrease (increase)	4,033	(917)	Cash and cash equivalents recorded on the consolidated balance sheets	\$3,982,321	\$3,548,667
Other assets (increase)	(157,029)	(96,331)	Due from the Central Bank and call loans to banks meeting the definition		
Deposits from the Central Bank and banks increase (decrease)	6,583,619	(5,403,402)	of cash and cash equivalents as stated in IAS No. 7 "Cash Flow		
Financial liabilities measured at FVTPL increase (decrease)	7,060	(19,782)	Statements"		
Payables increase (decrease)	332,682	(1,045,778)	Investments in bills and bonds under resale agreements meeting the		
Deposits and remittances increase	35,134,012	3,365,738	definition of cash and cash equivalents as stated in IAS No. 7 "Cash		
Other financial liabilities increase (decrease)	390,000	(730,000)	Flow Statements"		
Liability reserve (decrease)	(70,303)	(37,660)	Cash and cash equivalents at end of the year	\$10,582,934	\$9,374,376
Other liabilities (decrease)	(47,124)	(41,270)			
Interest received	6,575,035	6,954,067			
Interest paid	(1,313,272)	(2,087,515)			
Income tax paid	(154,964)	(639,530)			
Net cash inflow (outflow) from operating activities	10,244,599	(1,340,352)			

(Please refer to the Notes to the Consolidated Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries  
Notes to the Consolidated Financial Statements  
From January 1 to December 31, 2020 and 2019  
(In Thousands of New Taiwan Dollars, unless otherwise specified)

I. Company History

1. King's Town Bank Co., Ltd. (hereinafter referred to as the "Group") 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 Company started trading on the Taiwan Stock Exchange Corporation since July 29, 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 1,010 and 999 employees as of December 31, 2020 and 2019, respectively.

II. Approval Date and Procedures of the Financial Statements

The consolidated financial statements of the Group for the period of January 1 to December 31, 2020 and 2019 were approved for publication by the Board of Directors on February 22, 2021.

III. Application of New, Revised, and Amended Standards and Interpretations

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

The Group has adopted the 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, 2020. The first-time application has no significant impact on the Group.

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

Notes to the Consolidated Financial Statements of King's Town Bank Co., Ltd., and  
Subsidiaries (continued)  
(In Thousands of New Taiwan Dollars, unless otherwise specified)

No.	New/Amended/Revised Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Interest rate benchmark reform - Phase II (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS4 and IFRS 16)	January 1, 2021

- (1) Interest rate benchmark reform - Phase II (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)  
The impacts of Phase II Interest Rate Benchmark Reform on the financial statements include:
- A. Regarding cash flows of financial instruments, the carrying amounts thereof will not be de-recognized or adjusted due to the changes in the reform. Instead, changes result directly from interbank offered rates (IBORs) will be accounted for by updating the effective interest rates;
  - B. If a hedging relationship is subject to hedging accounting, the hedging relationship will still be subject to hedging accounting regardless of changes in the requirements of the reform; and
  - C. The Group is required to disclose the risks arise from the reform and the Group's risk management in the transition.

The Group evaluates that the amendments which are to be adopted in the fiscal year starting January 1, 2021 have no significant impact on the Group.

3. As of the date of the issuance of the financial report, the Group has not adopted the following new publication, revision, and amendments or interpretations announced by International Accounting Standards Board and approved by the FSC.

No.	New/Amended/Revised Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Amendments to IFRS 10 - Consolidated Financial Statements, and IAS 28 - Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by International Accounting Standards Board
2	IFRS 17 "Insurance Contracts"	January 1, 2023
3	Liabilities classified as current or non-current (Amendment to IAS 1)	January 1, 2023
4	Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements	January 1, 2022
5	Disclosure Initiative - Accounting Policies (Amendment to IAS 1)	January 1, 2023
6	Definition of Accounting Estimates (Amendment to IAS 8)	January 1, 2023

- (1) Amendments to IFRS 10 - Consolidated Financial Statements, and IAS 28 - Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments addressed the inconsistency between the requirements in IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures," in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture shall be offset through downstream sale. IFRS 10 requires full profit or loss recognition other loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets as defined in IFRS 3 shall be recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

- (2) IFRS 17 - Insurance Contracts

This standard provides a comprehensive model to insurance contracts, including all accounting treatment (recognition, measurement, expression, and disclosure principle). The core of the standard is general, and under this model, initial recognition measures the insurance contract group by the combination of the cash flow from performance obligation and contract service margin, wherein the performance obligation cash flow includes:

- A. Estimated 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 carrying amount of the insurance contract group 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, the standard also provides:

- A. Specific applicable methods with contracts characterized by direct participation (variable fee method)
- B. Simplified short-term contract method (premium allocation approach)

IFRS 17 was issued in May 2017 and it was amended in June 2020. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after 1 January 2023 (from the original effective date of January 1, 2021); provide additional transition reliefs; simplify some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim standard - IFRS 4 Insurance Contracts - from annual reporting periods beginning on or after January 1, 2023.



(3) Liabilities classified as current or non-current

This amendment targets sections 69-76 in IAS 1 - Presentation of Financial Statements concerning the classification of liability as either current or non-current.

(4) Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements

A. Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments updated IFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. The amendments also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities. Besides, the amendments clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Conceptual Framework.

B. Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit a company from deducting from the cost of property, plant, and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

C. Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

D. Annual Improvements to IFRS Standards D.2018 - 2020

*Amendment to IFRS 1*

The amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time *adopter* after its parent in relation to the measurement of cumulative translation differences.

*Amendment to IFRS 9 Financial Instruments*

The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

*Amendment to Illustrative Examples Accompanying IFRS 16 Leases*

The amendment to Illustrative Example 13 accompanying IFRS 16 modifies the treatment of lease incentives relating to lessee's leasehold improvements.

*Amendment to IAS 41*

The amendment removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

(5) Disclosure Initiative - Accounting Policies (Amendment to IAS 1)

The objective of the amendment was to improve accounting policy disclosures and help stakeholders provide more relevant information for investors and primary users of financial statements.

(6) Definition of Accounting Estimates (Amendment to IAS 8)

The amendments introduced the definition of accounting estimates and included other amendments to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) to help entities distinguish changes in accounting estimates from changes in accounting policies.

The aforementioned standards or interpretations have been issued by the IASB but have yet to be 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 Group's consolidated financial reports for the period from January 1 to December 31, 2020 and 2019 are prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks," "Regulations Governing the Preparation of Financial Reports by Securities Issuers," as well as International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and effected by the Financial Supervisory Commission.

2. Basis of preparation

Besides the consolidated financial instruments measured at fair value, the Individual Financial Statements are prepared on the basis of historical costs. Unless otherwise specified, the consolidated financial statements are denoted in thousands of New Taiwan Dollars (NTD 1,000).

3. Consolidation

The basis of preparation for consolidated financial statements

When the Company is exposed to the varied remunerations participated by the investees or is entitled to the varied remunerations and is capable of affecting the remunerations through the authority over the investees, the controlling is achieved. The Company will only have control over the investee when the following three criteria of control have been met:

- (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 these criteria for control have changed, the Company shall immediately re-assess whether it still has control over the invested company.

Starting from the acquisition date (when the Company obtains control), the subsidiary will be completely included in the Consolidated Financial Statements until the control over the subsidiary is lost. The accounting cycle and accounting policy of the subsidiary's financial statements will follow those of the parent company. All balances and transactions in the Group and unrealized internal gains and losses arising from internal transactions within the Group and dividends will be completely written off.

If control over the subsidiary is not lost, changes in shares held in the subsidiary will be treated as equity transactions.

A subsidiary's total comprehensive income is attributed to the shareholders of the Company and non-controlling interests, even if non-controlling interests become deficit balance in the process.

If the Company's control over the subsidiary is lost, then:

- (1) Subsidiary's assets (including goodwill) and liabilities will be derecognized;
- (2) Carrying amount of any non-controlling interests will be derecognized;
- (3) Fair value of the considerations acquired will be recognized;
- (4) Fair value of any retained investments will be recognized;
- (5) Any gains or losses will be recognized as income or loss in the period;
- (6) Amounts recognized in other comprehensive income by the parent company will be reclassified as gains or losses in the period.

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

Investor Name	Name of subsidiaries	Principal business operation	Percentage of ownership	
			2020.12.31	2019.12.31
The Company	Tainan Life Insurance Agency Co., Ltd.	Insurance agency business	(Note 1)	(Note 1)
The Company	Fuchen Property Insurance Agency Co., Ltd.	Insurance agency business	(Note 1)	(Note 1)
The Company	Kings Town Bank International Lease Corporation	Leasing	100.00%	100.00%
The Company	WanTai Securities Corporation	Securities brokerage	99.51%	(Note 2)
Kings Town Bank International Lease Corporation	Kings Town Intl. Construction Management Corporation	Construction Management	100.00%	100.00%

The total profit or loss of the subsidiaries in the years ended December 31, 2020 and 2019 were NTD 137,539 thousand and NTD 210,376 thousand, respectively.

Note 1. 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 merger 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.

Note 2. In order to provide clients with a comprehensive and diverse finance service, it is resolved at the board meeting on October 12, 2020 that the Company acquires WanTai Securities Corporation by cash. The investment was approved by the competent authority on October 27, 2020. The Company obtained control and included the subsidiary in the Group's consolidated financial statements on November 3, 2020.

#### 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.

Transactions in foreign currencies from the consolidated entities are recorded by their respective functional currency rates at the date of the transaction. At the end of every reporting period, items denoted in foreign currencies will be translated at the closing exchange rate of the day. Non-monetary foreign currency items measured at fair value will be translated using the exchange rate on the date when the fair value is measured. Non-monetary foreign currency items measured at historical cost are translated at the exchange rate of the date of the transaction.

Except for the following items, exchange differences resulting from delivery or exchange of monetary items will be recognized as gain or loss as they occur:

- (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.
- (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. Translation 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 Statement of Cash Flows, 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.

### (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 measured at 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. Business model used in managing the financial assets: financial asset is held to receive contractual cash flows
- 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 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 FVTOCI

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: 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 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 equity instruments applicable to IFRS 9 and are not held as available-for-sale or applicable as a contingent consideration by the acquirer in business consolidation in IFRS 3, during initial recognition, the Company will choose (this is not reversible) to state its subsequent fair value changes in the other comprehensive income (loss). Amounts stated in other comprehensive income cannot be converted to income or loss (during disposal of such equity instrument, the accumulated amount stated in other equity item will be directly transferred to retained earnings), and will be stated in the Balance Sheet as financial assets measured at fair value through other comprehensive income (loss). Investment dividends will be recognized in income or loss, unless such dividends clearly represent a portion of the investment cost.

## Financial assets measured at FVTPL

In addition to the aforementioned measurement at cost after amortization for having met certain conditions or measurement at fair value through other comprehensive income (loss), financial assets are all measured at fair value through income or loss, and are stated in the balance sheet as financial assets at fair value through profit or loss.

These financial assets are measured at fair value, and any gain or loss from their revaluation will be recognized as profit or loss. The gain or loss recognized as profit or loss includes any dividend or interest received from the financial asset.

### (2) Impairments 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. For the debt instrument investment measured at fair value through other comprehensive income, allowance for loss is recognized in the other comprehensive income (loss), and the book value of the investment will not be reduced. 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 "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, this also includes those with allowance loss measured by the expected credit loss during the previous reporting period, but no longer meets the condition in which the credit risk has significant increased 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, 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 Group 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.

### (3) Derecognized financial assets

The Group's financial assets will be derecognized when one of the following conditions occurs:

- A. The contractual right from the cash flow of the financial asset is terminated.
- B. When nearly all risk and compensations associated with ownership of a financial asset has been transferred.
- C. Nearly all risk and compensations associated with ownership of an asset has neither been transferred nor retained, but the control of the asset has been transferred.

When a financial asset is derecognized in its entirety, the difference between its carrying amount and any cumulative gain or loss that has been received or is receivable and recognized in other comprehensive income (loss), will be recognized in profit or loss.

### (4) Financial liabilities and equity instruments

#### Classification of liability or equity

The Group classifies the liabilities and equities instrument issued as financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

### Equity instruments

Equity instruments refer to any contract with residual interest after subtracting all liabilities from assets. Equity instruments issued by the Group are recognized by the acquisition cost minus direct distribution costs.

### Hybrid instruments

The Group recognizes the financial liabilities and equity components of the convertible corporate bonds issued in accordance with contractual terms. In addition, the conversion of corporate bonds issued is based on the assessment of whether the economic characteristics and risks of the embedded purchase and sale rights are closely related to the primary debt commodity before classifying the equity elements

For liabilities that do not involve derivatives, the fair value is measured using the market interest rate of a bond of comparable nature and without conversion characteristics. This amount is classified as a financial liability measured by amortized cost before conversion or redemption settlement. For other embedded derivatives that are not closely related to the risk characteristics of the principal contract (for instance, the embedded buy back and redemption rights are confirmed to be substantially inconsistent with the amortized cost of the debt commodity on each execution date), they will be classified as components of liability and is measured at fair value through profit or loss in subsequent periods except for equity components. The amount of the equity component is determined by the conversion of fair value of the corporate bonds subtract the component of the liability, and the carrying amount will not be remeasured in subsequent accounting periods. If the issued conversion corporate bonds from the Group do include an equity element, they are handled in accordance with IFRS 9 Hybrid Instruments.

The transaction costs are allocated to the liability and equity components in proportion to the ratio of the convertible corporate bonds' allocations to liability and equity components during initial recognition.

When holder of the convertible corporate bonds should request to exercise conversion rights before the maturity of the convertible bond, the person should adjust the carrying amount of the liability component element to the carrying amount at the time of exercise as the basis of entry for issuance of ordinary 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 measured at fair value through profit and loss

Financial liabilities at fair value through profit or loss include available-for-sale financial liabilities and designated financial liabilities at fair value through profit and loss.

A financial asset will be classified as available-for-sale when it meets one of the following conditions:

- A. The primary purpose for acquisition of the asset is short-term sales;
- B. It is part of an identifiable financial instrument combination of the consolidated management at the time of initial recognition, and there is evidence that the combination is a short-term profit operating model in the near future; or
- C. It is a derivative (except for financial guarantee contract or a designated and effective hedging instrument).

For contracts that include one or multiple embedded derivative instruments, the entire hybrid (integrated) contract could be designated as a financial instrument at fair value through profit or loss. In addition, when it meets one the following conditions and can provide more relevant information, it could be designated as at fair value through profit or loss during initial recognition:

- 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 amortized cost

Financial liabilities measured at amortized cost include accounts payables and loans, and will continue to be measured through effective interest method after initial recognition. When financial liabilities are derecognized and amortized using effective interest method, related gain or loss and amortization will be recognized in profit or loss.

Calculation of the amortized cost will take discount or premium during acquisition and transaction cost into consideration.

#### De-recognition of financial liabilities

When the obligation of a financial liability is terminated, canceled or no longer effective, the financial liability will be derecognized.

When the Group and the creditors exchange debt instruments with significant differences, or make major changes to all or part of the existing financial liabilities (whether due to financial difficulties or otherwise), treatment will include derecognition of the original liabilities and the recognition of new liabilities, During derecognition of financial liabilities, the difference between the carrying amount and the total amount of the consideration paid or payable, including the transferred non-cash assets or liabilities assumed, is recognized in profit or loss.

### (5) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities can only be offset and presented in net terms on the balance sheet only when the recognized amounts currently contain exercise of legal rights for offset and are intended to be settled on a net basis or can be realized simultaneously and the debt can be settled.

## 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.

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in fair value of derivatives are recognized directly in profit or loss. In the case of effective 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 refers to the price required or transferred to an asset in an orderly transaction between market participants on a measurement date. Fair value measurement assumes that the transaction for the asset being sold or liability being transferred takes place in one of the following markets:

- (1) Principal market of the asset or liability, or
- (2) If no principal market exists, the most favorable market for the asset or liability

The Group needs to be able to enter the principal or most favorable market in order to carry out the transaction.

Fair value measurement of the asset or liability uses the assumption that market participants would adopt while pricing the asset or liability, where the assumption is that the market participants would take the most favorable economic conditions into consideration.

The fair value measurement of a non-financial asset takes into consideration the market participant's use of the asset for its highest price and best use or by selling the asset to another market participant who will use the asset for its highest price and best use to generate economic benefits.

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

## 11. Impairment of non-financial assets

At the end of every reporting period, the Group will evaluate all assets for indicators of impairment pursuant to IAS 36 - Impairment of Assets. If signs of impairment exist or if regular annual impairment test is required for a certain asset, the Group will test it on the basis of individual assets or the cash generating unit to which the asset belongs. If result of the impairment test indicates that the carrying amount of the asset or the cash generating unit to which the asset belongs is greater than its recoverable amount, impairment loss will be recognized. The recoverable amount is the higher of fair value net of the disposal cost or the value in use.

At the end of every reporting period, the Group will evaluate all assets except for goodwill for indicators of whether previously recognized impairment loss no longer exists or has been reduced. If such signs exist, the Group will estimate the recoverable amount of the asset or the cash generating unit. If the estimated service potential of the asset changes, resulting in an increase in the recoverable amount, the impairment will be reversed to profit or loss. However, the carrying amount after reversal shall not exceed the amount of the depreciation or amortization of the asset after deducting the depreciation or amortization.

Impairment loss and reversal of continuing operations will be 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).

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

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

Depreciation of the subsidiaries is calculated and appropriated in accordance with the straight-line method and the estimated useful life of the following assets:

Other equipment      3 to 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. Investment property

The Group's investment property is measured at initial cost, including transaction costs for acquiring the properties. The carrying amount of investment property includes the cost of refurbishment or improvement of existing investment property that meet the criteria for cost recognition. However, general maintenance and repairs expenses are not regarded as parts of the cost. Unless classified as properties held for sale (or included in the category held for sale) in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations," investment properties are accounted for using the cost model under IAS 16 "Property, Plant and Equipment" after the initial recognition. However, such properties are accounted for using IFRS 16, if they are held as right-of-use assets and recognized as properties held for sale by the lessee in accordance with IFRS 5.

Depreciation is calculated and appropriated in accordance with the straight-line method and the estimated useful life of the following assets:

Buildings              20 years

The investment property is derecognized and any gain or loss is recognized upon disposal, if the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

The Group transfers its property to, or from investment property based on its actual use.

When the property is eligible or no longer eligible to be classified as investment property, and there is evidence of change in use, the Group transfers such property to or from investment property.

#### 15. Leases

The Group assesses whether the contract is (or includes) a lease on the date the contract is made. 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.

For contracts that are (or include) leases, the Group will treat each lease component in the contract individually, and to separately treat them from the non-lease components in the contracts. For leases that include one lease component and one or more additional lease or non-lease components, the Group will use the single comparison price of each lease component and the aggregated single prices of non-lease components as the basis, and distribute the consideration in the contract to the lease component. The comparison single unit price of the lease and non-lease components will be decided upon the prices separately received by the lessor (or supplier) for such components. If observable single unit prices are not readily available, the Group will maximize the use of observable information to estimate their respective single unit prices.

#### 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 yet to be 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 yet to be 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 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.

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.

## 16. 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 its domestic subsidiaries, so it is not included in the consolidated financial statements in the preceding paragraph.

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.

17. 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.

18. 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 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.

## 19. Share-based payment transactions

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.

## 20. 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:

- (1) The original recognition of, or and 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.

## 21. Corporate combination and goodwill

The acquisition method is used for accounting of corporate mergers. The transfer price, identifiable assets acquired and liabilities incurred from the merger are measured at the fair value on the date of purchase. The acquirer of a merger measures the non-controlling interest at fair value or the relative proportion of the identifiable net assets of the acquiree. The costs incurred from the acquisition are recognized as expenses in the current period and included in the administrative expenses.

When the Group acquires a business, it assesses the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in acquiree's host contracts.

When a business merger is to be completed in phases, the acquirer's previously held equity in the acquiree is remeasured at fair value on the date of acquisition and the resulting gain or loss is recognized as current profit or loss.

The acquirer expects that the contingent consideration of the transfer will be recognized at fair value on the date of acquisition. Subsequent changes in fair value of contingent considerations deemed to be assets or liabilities will be recognized as changes in profit or loss for the current period or changes in other comprehensive income in accordance with IAS 9. However, if the contingent consideration is classified as equity, it will not be re-measured until it is finally settled in equity.

The goodwill is initially measured as the excess of the sum of the consideration transfer and the non-controlling interest over the amount of fair value of the identifiable assets acquired and liabilities assumed. If the sum of consideration is lower than the fair value of the net assets obtained, the difference will be recognized in current profit or loss.

After the initial recognition, goodwill is measured as cost less accumulated impairment. Goodwill arising from a business merger is, from the date of acquisition, allocated to each cash-generating unit of the Group which is expected to benefit from the merger, irrespective of whether the other assets or liabilities of the acquiree are allocated to such cash-generating units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

When goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the disposed operation must be included in the carrying amount of the operation. The disposed goodwill is measured based on the relative proportion of recoverable amounts of the operation disposed of and the cash-generating unit retained.

#### V. Main Source of Significant Accounting Judgment, Estimation and Assumption Uncertainties

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 uncertainties 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 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.

VI. Descriptions of Material Accounting Items

1. Cash and cash equivalents

	2020.12.31	2019.12.31
Cash on Hand	\$1,380,287	\$1,790,442
Foreign currency on hand	201,570	223,202
Notes and checks for clearing	362,649	252,376
Due from Central Bank and other banks	2,037,815	1,282,647
Total	<u>\$3,982,321</u>	<u>\$3,548,667</u>

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

	2020.12.31	2019.12.31
Cash and cash equivalents recorded on the consolidated balance sheet	\$3,982,321	\$3,548,667
Due from the Central Bank and call loans to banks meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	6,400,365	5,675,687
Investments in bills and bonds under resale agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	200,248	150,022
Cash and cash equivalents on the Consolidated Statement of Cash Flows	<u>\$10,582,934</u>	<u>\$9,374,376</u>

2. Due from the Central Bank and call loans to banks		
	2020.12.31	2019.12.31
Reserve for deposits - Type A	\$4,143,721	\$2,267,322
Reserve for deposits - Type B	6,142,243	5,486,995
Reserve for deposits - Foreign currency	31,644	18,365
Call loans to other banks	2,225,000	3,390,000
Total	<u>\$12,542,608</u>	<u>\$11,162,682</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.

Please refer to Note VIII for details of the Group's collateral due from the Central Bank and call loans to banks.

3. Financial assets at fair value through profit and loss		
	2020.12.31	2019.12.31
Mandatorily measured at fair value through profit or loss:		
Stock	\$5,613,478	\$3,564,197
Equity securities	2,615,089	1,921,705
Domestic and foreign bonds	36,342,634	29,056,073
Derivatives	7,369	8,805
Real estate investment trust fund	453,493	429,013
Total	<u>\$45,032,063</u>	<u>\$34,979,793</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		
	2020.12.31	2019.12.31
Debt instrument investments measured at fair value through other comprehensive income:		
Government bonds	\$8,127,640	\$8,850,669
Corporate bond	31,425,497	33,039,873
Financial bonds	924,475	3,283,306
Subtotal (total book value)	<u>40,477,612</u>	<u>45,173,848</u>
Evaluation adjustment	4,413,672	3,148,095
Subtotal	<u>44,891,284</u>	<u>48,321,943</u>
Equity instrument investments measured at FVTOCI:		
Listed stocks	1,132,511	35,225
Non-TWSE/TPEX-listing companies stock	2,795,527	2,534,382
Subtotal	<u>3,928,038</u>	<u>2,569,607</u>
Total	<u>\$48,819,322</u>	<u>\$50,891,550</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 other comprehensive income.

Please refer to Note VI 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.

The recognized dividend income of the Group from equity instrument investments measured at fair value through other comprehensive income for the year ended December 31, 2020 and 2019 were NTD 98,770 thousand and NTD 77,143 thousand respectively and all were related to investments 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, 2020 and 2019, the fair values at the time of disposition were NTD 20,861 thousand, and NTD 72,467 thousand, respectively. Also, the accumulated unrealized loss in valuation at the time of disposal for the amounts of NTD 29,395 thousand and NTD 93,550 thousand were transferred from other equity to retained earnings.

5. Financial assets measured at cost after amortization

	2020.12.31	2019.12.31
Convertible certificate of deposit	\$18,900,000	\$17,700,000
Less: Allowance for losses	(2,618)	(1,865)
Total	<u>\$18,897,382</u>	<u>\$17,698,135</u>

The Group classifies certain financial assets into financial assets measured at amortized cost. Please refer to Note VI 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 purchased under agreements to resell

	2020.12.31	2019.12.31
Government bonds	<u>\$200,248</u>	<u>\$150,022</u>

The Group's bonds and securities purchased under agreements to resell were processed at the agreed price for an amount of NTD 200,261 thousand, and NTD 150,031 thousand on December 31, 2020 and 2019, respectively.

7. Receivables - net

	2020.12.31	2019.12.31
Accounts receivable and notes	\$5,121,318	\$3,732,458
Interests receivable	856,260	918,211
Clearing amount receivable	7,500	309,606
Other receivables	37,883	28,367
Subtotal (total book value)	6,022,961	4,988,642
Less: Allowance for losses	(89,263)	(81,258)
Net	<u>\$5,933,698</u>	<u>\$4,907,384</u>

The Group assesses impairments in accordance with International Financial Reporting Standard No. 9. Please refer to Note VI 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

	2020.12.31	2019.12.31
Overdraft	\$93,953	\$202,095
Export Negotiations	1,024	-
Loans	187,729,057	157,395,540
Collections of overdue loans	18,495	20,791
Total amount	187,842,529	157,618,426
Less: allowance for bad debt	(2,941,299)	(2,267,748)
Net	<u>\$184,901,230</u>	<u>\$155,350,678</u>

The Group assesses impairments in accordance with International Financial Reporting Standard No. 9. Please refer to Note VI 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

	2020.12.31	2019.12.31
Delinquent loans not restated from loans	\$-	\$1,168
Others	363	4,396
Subtotal (total book value)	363	5,564
Less: allowance for bad debt	-	(1,168)
Total	<u>\$363</u>	<u>\$4,396</u>

10. Property, plant, and equipment

The Group's booked property, plant, and equipment are owned and used by the Group.

	Land	Buildings and structures	Transport equipment	Other equipment	Construction in progress and prepayments	Total
Cost:						
2020.01.01	\$2,319,649	\$1,174,455	\$16,649	\$189,507	\$8,610	\$3,708,870
Acquired from merger	-	-	-	2,518	-	2,518
Acquisition	245,791	3,208	-	40,812	431,244	721,055
Disposal	(3,499)	(2,351)	(56)	(7,661)	-	(13,567)
Other Changes	316,611	14,593	-	-	(331,204)	-
2020.12.31	<u>\$2,878,552</u>	<u>\$1,189,905</u>	<u>\$16,593</u>	<u>\$225,176</u>	<u>\$108,650</u>	<u>\$4,418,876</u>
2019.01.01	\$2,015,003	\$1,169,735	\$18,940	\$164,532	\$4,776	\$3,372,986
Acquisition	329,970	4,115	-	32,881	29,902	396,868
Disposal	(25,324)	(25,463)	(2,291)	(7,906)	-	(60,984)
Other changes	-	26,068	-	-	(26,068)	-
2019.12.31	<u>\$2,319,649</u>	<u>\$1,174,455</u>	<u>\$16,649</u>	<u>\$189,507</u>	<u>\$8,610</u>	<u>\$3,708,870</u>
Depreciation and impairment:						
2020.01.01	\$-	\$842,580	\$13,356	\$139,116	\$-	\$995,052
Depreciation	-	20,012	1,150	33,601	-	54,763
Disposal	-	(77)	(56)	(7,513)	-	(7,646)
2020.12.31	<u>\$-</u>	<u>\$862,515</u>	<u>\$14,450</u>	<u>\$165,204</u>	<u>\$-</u>	<u>\$1,042,169</u>
2019.01.01	\$11,209	\$840,074	\$13,136	\$119,644	\$-	\$984,063
Depreciation	-	20,291	1,800	27,252	-	49,343
Disposal	(11,209)	(17,785)	(1,580)	(7,780)	-	(38,354)
2019.12.31	<u>\$-</u>	<u>\$842,580</u>	<u>\$13,356</u>	<u>\$139,116</u>	<u>\$-</u>	<u>\$995,052</u>
Net book value:						
2020.12.31	<u>\$2,878,552</u>	<u>\$327,390</u>	<u>\$2,143</u>	<u>\$59,972</u>	<u>\$108,650</u>	<u>\$3,376,707</u>
2019.12.31	<u>\$2,319,649</u>	<u>\$331,875</u>	<u>\$3,293</u>	<u>\$50,391</u>	<u>\$8,610</u>	<u>\$2,713,818</u>

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



## 11. Investment property

The investment property of the Group refers to the self-owned investment properties and investment properties held under right-of-use assets.

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost:			
2020.1.1	\$-	\$-	\$-
Addition - Acquisition	95,424	20,064	115,488
2020.12.31	<u>\$95,424</u>	<u>\$20,064</u>	<u>\$115,488</u>
Depreciation and impairment:			
2020.1.1	\$-	\$-	\$-
Current depreciation	-	452	452
2020.12.31	<u>\$-</u>	<u>\$452</u>	<u>\$452</u>
Net book value:			
2020.12.31	<u>\$95,424</u>	<u>\$19,612</u>	<u>\$115,036</u>

The Group did not provide investment property as collateral.

The investment property held by the Group is not measured at fair value, but its fair value information (Level III) is disclosed. The fair value of investment property held by the Group as of December 31, 2020 was NTD 116,481. The said fair value has not been evaluated by independent appraiser, but determined by the Group with reference to transaction prices of similar properties in the market.

## 12. Other assets - net

	<u>2020.12.31</u>	<u>2019.12.31</u>
Prepayments	\$13,202	\$10,885
Inter-bank clearing fund	1,050,689	726,810
Other Prepayments	-	69,153
Refundable deposits	118,269	134,647
Others	71,310	33,417
Net	<u>\$1,253,470</u>	<u>\$974,912</u>

As of December 31, 2020, and 2019, the other asset - other accumulated impairment of each period amounted to NTD 20,280 thousand.

Please refer to Note VIII for details of the Group's collateral over other assets.

## 13. Deposits from Central Bank and other banks

	<u>2020.12.31</u>	<u>2019.12.31</u>
Deposits of other banks	\$1,836	\$2,049
Call loans to other banks	21,115,632	14,531,800
Total	<u>\$21,117,468</u>	<u>\$14,533,849</u>

14. <u>Funds borrowed from Central Bank and other banks</u>		
	2020.12.31	2019.12.31
Funds borrowed from other banks	\$3,690,000	\$4,395,830
Other funds borrowed from Central Bank	907,650	-
Total	<u>\$4,597,650</u>	<u>\$4,395,830</u>

15. <u>Financial liabilities at fair value through profit and loss</u>		
	2020.12.31	2019.12.31
Available-for-sale financial liabilities:		
Derivatives	<u>\$13,062</u>	<u>\$6,002</u>

16. <u>Bills and bonds sold under repurchase agreements</u>		
	2020.12.31	2019.12.31
Government bonds	\$9,443,465	\$8,280,000
Corporate bond	12,179,630	19,411,343
Bank debentures	367,839	526,677
Total	<u>\$21,990,934</u>	<u>\$28,218,020</u>

The Group's bills and bonds sold under repurchase agreements were processed at the agreed price for an amount of NTD 22,002,911 thousand, and NTD 28,267,625 thousand on December 31, 2020 and 2019, respectively.

17. <u>Payables</u>		
	2020.12.31	2019.12.31
Accrued expenses	\$407,349	\$388,298
Interest payable	91,973	142,146
Notes and checks in clearing	362,649	252,376
Clearing amount payable	215,069	47,150
Others	524,220	422,856
Total	<u>\$1,601,260</u>	<u>\$1,252,826</u>

18. <u>Customer deposits and remittances</u>		
	2020.12.31	2019.12.31
Check deposits	\$2,268,167	\$2,217,464
Demand deposits	45,945,425	36,054,653
Time deposits	40,803,737	21,442,825
Savings deposit	137,912,535	132,078,219
Remittances	2,810	5,501
Total	<u>\$226,932,674</u>	<u>\$191,798,662</u>

19. Other financial liabilities

	Interest rate collars:	2020.12.31	2019.12.31
China Bills Finance Corporation	1.20%	\$150,000	\$-
International Bills Finance Corporation	1.20%~1.22%	120,000	-
Taiwan Cooperative Bills Finance Corporation	1.20%	120,000	-
Taiwan Finance Corporation	1.20%	100,000	-
Mega Bills	1.20%	100,000	-
Grand Bills Finance Corporation	1.20%~1.22%	100,000	-
Ta Ching Bills Finance Corporation	1.20%~1.22%	100,000	-
Taichung Commercial Bank Bills	1.04%	100,000	-
Chang Hwa Bank Bills	1.20%	-	500,000
Total		<u>\$890,000</u>	<u>\$500,000</u>

20. Provisions for liabilities

	2020.12.31	2019.12.31
Retirement benefits plan	\$180,997	\$248,385
Reserve for guarantee liability	183,642	115,711
Provision for commitment of financing	30,318	19,318
Total	<u>\$394,957</u>	<u>\$383,414</u>

The changes in the provisions for guarantee liability are as follows:

	2020	2019
Beginning balance	\$115,711	\$105,994
Amount appropriated for the period	67,943	9,735
Foreign exchange impact amount	(12)	(18)
Ending balance	<u>\$183,642</u>	<u>\$115,711</u>

The changes in the financing commitment reserve are as follows:

	2020	2019
Beginning balance	\$19,318	\$21,818
Amount appropriated (reversed) for the period	11,000	(2,500)
Foreign exchange impact amount	-	-
Ending balance	<u>\$30,318</u>	<u>\$19,318</u>

## 21. 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 NTD 32,853 thousand and NTD 32,248 thousand in 2020 and 2019, 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 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, 2020, the Group's defined benefit plan is expected to have an amount of NTD 37,007 thousand appropriated in the next year.

As of December 31, 2020 and 2019, the defined benefit plans of the Group are expected to expire in 2028.

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

	2020	2019
Current service cost	\$828	\$1,271
Net interest of the net defined benefit liabilities	5,240	5,098
Expected return on plan assets	(2,937)	(2,359)
Total	<u>\$3,131</u>	<u>\$4,010</u>

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

	2020.12.31	2019.12.31
Determined benefit obligation	\$527,801	\$535,820
Fair value of plan assets	(346,804)	(287,435)
Liability reserve - net defined benefit liabilities amount booked	<u>\$180,997</u>	<u>\$248,385</u>

Adjustments of net defined benefit liabilities (assets):

	Present value of the defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities (assets)
2019.1.1	\$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
Current service cost	828	-	828
Interest expenses (income)	5,240	(2,937)	2,303
Subtotal	541,888	(290,372)	251,516
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	11,736	-	11,736
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(8,833)	(8,833)
Subtotal	11,736	(8,833)	2,903
Payment of benefits	(25,823)	20,504	(5,319)
Contributions of employer	-	(68,103)	(68,103)
2020.12.31	<u>\$527,801</u>	<u>\$(346,804)</u>	<u>\$180,997</u>

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

	2020.12.31	2019.12.31
Discount rate	0.75%	1.00%
Expected salary increase rate	2.00%	2.00%

Sensitivity analysis of every material actuarial assumption:

	2020		2019	
	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%	\$-	\$(5,596)	\$-	\$(6,422)
Discount rate decreased by 0.25%	5,769	-	6,627	-
Expected salary increases by 0.5%	11,759	-	13,510	-
Expected salary decreases by 0.5%	-	(11,183)	-	(12,823)

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.

## 22. Other liabilities

	2020.12.31	2019.12.31
Deposits received	\$62,846	\$38,692
Advance income	145,534	213,300
Others	35,980	39,257
Total	<u>\$244,360</u>	<u>\$291,249</u>

## 23. Equity

### (1) Common stock

As of December 31, 2020, and 2019 the authorized capital stock of the Company was NTD 30,000,000 thousand; also, the issued capital stock was NTD 11,212,343 thousand, and NTD 11,312,343 thousand, with 1,121,234 thousand shares, and 1,131,234 thousand shares issued at par value of NTD 10, respectively. Each share is entitled to one voting right and the right to receive dividends.

### (2) Capital surplus

	2020.12.31	2019.12.31
Common stock premium	\$53,036	\$53,509
Others	2,586	2,586
Total	<u>\$55,622</u>	<u>\$56,095</u>

The various capital reserve balances on December 31, 2020, and 2019 are adjusted as follows:

	Common stock premium	Treasury stock transactions	Others	Total
Balance as of January 1, 2020	\$53,509	\$-	\$2,586	\$56,095
Share-based payment transaction	-	-	-	-
Transfer of treasury stock	-	-	-	-
Retirement of treasury stock	(473)	-	-	(473)
Balance as of December 31, 2020	\$53,036	\$-	\$2,586	\$55,622
Balance as of January 1, 2019	\$54,455	\$42,544	\$2,586	\$99,585
Share-based payment transaction	-	-	-	-
Transfer of treasury stock	-	-	-	-
Retirement of treasury stock	(946)	(42,544)	-	(43,490)
Balance, December 31, 2019	\$53,509	\$-	\$2,586	\$56,095

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, 2020:

Cause	Number of shares - beginning of year	Increase in the period	Decrease in the period	Number of shares - end of year
Transfer to employees	3,000 thousand shares	-	-	3,000 thousand shares
Maintain the Company's credit and shareholder's equity	-	10,000 thousand shares	10,000 thousand shares	-
Total	3,000 thousand shares	10,000 thousand shares	10,000 thousand shares	3,000 thousand shares

January 1, to December 31, 2019:

Cause	Number of shares - beginning of year	Increase in the period	Decrease in the period	Number of shares - end of year
Transfer to employees	-	3,000 thousand shares	-	3,000 thousand shares
Maintain the Company's credit and shareholder's 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

- a. As of December 31, 2020 and 2019, the amount of Treasury Stocks that are yet to have retired or distributed to employees was NTD 98,422 thousand or 3,000 shares in both years.
- b. Based on the resolution of the Board of Directors, the Company had scheduled January 21, 2019 and September 30, 2019 as the base date of de-capitalization. 20,000 thousand shares of treasury stock were bought back and canceled with a total of NTD 200,000 thousand.
- c. Based on the resolution of the Board of Directors, the Company had scheduled April 30, 2020 as the base date of de-capitalization. 10,000 thousand shares of treasury stock were bought back and canceled with a total of NTD 100,000 thousand.
- d. 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 Incorporation of the Company, if there are earnings at the annual final accounts, it should be distributed in the following order:

- A. Payment of all taxes and dues
- B. Offset operation losses
- C. Appropriate 30% as the legal reserve
- D. Other special surplus reserve recognized or reversed in accordance with laws and regulations or supervisory authorities.
- E. The remaining earnings shall be distributed by the Board of Directors according to the dividend policy, and reported to the shareholders' meeting.

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 NTD 0.1, it will not be distributed.



Pursuant to the Banking Act, legal capital reserve shall be appropriated until the total sum of which has reached the total paid-in capital. Unless and until the accumulated legal capital reserve equals the paid-in capital, the maximum cash surplus which may be distributed shall not exceed 15% of the total paid-in capital. The legal reserve can be used to set off deficits. When the Company has no loss, the portion of the legal reserve exceeds 25% of the paid-in capital should be distributed as new shares or cash to shareholders proportional 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 adoption of the IFRS, pursuant to Jin-Guan-Zheng-Fa Letter No. 1010012865 from the FSC dated July 6, 2012, when the Company adopted IFRSs for the first-time, 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 may be distributed.

As of January 1, 2020 and 2019, the special reserve at the first-time adoption amounted to NTD 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, 2020 and 2019 that caused the reversal of special reserve to the undistributed earnings. As of December 31, 2020 and 2019, the special reserve for the first time was NTD 45,549.

The 2020 and 2019 earnings appropriation and distribution and the dividend per share was proposed and resolved in the board meeting on February 22, 2021 and the Shareholders' Meeting on May 12, 2020 as follows:

	Distribution of retained earnings		Dividends per share (NTD)	
	2020	2019	2020	2019
Legal reserve	\$1,637,705	\$1,019,906		
Special reserve	4,720	(423,162)		
Common stock cash dividends	2,018,222	1,677,351	\$1.8	\$1.5
Total	<u>\$3,660,647</u>	<u>\$2,274,095</u>		

Please refer to Note VI. 29 for the relevant information on the estimation basis and recognition amount of the employee compensation and the remuneration to directors and supervisors.

(5) Non-controlling interests

	2020	2019 (Note)
Beginning balance	\$ -	\$ -
Net profit attributable to non-controlling interests in this period	5	-
Other comprehensive income attributed to non-controlling interests:		
Share of other comprehensive gains (losses) of associates and joint ventures, accounted for using equity method	-	-
Acquired subsidiaries' shares	1,628	-
Ending balance	<u>\$1,633</u>	<u>\$ -</u>

Note: In order to provide clients with a comprehensive and diverse finance service, it is resolved at the board meeting on October 12, 2020 that the Company acquires WanTai Securities Corporation by cash. The investment was approved by the competent authority on October 27, 2020. The Company obtained control and included the subsidiary in the Group's consolidated financial statements on November 3, 2020.

24. Net interest income

	2020	2019
<u>Interest revenue</u>		
Discount and loan interest income	\$4,000,178	\$4,194,505
Due from bank and interbank offered interest income	33,298	52,041
Security investment interest income	2,166,777	2,364,921
Other interest incomes	312,831	221,987
Subtotal	<u>6,513,084</u>	<u>6,833,454</u>
<u>Interest expenses</u>		
Deposits Interest expenses	(876,837)	(1,030,661)
Interest expense of funds borrowed from Central Bank and other banks	(162,012)	(430,554)
Interest expense of the RP bonds	(224,250)	(613,021)
Others	(4,032)	(3,829)
Subtotal	<u>(1,267,131)</u>	<u>(2,078,065)</u>
Total	<u>\$5,245,953</u>	<u>\$4,755,389</u>

25. Net service fee income

	2020	2019
Service fee revenue	\$1,955,380	\$1,888,143
Service fee expenses	(46,100)	(47,586)
Total	<u>\$1,909,280</u>	<u>\$1,840,557</u>

26. <u>Gain (loss) on financial assets and liabilities at fair value through profit and loss</u>		
	2020	2019
Stock investment	\$1,041,345	\$814,531
Bond investment	865,277	601,153
Derivatives	79,382	(36,418)
Others	42,068	82,202
Total	<u>\$2,028,072</u>	<u>\$1,461,468</u>

27. <u>Gain (loss) on reversal of assets impairment and bad debts, commitments, and reserve for guarantee liability</u>		
	2020	2019
Financial assets measured at FVTOCI	\$(512,137)	\$(27,450)
Financial assets measured at cost after amortization	(753)	139
Subtotal	<u>(512,890)</u>	<u>(27,311)</u>
Loan and receivables bad debt reversal (appropriation)	(665,721)	(2,648,169)
Reserve for guarantee liability (appropriation)	(67,943)	(9,735)
Financing commitments reserve reversal (appropriation)	(11,000)	2,500
Subtotal	<u>(744,664)</u>	<u>(2,655,404)</u>
Total	<u>\$(1,257,554)</u>	<u>\$(2,682,715)</u>

Please refer to Note XIV for credit risk related information.

## 28. Leases

### (1) The Group is a lessee

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:

#### A. Amount recognized on the balance sheet

##### (a) Right-of-use assets

The book value of the right-of-use assets

	2020.12.31	2019.12.31
Buildings and structures	\$214,730	\$211,245
Other equipment	2,774	4,438
Total	<u>\$217,504</u>	<u>\$215,683</u>

The Group had added right-of-use assets for the amounts of NTD 88,048 thousand and NTD 19,868 thousand in the year 2020 and 2019.

(b) Lease liabilities		
	2020.12.31	2019.12.31
Lease liabilities	<u>\$(219,898)</u>	<u>\$(217,256)</u>
Current liability	<u>\$(219,898)</u>	<u>\$(217,256)</u>

The interest expenses of the Group's lease liabilities were NTD 4,032 thousand and NTD 3,827 thousand in 2020 and 2019, respectively. For the maturity analysis of the lease liabilities on December 31, 2020, and 2019, please refer to Note XIV. 4 "Liquidity Risk Management."

B. Amount recognized in the statements of comprehensive income

Depreciation of the right-of-use assets		
	2020	2019
Buildings and structures	<u>\$75,239</u>	<u>\$74,205</u>
Other equipment	<u>1,664</u>	<u>1,664</u>
Total	<u>\$76,903</u>	<u>\$75,869</u>

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

	2020	2019
Short-term lease expense	<u>\$1,797</u>	<u>\$1,738</u>
Low-value asset lease expense (excluding the low-value assets lease expense of the short-term leases)	2,337	2,056

D. The lessee and the lease activity related cash outflow

The total cash outflow for the lease of the Group were NTD 79,264 thousand and NTD 78,122 thousand in the year 2020 and 2019, respectively.

29. Operating expenses

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

	2020	2019
Employee benefits expenses		
Salaries and wages	\$910,437	\$884,357
Labor insurance and national health insurance	68,446	66,503
Pension expenses	35,984	36,258
Other employee benefits expenses	37,904	37,051
Depreciation	132,118	125,212
Total	<u>\$1,184,889</u>	<u>\$1,149,381</u>

According to the Articles of Incorporation, 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 aforementioned remuneration to employees is to be paid in the form of shares or cash. Approval for such benefits should be passed by at least half of the Directors in attendance in a Board meeting attended by no less than two-thirds of all Board members. The results should be reported during 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.

Based on the Company's profit for the period January 1 to December 31, 2020 and 2019, the Group appropriates 0.01% of the earnings to be remuneration to employees, which were NTD 630 thousand and NTD 400 thousand, respectively, and were listed in the "salary expense."

The Company's Board of Directors had resolved on February 22, 2021 to distribute the 2020 remuneration to employees and the remuneration to directors and supervisors at the amount of NTD 630 thousand and NTD 0 respectively, which was not significantly different from the expenses booked in the 2020 financial report.

The Company's Board of Directors had resolved on February 24, 2020 to distribute the 2019 remuneration to employees and the remuneration to directors and supervisors at the amount of NTD 400 thousand and NTD 0 respectively, which was not significantly different from the expenses booked in the 2019 financial report.

There is no significant difference between the actual employees' remuneration and remuneration to directors and supervisors distributed in 2020 and the expenses booked in the 2019 financial report.

### 30. Other comprehensive income

Other comprehensive income for the year 2020 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income (loss)	Income tax A benefit (expense)	After tax amount
Items not reclassified to income:					
Gain or loss on evaluation of equity instruments at FVTOCI	\$379,435	\$-	\$379,435	\$-	\$379,435
Remeasurements of the defined benefit plans	(2,903)	-	(2,903)	349	(2,554)
Items may be re-classified subsequently to income:					
Exchange differences from the translation of financial statement	(3,825)	-	(3,825)	459	(3,366)
Gain or loss from debt instrument investment at FVTOCI	1,947,306	(207,564)	1,739,742	-	1,739,742
<b>Total</b>	<b>\$2,320,013</b>	<b>\$(207,564)</b>	<b>\$2,112,449</b>	<b>\$808</b>	<b>\$2,113,257</b>

Other comprehensive income for the year 2019:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income (loss)	Income tax benefit (expense)	After tax amount
Items not reclassified to income:					
Gain or loss on evaluation of equity instruments at FVTOCI	\$430,495	\$-	\$430,495	\$-	\$430,495
Remeasurements of the defined benefit plans	6,589	-	6,589	(19,752)	(13,163)
Items may be re-classified subsequently to income:					
Exchange differences from the translation of financial statement	(85,655)	-	(85,655)	13,122	(72,533)
Gain or loss from debt instrument investment at FVTOCI	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 Group's debt instrument investment measured at fair value through other comprehensive income in the year ended 2020 and 2019 are reclassified to profit or loss from the cumulative other comprehensive income at the time of de-recognition for an amount of NTD 207,564 thousand and NTD 51,540 thousand, respectively.

31. Income tax

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

Income tax recognized in the profit or loss

	2020	2019
Current income tax expenses (benefit):		
Income tax payable for the current period	\$647,890	\$310,376
Adjustments in respect of current income tax of prior periods	(1,704)	810
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to the original generation of the temporary difference and its reversal	125,365	193,008
Tax loss, tax credit and temporary differences not recognized in previous years were recognized in this year	-	-
Deferred income tax related to change in tax rate or new tax items.	-	-
Income tax expense	<u>\$771,551</u>	<u>\$504,194</u>

Income tax recognized in the other comprehensive income

	2020	2019
Deferred income tax expense (benefit):		
Exchange differences from the translation of financial statement	\$(459)	\$(13,122)
Actuarial gain (loss) from defined benefit plan	(349)	19,752
The other comprehensive income related income tax	<u>\$(808)</u>	<u>\$6,630</u>

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

	2020	2019
Net income before tax of the continuing business units	\$6,262,522	\$3,903,881
Tax amount calculated according to the domestic tax rate applicable to the income of the country concerned	\$1,252,504	\$780,776
Income tax effect of the tax-free income	(407,699)	(627,990)
Income tax effect of non-deductible expenses on tax returns	348	44
Income tax effect of deferred income tax assets/liabilities	(124,557)	102,392
Basic tax adjustment	4,252	248,162
Additional 10% income tax on the undistributed earnings	48,407	-
Adjustments in respect of current income tax of prior periods	(1,704)	810
Total income tax expense recognized in profit or loss	<u>\$771,551</u>	<u>\$504,194</u>

Deferred income tax assets (liabilities) balances related to the following items:2020

	Beginning balance	Recognized in the profit or loss	Recognized in the other comprehensive profit or loss	Ending balance
Temporary differences:				
Financial assets valuation measured at FVTPL	\$(85,697)	\$(162,563)	\$-	\$(248,260)
Allowance for bad debt	82,538	44,538	-	127,076
Impairment of assets	13,941	(1,571)	-	12,370
Employees' leave benefits liabilities	3,562	115	-	3,677
Compensation payable	1,162	(13)	-	1,149
Reserve for guarantee liability	7,059	3,967	-	11,026
Net determined benefit liability non-current	29,994	(8,435)	349	21,908
Income from investment under equity method	918	1,390	-	2,308
Conversion difference of the financial statements of foreign institutions	6,014	-	459	6,473
Gain on bargain purchase	-	(919)	-	(919)
Deferred Income tax benefit (expense)	<u>-</u>	<u>\$(123,491)</u>	<u>\$808</u>	<u>(919)</u>

	Beginning balance	Recognized in the profit or loss	Recognized in the other comprehensive profit or loss	Ending balance
Net deferred income tax assets	<u>\$59,491</u>			<u>\$(63,192)</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$145,188</u>			<u>\$185,987</u>
Deferred income tax liabilities	85,697			249,179
Deferred income tax liabilities - land value incremental tax reserve	50,135			50,135
Total	<u>\$135,832</u>			<u>\$299,314</u>

2019

	Beginning balance	Recognized in the profit or loss	Recognized in the other comprehensive profit or loss	Ending balance
Temporary differences:				
Financial assets valuation measured at FVTPL	\$(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
Income from investment under equity method	-	918	-	918
Conversion difference of the financial statements of foreign institutions	(7,108)	-	13,122	6,014
Deferred Income tax benefit (expense)		<u>\$(191,051)</u>	<u>\$(6,630)</u>	
Net deferred income tax assets	<u>\$257,172</u>			<u>\$59,491</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$266,927</u>			<u>\$145,188</u>
Deferred income 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>



### Income tax declaration and audit

As of December 31, 2020, the approval and audit status of income tax returns of the Company and its subsidiaries:

	<u>Income tax declaration and audit</u>
The Company	Audited up to the year of 2018
Subsidiary - Kings Town Bank International Lease Corporation	Audited up to the year of 2018
Subsidiary – WanTai Securities Corporation	Audited up to the year of 2018
Sub-subsidiary- Kings Town Intl. Construction Management Corporation	Audited up to the year of 2018

### 32. 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 dividing the net profit of parent company ordinary shares by weighted average number of ordinary shares outstanding during the 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.

	<u>2020</u>	<u>2019</u>
(1) Basic earnings per share		
Net income attributable to the holders of common stock of the parent company (NTD thousand)	\$5,490,966	\$3,399,687
Weighted average number of common stock shares (thousand shares) of the earnings per share	1,120,378	1,137,777
Base earnings per share (NTD)	<u>\$4.90</u>	<u>\$2.99</u>
(2) Diluted earnings per share		
Net income attributable to the holders of common stock of the parent company (NTD thousand)	\$5,490,966	\$3,399,687
Weighted average number of common stock shares (thousand shares) of the earnings per share	1,120,378	1,137,777
Dilutive effect	-	-
Weighted average number of common stock shares (thousand shares) after adjusting the dilutive effect	1,120,378	1,137,777
Diluted earnings per share (NTD)	<u>\$4.90</u>	<u>\$2.99</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.

### 33. Corporate combination

#### Acquisition of WanTai Securities Corporation

The Group acquired WanTai Securities Corporation on Nov. 3, 2020 and holds 99.51% of voting shares. WanTai Securities Corporation is established at No. 193, Xinrong Rd., West Dist., Chiayi City, and engages in business regarding the trading of securities of non-listed companies. The acquisition was expected to expand the service scope of the Group.

The Group chose to measure the non-controlling interest of WanTai Securities Corporation based on fair value measurement.

The fair value of WanTai Securities Corporation's identifiable assets and liabilities as of the acquisition date are as follows:

	Fair value upon acquisition
Cash and cash equivalents	\$177,716
Financial assets measured at FVTPL	14,522
Financial assets measured at FVTOCI	17,017
Accounts receivable	63,713
Property, plant and equipment	2,518
Other assets	121,860
Subtotal	397,346
Payables	65,155
Other liabilities	2,291
Subtotal	67,446
Total identifiable assets at fair value	\$329,900

#### Goodwill of WanTai Securities Corporation:

Cash consideration	\$320,611
Add: Non-controlling interest (accounting for 0.49% of identifying assets at fair value)	1,628
Less: Identifiable assets at fair value	(329,900)
Gain on bargain purchase	\$(7,661)

Cash flow upon acquisition	
Net cash obtained from subsidiaries	\$177,716
Cash payments	(320,611)
Net cash outflow	\$(142,895)

From the day of acquisition (November 3, 2020) to December 31, 2020, the net income from continuing business units of WanTai Securities Corporation amounted to NTD 951 thousand. If the acquisition were to happen in the beginning of the year, the net revenue from continuing business units would have amounted to NTD 30,464 thousand and net income NTD 3,323 thousand.

## VII. Related Party Transactions

### 1. Names of related parties and their relationship with the Group

Name	Relationship with the Group
Chen-Chih Tai	Chairman of the Company
Chiung-Ting Tsai	Vice Chairman of the Group
Jih-Cheng Chang	President of the Group
Tiangang Investment Co., Ltd	Director of the Group
Fu Chiang Investment Co., Ltd.	Director of the Group (2020.5.12 took office)
Ming-Tai Chen	Independent Director of the Group (2020.5.12 term expires)
Chao-Long Chen	Independent Director of the Group
Hung-Liang Chiang	Independent Director of the Group
Chuan-Fu Hou	Independent Director of the Group (2020.5.12 took office)
Others	Representatives of the Group's managers, incorporated directors and supervisors, and second degree of kinship and substantive stakeholders

### 2. Significant transactions with related parties

#### (1) Deposits

Item	Amount	% of the account balance
<u>2020.12.31</u>		
Deposits	\$279,784	0.12%
<u>2019.12.31</u>		
Deposits	\$216,702	0.11%

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 with 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) Loans

Item	Amount	% of the account balance
<u>2020.12.31</u>		
Loans	\$61,691	0.03%
<u>2019.12.31</u>		
Loans	\$28,796	0.02%

## December 31, 2020

Type	Number of accounts or name of stakeholder	Current period maximum balance	Ending balance	Performance		Collateral contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	Non-performing loans		
Consumer loan	10	\$6,281	\$6,037	\$6,037	\$-	None	None
Residential mortgage Loan	6	16,575	16,374	16,374	-	Real estate	None
Other loans	Chou OO	3,000	3,000	3,000	-	Real estate	None
Other loans	Huang OO	500	500	500	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Chen OO	15,800	15,800	15,800	-	Real estate	None
Other loans	Ou OO	9,000	9,000	9,000	-	Real estate	None
Other loans	Chen OO	2,230	2,230	2,230	-	Certificate of Deposit	None
Other loans	Hsu OO	950	950	950	-	Certificate of Deposit	None
Other loans	Wang OO	470	470	470	-	Certificate of Deposit	None
Other loans	Chang OO	6,155	6,155	6,155	-	Real estate	None

## December 31, 2019

Type	Number of accounts or name of stakeholder	Current period maximum balance	Ending balance	Performance		Collateral contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	Non-performing loans		
Consumer loan	12	\$5,601	\$5,374	\$5,374	\$-	None	None
Residential mortgage Loan	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

## (3) Leases

The rental expenses paid to the related party for the lease of the office in the period of January 1 to December 31, 2020 and 2019 were NTD 3,840 thousand.

## (4) Guarantees: None.

## (5) Derivative financial instrument transactions: None.

## (6) Sales of non-performing loan: None.

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

	2020	2019
Short-term employee benefits	\$34,962	\$26,555
Retirement benefits	1,981	1,864
Total	<u>\$36,943</u>	<u>\$28,419</u>

VIII. Pledged Assets

The Group has the following assets provided as collateral:

Items	Book value		Guaranteed debt
	2020.12.31	2019.12.31	
Financial assets measured at FVTPL	\$5,828,699	\$6,563,455	RP transaction
Financial assets measured at FVTPL	720,194	705,688	Various business reserves and collaterals
Financial assets measured at FVTOCI	18,583,715	25,086,282	RP transaction
Financial assets measured at FVTOCI	3,976,544	6,540,073	Funds borrowed from other banks
Due from the Central Bank and call loans to banks	2,000,000	-	Funds borrowed from Central Bank and other banks
Accounts receivable	1,550,000	1,269,000	Funds borrowed from other banks
Financial assets measured at FVTPL	41,000	49,400	Funds borrowed from other banks
Other assets	30,000	-	Settlement money remittance guarantee
Total	<u>\$32,730,152</u>	<u>\$40,213,898</u>	

IX. Significant Contingent Liabilities and Unrecognized Contract Commitments

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

	2020.12.31	2019.12.31
Receivable and collection	\$12,340,695	\$10,764,902
Receivable guarantees	9,057,037	5,619,363
Receivables from L/C	49,727	54,661
Trust and custody	32,554,784	31,605,353
Agreed financing amount	26,358,085	21,220,207

(2)

Major contents	Contract amount	Amount paid	Amount yet to be paid
Land in Guang Pu Phase II	\$423,500-\$653,400	\$21,175	\$402,325-\$632,225

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	2020.12.31	2019.12.31	Trust liabilities	2020.12.31	2019. 12.31
Bank deposits	\$2,442,840	\$909,909	Mid-term borrowings	\$4,721,230	\$4,821,230
Stock	2,284,733	2,524,592	Long-term borrowings	614,806	-
Funds	8,791,795	9,171,811	Payables	23,320	22,179
Real estate	18,613,156	18,070,304	Other liabilities	38,447	31,402
Other assets	276,593	866,230	Trust capital	27,055,583	26,505,245
			Reserve and accumulated earnings	(44,269)	162,790
Total trust assets	<u>\$32,409,117</u>	<u>\$31,542,846</u>	Total trust liabilities	<u>\$32,409,117</u>	<u>\$31,542,846</u>

Income Statement of Trust Accounts		
Items	2020	2019
Trust revenue		
Interest revenue	\$977	\$1,105
Rent revenue	499,446	385,687
Dividend income	115,703	129,037
Unrealized capital gains	97,169	53,013
Other profits	1,807	16,158
Subtotal	<u>715,102</u>	<u>585,000</u>
Trust expenses		
Administrative expenses	(41,132)	(34,571)
Tax expenses	(30,412)	(22,850)
Interest expenses	(69,293)	(40,298)
Unrealized capital loss	(255,828)	(69,166)
Unrealized exchange losses	(143,472)	-
Appraisal expenses	(1,620)	(3,000)
Remuneration expenses	(1,200)	(1,200)
Other Expenses	(11,847)	(58,645)
Subtotal	<u>(554,804)</u>	<u>(229,730)</u>
Net profit before tax (net loss)	160,298	355,270
Income tax expense	-	(25)
Net income (net loss)	<u>\$160,298</u>	<u>\$355,245</u>

Property Catalog of Trust Accounts		
Investment	2020.12.31	2019.12.31
Bank deposits	\$2,442,840	\$909,909
Stock	2,284,733	2,524,592
Funds	8,791,795	9,171,811
Real estate		
Land	13,372,181	13,193,092
Buildings and structures	5,192,597	4,870,632
Construction in progress	48,378	6,580
Others	276,593	866,230
Total	\$32,409,117	\$31,542,846

XI. Significant Disaster Loss

No such event.

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:

	2020.12.31		2019.12.31	
	Book value	Fair value	Book value	Fair value
Financial assets measured at FVTPL:				
Mandatorily measured at fair value through profit or loss	\$45,032,063	\$45,032,063	\$34,979,793	\$34,979,793
Financial assets measured at FVTOCI	48,819,322	48,819,322	50,891,550	50,891,550
Financial assets measured at cost after amortization:				
Debt instrument investments measured at amortized cost	18,897,382	18,897,382	17,698,135	17,698,135
Cash and cash equivalents (excluding cash on hand)	2,400,464	2,400,464	1,535,023	1,535,023
Due from the Central Bank and call loans to banks	12,542,608	12,542,608	11,162,682	11,162,682
Bonds and securities purchased under agreements to resell	200,248	200,248	150,022	150,022
Receivables	5,933,698	5,933,698	4,907,384	4,907,384
Discounts and loans	184,901,230	184,901,230	155,350,678	155,350,678
Other financial assets	363	363	4,396	4,396

Financial liabilities:

	2020.12.31		2019.12.31	
	Book value	Fair value	Book value	Fair value
Financial liabilities measured at cost after amortization:				
Deposits from the Central Bank and other banks	\$21,117,468	\$21,117,468	\$14,533,849	\$14,533,849
Funds borrowed from Central Bank and other banks	4,597,650	4,597,650	4,395,830	4,395,830
Bills and bonds sold under repurchase agreements	21,990,934	21,990,934	28,218,020	28,218,020
Payables	1,601,260	1,601,260	1,252,826	1,252,826
Deposits and remittances	226,932,674	226,932,674	191,798,662	191,798,662
Lease liabilities	219,898	219,898	217,256	217,256
Financial liabilities measured at FVTPL:				
Held for transaction purposes	13,062	13,062	6,002	6,002

The derivative financial instrument transactions are detailed as follows:

	Items	Contract amount	Fair value
2020.12.31			
	Foreign exchange contracts	\$636,677	\$(5,693)
2019.12.31			
	Foreign exchange contracts	\$1,984,179	\$2,803

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

Fair value refers to the price required or transferred to an asset in an orderly transaction between market participants on a 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 based on the book value on the balance sheet. As the maturity date of such products is very close or the current collection price is equivalent to the book value, the book value is a reasonable basis for estimating the fair value. This method is applied to cash and cash equivalents, deposits at the Central Bank and inter-bank loans, RS bills and bond investments, receivables, deposits of the Central Bank and other banks, funds borrowed from Central Bank and other banks, RP bills 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 active market price, the fair value is determined by the counterparty's quotation or valuation method. The valuation method 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 pay if it wishes to terminate the contract at the agreed reporting date. The Group calculates the fair value of the position held based on 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

It refers to the public offer (unadjusted) of the same financial instrument available on the active 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. This 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. This includes the unlisted stocks in which the Group invests.

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 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.

2020.12.31

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
<u>Assets measured at fair value</u>				
Financial assets measured at FVTPL				
Stock investment	\$5,613,478	\$5,613,478	\$-	\$-
Bond investment	36,342,634	2,593,994	33,748,640	-
Derivatives	7,369	-	7,369	-
Others	3,068,582	3,068,582	-	-
Financial assets measured at FVTOCI				
Stock investment	3,928,038	1,076,369	56,142	2,795,527
Bond investment	44,891,284	36,573,280	8,318,004	-
<u>Liabilities measured at fair value</u>				
Financial liabilities measured at FVTPL				
Derivatives	13,062	-	13,062	-

2019.12.31

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
<u>Assets measured at fair value</u>				
Financial assets measured at FVTPL				
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 measured at FVTOCI				
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 measured at FVTPL				
Derivatives	6,002	-	6,002	-

(3) Transfer between Level I and Level II fair value

From January 1 to December 31, 2020 and 2019, the Group's assets and liabilities measured at repetitive fair value did not experience any transfer between fair value Level I and II.

(4) Changes in repetitive fair value level III statement

For the Group's liabilities measured at repetitive fair value that are categorized as Level III, adjustments from beginning to ending balance is as follows:

	<u>Financial assets measured at FVTOCI - Stock</u>
2020.1.1	\$2,534,382
Total benefits recognized in 2020:	
Recognized in other comprehensive income (reported in "Equity instrument investments measured at fair value through other comprehensive income")	229,446
Achievements in the current period	31,699
2020.12.31	<u><u>\$2,795,527</u></u>

	<u>Financial assets measured at FVTOCI - Stock</u>
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	<u>1,304,651</u>
2019.12.31	<u><u>\$2,534,382</u></u>

Significant unobservable input value information of Level III fair value

For the Group's assets measured at repetitive fair value and categorized in fair value Level III, the material unobservable input used toward fair value measurement is as follows:

	<u>Valuation technique</u>	<u>Significant unobservable input value</u>	<u>Range</u>	<u>Relationship of inputs to fair value</u>
Financial assets measured at FVTOCI				
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 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 in which only fair value is disclosed:	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<u>2020.12.31</u>				
Debt instrument investments measured at amortized cost				
Convertible certificate of deposit	\$18,897,382	\$-	\$-	\$18,897,382

Assets in which only fair value is disclosed: <u>2019.12.31</u>	Level I	Level II	Level III	Total
Debt instrument investments measured at amortized cost Convertible certificate of deposit	\$17,698,135	\$-	\$-	\$17,698,135

4. Transfer of financial assets

Transferred financial assets that are not fully derecognized

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, 2020					
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 measured at FVTPL with R/P agreement	\$5,828,699	\$5,915,465	\$5,828,699	\$5,915,465	\$(86,766)
Financial assets measured at FVTOCI with R/P agreement	18,583,715	16,075,469	18,583,715	16,075,469	2,508,246

XIV. Financial Risk Management

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, based on the overall risk exposure, the Group implements appropriate overall capital allocation, and establishes management mechanisms for various business risks in order to strengthen business performance. The risks 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 Group' scope of risk management. Policies and methods are stipulated according to different risks, such as, "Credit Policy," "Rules Governing Credit Review and Authorization," "Rules Governing Risks," etc. Besides, according to the needs of the policies and methods, management

guidelines were formulated, such as formulating "Regulations Governing Credit Risk," "Regulations Governing Market Risk," and "Regulations Governing Operational Risk" in accordance with the "Rules Governing Risks," which were 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, and 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 is not entitled with voting rights. 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 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) Risk Management Committee

The President of the Group 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, the committee is 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 credit extensions 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, the Group 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 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 President. 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 is not entitled with voting rights. 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 poor 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 included 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 derivatives, and 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 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 extension, 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 extension business and control credit risk, the "Regulations Governing Credit Risk" was formulated 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 hierarchical organization structure of credit management, each level shall, in accordance with the "Rules Governing Credit Review and Authorization," strictly execute case review within the authority to ensure the quality of credit assets. The Group also formulated the "Directions for Credit Review and Implementation," and the Credit Review Department is authorized by the Head Office in handling related matter to strengthen post-loan management, in aim 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 extension (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 reference for credit approval and as reference in determining credit conditions. Those with a poor credit rating 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 is initiated. Before the end of each year, the Group determines the NTD and foreign currency loan limits according to domestic and foreign financial interbank credit ratings. And such matters are submitted to the Credit Review Committee for review and reported 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 stipulation of credit limit restrictions, 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 claim of the Group. The Group has formulated 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, in order to ensure the Group's credit claim. The Group has formulated the creditor's right security clauses, collateral clauses, and offset clauses, which clearly define that in an event of credit, the credit limit may be reduced, repayment period may be reduced or deemed to be fully due, or the debt may be offset by debtor's deposit at the Group to reduce the credit risk.

The Group carries out on-site appraisal of the collateral on a regular basis or at any time. The Group carries out credit check or revaluation of collaterals according to the status of credit granting accounts. The Group also evaluates the degree of guarantee provided by debtor and the legal effectiveness of the guarantor in order to ensure the security 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 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 and the Company agrees with the counterparties upon the 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	Maximum credit risk exposure amount	
	2020.12.31	2019.12.31
Customer's developed and irrevocable loan commitments	\$26,358,085	\$21,220,207
Customer's outstanding letters of credit amount	18,287	207,684
Guarantee payments	9,057,037	5,619,363
Total	\$35,433,409	\$27,047,254

(5) The financial information related to asset on consolidated balance sheet, off-balance sheet collateral held as guarantees, master netting arrangement and other credit enhancements, that have impact on maximum credit risk exposure amount are shown below:

December 31, 2020	Collateral	Master netting arrangement	Total
<u>Items on the statement</u>			
Discounts and loans	\$135,382,209	\$ -	\$135,382,209
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	9,624,965	-	9,624,965
Customer's outstanding letters of credit amount	3,000	-	3,000
Guarantee payments	4,435,540	-	4,435,540
Total	\$149,445,714	\$ -	\$149,445,714

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	<u>\$123,318,738</u>	<u>\$ -</u>	<u>\$123,318,738</u>

The Group'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 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:

1) By industry

By industry	2020.12.31		2019.12.31	
	Amount	%	Amount	%
I. Private enterprises	\$143,012,218	76	\$118,440,765	75
II. Government agencies	-	-	-	-
III. Non-profit groups	155,410		161,417	
IV. Private	44,674,901	24	39,016,244	25
V. Financial institutions	-	-	-	-
Total	<u>\$187,842,529</u>	<u>100</u>	<u>\$157,618,426</u>	<u>100</u>

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

Collateral categories	2020.12.31		2019.12.31	
	Amount	%	Amount	%
Unsecured	\$52,460,320	28	\$48,296,819	31
Secured				
- Financial collateral	19,490,849	10	13,342,931	8
- Real estate	102,855,828	55	85,331,445	54
- Guarantee	5,849,882	3	2,932,494	2
- Other collaterals	7,185,650	4	7,714,737	5
Total	\$187,842,529	100	\$157,618,426	100

- (7) Analysis of the Group's financial assets that is overdue but without impairment  
The Group had no financial assets that were overdue without impairment as of December 31, 2020 and 2019.
- (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 Group.
- 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 Group.
- 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 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 Group's asset quality policy.

(11) Measurement of expected credit loss

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 2020 to assess the expected credit loss. However, the Group reinforces and increases frequency of monitor control, and modifies models to reflect the increases in defaults and recoveries.

#### (12) Consideration of prospective information

The Group uses archive 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 prospective adjustment based on 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 factor of credit assets identified by the Group in 2020 was the economic growth rate. The relevant economic factors of debt instrument identified by the Group in 2020 were the global economic growth rate and inflation rate.



## (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, 2020 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
Beginning balance	\$341,497	\$2,232	\$-	\$121,436	\$-	\$465,165	\$1,802,583	\$2,267,748
Changes in financial instruments recognized at the beginning of the period:								
- Converted to expected credit losses of the duration	(1,042)	402	-	-	-	(640)	-	(640)
- Converted to financial assets with credit impairment	-	(34)	-	3,205	-	3,171	-	3,171
- Converted to 12-month expected credit loss	-	(16)	-	-	-	(16)	-	(16)
- Financial assets derecognized in the current period	(279,891)	(478)	-	(192,488)	-	(472,857)	-	(472,857)
Purchased or originated new financial assets	81,864	246	-	63,538	-	145,648	-	145,648
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with	-	-	-	-	-	-	890,589	890,589

	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
Non-performing/Non-accrual Loans"								
Write-off bad debts	-	-	-	(277,636)	-	(277,636)	-	(277,636)
Recovered amount after write-off bad debts	-	-	-	393,161	-	393,161	-	393,161
Other changes	-	-	-	-	-	-	-	-
Changes in exchange rate	-	-	-	-	-	-	(7,869)	(7,869)
Ending balance	\$142,428	\$2,352	\$-	\$111,216	\$-	\$255,996	\$2,685,303	\$2,941,299

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
Beginning balance	\$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)

	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
Recovered amount after write-off bad debts	-	-	-	332,203	-	332,203	-	332,203
Other Changes	-	-	-	-	-	-	-	-
Changes in exchange rate	-	-	-	-	-	-	(4,256)	(4,256)
Ending balance	<u>\$341,497</u>	<u>\$2,232</u>	<u>\$-</u>	<u>\$121,436</u>	<u>\$-</u>	<u>\$465,165</u>	<u>\$1,802,583</u>	<u>\$2,267,748</u>

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, 2020 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
Beginning balance	\$156,744,815	\$595,799	\$-	\$277,812	\$-	\$157,618,426
Converted to expected credit losses of the duration	(438,692)	356,533	-	-	-	(82,159)
Converted to financial assets with credit impairment	-	(11,854)	-	11,315	-	(539)
Transferred out from the financial assets with credit impairment	6,245	(7,658)	-	-	-	(1,413)
Discount and loan assessed collectively	-	-	-	-	-	-
Originated or purchased discounts and loans	110,317,437	377,865	-	96,953	-	110,792,255
Write-off bad debts	-	-	-	(277,636)	-	(277,636)
Derecognition	(80,125,708)	(226,317)	-	145,620	-	(80,206,405)
Changes in the revisions that do not cause derecognition	-	-	-	-	-	-
Other Changes	-	-	-	-	-	-
Ending balance	<u>\$186,504,097</u>	<u>\$1,084,368</u>	<u>\$-</u>	<u>\$254,064</u>	<u>\$-</u>	<u>\$187,842,529</u>

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
Beginning balance	\$150,797,346	\$3,461,185	\$-	\$338,444	\$-	\$154,596,975
Converted to expected credit losses of the duration	(337,536)	258,937	-	(3,040)	-	(81,639)
Converted to 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)
Discount and loan 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)
Derecognition	(87,572,571)	(3,288,419)	-	(91,390)	-	(90,952,380)
Changes in the revisions that do not cause derecognition	-	-	-	-	-	-
Other Changes	-	-	-	-	-	-
Ending balance	\$156,744,815	\$595,799	\$-	\$277,812	\$-	\$157,618,426

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 measured at FVTOCI - allowance for losses	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, 2020	\$32,546	\$104,030	\$-	\$-	\$136,576
Changes arising from the recognition of financial instruments on January 1, 2020					
Converted to expected credit losses of the duration	(7,302)	547,419	-	-	540,117
Converted to financial assets with credit impairment	-	-	-	-	-
Converted to 12-month expected credit loss	-	-	-	-	-
Financial assets derecognized in the current period	(4,341)	(79,581)	-	-	(83,922)
Purchased or originated new financial assets	9,578	-	-	-	9,578
Changes in model/risk parameters	7,594	3,164	-	-	10,758
Other changes and exchange rate changes	(1,068)	(1,298)	-	-	(2,366)
Expected credit losses on December 31, 2020	<u>\$37,007</u>	<u>\$573,734</u>	<u>\$-</u>	<u>\$-</u>	<u>\$610,741</u>

Financial assets measured at FVTOCI - allowance for losses	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 to expected credit losses of the duration	(486)	24,449	-	-	23,963
Converted to financial assets with credit impairment	-	-	-	-	-
Converted to 12-month expected credit loss	-	-	-	-	-
Financial assets derecognized in the current period	(5,698)	-	-	-	(5,698)
Purchased or originated 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>



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 measured at FVTOCI - total book value	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, 2020 (Note)	\$43,244,481	\$1,929,367	\$-	\$-	\$ 45,173,848
Converted to expected credit losses of the duration	(5,012,696)	4,740,147	-	-	(272,549)
Converted to financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	-	-	-	-	-
Purchased or originated new financial assets	7,823,112	-	-	-	7,823,112
Financial assets derecognized in period	(9,605,812)	(1,477,358)	-	-	(11,083,170)
Other changes and exchange rate changes	(1,139,564)	(24,065)	-	-	(1,163,629)
Total book value on December 31, 2020 (Note)	<u>\$35,309,521</u>	<u>\$5,168,091</u>	<u>\$-</u>	<u>\$-</u>	<u>\$40,477,612</u>

Note: The total book value does not include evaluation adjustments.

Financial assets measured at FVTOCI - total book value	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 to expected credit losses of the duration	(461,497)	452,009	-	-	(9,488)
Converted to financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	-	-	-	-	-
Financial assets assessed collectively	-	-	-	-	-
Purchased or originated new financial assets	7,900,013	139,884	-	-	8,039,897
Financial assets derecognized in period	(15,727,345)	-	-	-	(15,727,345)
Changes in the revisions that do not cause derecognition	-	-	-	-	-
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 evaluation adjustments.

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, 2020 and 2019 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 NTD 6,022,961 thousand and NTD 4,988,642 thousand, the allowance for loss is measured with an expected credit loss rate of 0%~2%, so it is for an amount of NTD 89,263 thousand and NTD 81,258 thousand.

Changes in allowances or loss of notes and accounts receivables of the Group in 2020 and 2019 are as follows:

	<u>Receivables</u>
2020.1.1	\$81,258
Amount appropriated in current period	99,826
Write-off amount	(157,252)
Recovery of write-off amount	65,431
2020.12.31	<u>\$89,263</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>

(14) The Group's financial assets with the maximum credit risk exposures as of December 31, 2020 and 2019 amounted to NTD 229,181,773 thousand and NTD 203,536,045 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>2020.12.31</u>	<u>2019.12.31</u>
Financial assets measured at FVTPL		
Debt instruments	\$36,342,634	\$29,056,073
Derivatives	7,369	8,805

(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.
- Movable 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 NTD or 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:

	<u>Total book value</u>	<u>Provision for impairment</u>	<u>Total exposure (cost after amortization)</u>
Impaired financial assets:			
Discounts and loans	\$148,463	\$39,471	\$108,992
Total financial assets with impairment	<u>\$148,463</u>	<u>\$39,471</u>	<u>\$108,992</u>

#### 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 to liquidate assets or obtain loans to have the funds needed to repay the soon-to-expire financial liabilities, such as depositors terminating deposits before the maturity date, worsening of financing channels and conditions for inter-bank lending due to specific market influences, the worsening of debtor's credit default leading to abnormal recovery of funds, and the difficulty for realization of financial instruments. 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:

- 1) Schedule daily finds, monitor future cash flows to ensure the fulfillment of various needs.
- 2) Maintain an appropriate amount of high liquidity assets that can be easily realized to buffer unforeseen and unexpected events that may interrupt cash flow.
- 3) 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 flow of funds one day and one month in the future (such period is used by the Group for the management of liquidity risk). 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.

<u>2020.12.31</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 the Central Bank and other banks	\$21,117,468	\$-	\$-	\$-	\$21,117,468
Funds borrowed from Central Bank and other banks	-	2,535,450	1,212,200	850,000	4,597,650
Bills and bonds sold under repurchase agreements	15,960,934	4,030,000	2,000,000	-	21,990,934
Deposits and remittances	18,875,606	25,987,870	84,464,898	97,604,300	226,932,674
Lease liabilities (Note)	6,554	13,094	53,479	239,561	312,688
Other financial liabilities	130,000	710,000	50,000	-	890,000
<u>Derivative financial liabilities</u>					
Derivative financial					

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
liabilities measured at FVTPL					
Foreign exchange derivatives					
Cash outflow	\$649,739	\$-	\$-	\$-	\$649,739
Cash inflow	636,677	-	-	-	636,677
Net cash flow	<u>\$(13,062)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(13,062)</u>

2019.12.31

	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 the 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
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>Derivative financial instruments</u>					
Derivative financial instruments 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>

Note 1. Further information on the maturity analysis of the lease liabilities is provided in the following table:

Lease liabilities	Period to expiry				Total
	Less than 1 year	1~5 years	6~10 years	10~15 years	
2020.12.31	\$73,127	\$173,681	\$65,880	\$-	\$312,688
2019.12.31	\$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 Bank.
- 2) The market risk management strategies shall be appropriately adjusted in response to the Group's operating environment and changes in risk. They shall also be in line 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.

### (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 base on the market price at least once a day. All model parameters should be evaluated daily if the model is used for evaluation.
  - iv. The Group should develop a procedure for measuring the overall position risk exposure according to the scale and complexity of the portfolio held to 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 taken into account upon 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 shall 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.
  - 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

Financial transactions 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 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.
  - 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 President 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 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 President 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

1) Stress test

The stress test is used to assess the Group's risk tolerance ability under a stress scenario so that the Group is able to 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 are authorized to determine whether the Group's risk exposure is suitable for its risk appetite. This serves as 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. Among them, sovereign state-based risk is mainly based on its external rating results to give a default rate, and stress tests are only conducted for more serious scenarios. Otherwise, counterparties are given a different probability of default (PD) depending on whether the counterparties belong to 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 changes in each risk factor lead to different benefits and losses in depending on the severity of scenarios. Among all risk factors and domestic and foreign scenarios, there may be loss in certain parts of the position while gains in other parts under the same scenario. The greatest loss resulted from the fluctuation of scenario is deemed as the estimated loss in the stress scenario.

2) Sensitivity Analysis

Test items: For the main trading book positions in different markets, the listed scenario test is carried out if the computed market risk capital of the position accounts for more than 5% of the total market risk capital.

- A. Interest rate risk  
Shifted downward/upward by 100 base points on December 31, 2020, the Group's net profit or loss would increase/decrease by NTD 2,294,100 thousand.
- B. Exchange rate risk  
Other things being equal, if the major currency exchange rates on December 31, 2020 were relatively appreciated/depreciated by 3%, the Group's net profit or loss before tax would increase/decrease by NTD 25,942 thousand. The main currencies are the USD, EUR, and JPY.
- C. Equity securities price risk  
Other things being equal, if the price of equity securities on December 31, 2020 were relatively increased/decreased by 15%, the Group's net profit or loss before tax would increase/decrease by NTD 1,425,653 thousand.

D. Sensitivity analysis is compiled as follows:  
January 1, 2020 - December 31, 2020

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Percentage
Equity market	Major stock markets +15 %	\$1,425,653	\$2,980,350	47.84%
	Major stock markets -15 %	(1,425,653)		-47.84%
Interest rate market	Main interest rate +100bp	(2,294,100)		-76.97%
	Main interest rate -100bp	2,294,100		76.97%
Foreign exchange market	Main currency +3%	25,942		0.87%
	Main currency -3 %	(25,942)		-0.87%
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%	(3,693,811)		-123.94%

January 1, 2019 - December 31, 2019

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Percentage
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%

(7) Exchange rate risk concentration information

The Group's foreign currency financial assets and liabilities with significant impact are as follows:

	2020.12.31			2019.12.31		
	Foreign currency (thousand)	Exchange rate	NTD	Foreign currency (thousand)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$1,697,479	28.51	\$48,391,730	\$1,574,328	30.11	\$47,396,726
HKD	28,660	3.68	105,398	96,000	3.87	371,138
AUD	50,409	21.97	1,107,674	16,974	21.10	358,111
JPY	2,429,822	0.28	671,846	2,481,013	0.28	687,241
EUR	2,618	35.05	91,765	4,136	33.73	139,517
RMB	306,196	4.38	1,341,998	649,292	4.32	2,807,344
<u>Non-monetary items</u>	-	-	-	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$1,454,548	28.51	\$41,466,264	\$1,438,479	30.11	\$43,306,861
HKD	9,920	3.68	36,482	10,835	3.87	41,890
AUD	50,408	21.97	1,107,659	53,336	21.10	1,125,285
JPY	816,715	0.28	225,822	1,197,931	0.28	331,827
EUR	2,629	35.05	92,140	4,179	33.73	140,951
RMB	290,529	4.38	1,273,329	297,901	4.32	1,288,033
<u>Non-monetary 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, 2020 and 2019 were NTD (134,144 thousand) and NTD 181,050 thousand, respectively.

(8) Others

In the year 2020, due to the outbreak of the COVID-19 and the unstable economic environment in the domestic and overseas markets, the credit risk of the Group's domestic credit assets and various financial instruments in foreign countries increased, the Group considered the impact in preparing the financial statements. However, it is assessed that the epidemic has no material impact on the Group's financial condition, ability of going concern, and impairment of assets.

## 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 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 Group uses the "the Methods for calculating Bank's regulatory capital and Risk Weighted Assets" (hereinafter referred to as the "calculation methods") that is issued by the competent 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:

- (1) 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 share premium, advance capital, additional paid-in capital, legal reserve, special reserve, accumulated profit or loss, non-controlling equity, and other equity items.

- (2) Other Category I capital other than common stock equity: Includes perpetual non-cumulative preferred stock and its share premium, non-cumulative subordinated bonds without a maturity date, perpetual non-cumulative preferred stock and its share premium issued by the subsidiaries 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 share premium, cumulative subordinate bonds without a maturity date, convertible subordinate bonds, long-term subordinate bonds, non-perpetual preferred stock and its



share premium, real estate's first-time adoption of IAS, 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 share premium issued by the subsidiaries that are not directly or indirectly held by the Bank, and cumulative subordinated bonds without maturity date, convertible subordinate bonds, long-term subordinate bonds, and non-perpetual preferred stock and its share premium.

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 exceeding 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 divide the legal capital available by the total amount of the risk assets to calculate the capital adequacy ratio. The basic objective is to ensure that the Company's capital adequacy ratio is higher than the mandatory legal ratio.

(3) Capital adequacy

The Group's consolidated qualified regulatory capital ratio and risk assets ratio on December 31, 2020 and 2019 were 16.23% and 15.04%, respectively. These were in line with the capital management regulations of the competent authorities.

## XVI. Supplementary Disclosure

### 1. Information on significant transactions

- (1) Cumulative purchase or sales of the same securities totaling NTD 300 million or more than 20% of the paid-in capital: Table 1.
- (2) Acquisition of real estate totaling NTD 300 million or more than 10% of the paid-in capital: Table 2.
- (3) Disposal of real estate totaling NTD 300 million or more than 10% of the paid-in capital: None.
- (4) Discount of service charges in transaction with related party totaling more than NTD 5 million: None.
- (5) Receivables from related party totaling NTD 300 million or more than 10% of the paid-in capital: None.
- (6) Information regarding sale of non-performing loan: 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 and significant transactions and amounts between parent company and subsidiaries and among subsidiaries: Table 3.
- (9) Other important transactions sufficient to affect the decision-making of financial statements users: None.

### 2. Information on reinvestment and total shareholding

- (1) Information on reinvestment: None.
  - (2) Loaning to others: Please refer to Table 4.
  - (3) Endorsements/guarantees to others: None.
  - (4) Marketable securities held at the end of the period: Please refer to Table 5.
  - (5) Cumulative amount of the stock of the same investee purchased or sold totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (6) Information on trading in derivative instruments: None.
  - (7) Acquisition of real estate totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (8) Disposal of real estate totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (9) Discount of service charges in transaction with related party totaling more than NTD 5 million: None.
  - (10) Receivables from related party totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (11) Information regarding sale of non-performing loan: 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 decision-making of financial statements users: None.
3. Setting up branches and investments in Mainland China.  
No such event.
  4. Information on major shareholders: Please refer to Table 6.
  5. Disclosure of other supplementary information
    - (1) Loans and receivables and allowance for bad debt assessment form: Please refer to XIV.3(13) for details.
    - (2) Quality of assets: Please refer to Table 7.
    - (3) Non-performing loans or overdue accounts receivable exempted from report: Please refer to Table 8.
    - (4) Concentration of credit risk: Please refer to Table 9 and Table 9-1.
    - (5) Interest rate sensitive assets and liabilities analysis table: Please refer to Table 10 and 10-1.
    - (6) Profitability: Please refer to Table 11.
    - (7) Maturity date structure analysis table: Please refer to Table 12 and Table 12-1.
    - (8) Capital Adequacy: Please refer to Table 13

## XVII. Department information

1. The Group has the department operation information disclosed in the consolidated financial statements.
  - (1) Branch business operation department: Handle deposits and loans, foreign exchange, guarantees, discounts and cashiers, safe deposit boxes, trust business promotion, and assets, liabilities, income, and expenses that cannot be directly attributed or cannot be 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.

2020

	Branch business	Financial market	Adjustments and elimination	Total
Interest revenue	\$3,395,587	\$1,850,366	\$-	\$5,245,953
Service fee revenue	1,909,280	-	-	1,909,280
Investment profit	18,858	1,598,749	-	1,617,607
Other income and expenditures	134,080	-	-	134,080
Total revenue	<u>5,457,805</u>	<u>3,449,115</u>	-	<u>8,906,920</u>
Depreciation and amortization	(72,530)	(59,588)	-	(132,118)
Other operating expenses	(1,597,394)	(170,222)	-	(1,767,616)
Other major non-cash accounts				
Bad debt appropriation	(744,664)	-	-	(744,664)
Segment profit/loss	<u>\$3,043,217</u>	<u>\$3,219,305</u>	<u>\$-</u>	<u>\$6,262,522</u>

2019

	Branch business	Financial market	Adjustments and elimination	Total
Interest revenue	\$3,369,165	\$1,386,224	\$-	\$4,755,389
Service fee revenue	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	<u>5,449,921</u>	<u>3,043,063</u>	-	<u>8,492,984</u>
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	<u>\$1,103,943</u>	<u>\$2,799,938</u>	<u>\$-</u>	<u>\$3,903,881</u>

The information relating to the assets of the Group's operating department on December 31, 2020 and 2019 is shown in the following table:

	Branch business	Financial market	Adjustments and elimination	Total
2020.12.31				
Segment assets	<u>\$213,049,970</u>	<u>\$112,221,982</u>	<u>\$185,987</u>	<u>\$325,457,939</u>
2019.12.31				
Segment assets	<u>\$179,217,564</u>	<u>\$103,380,156</u>	<u>\$145,188</u>	<u>\$282,742,908</u>

2. Product information:  
The Bank and its subsidiaries are divided into operating departments on the basis of business operations. Therefore, no further business information will be disclosed.
3. Regional information:  
The revenues of the Bank and its subsidiaries are entirely generated in Taiwan.
4. Important customer information  
The Bank and its subsidiaries did not generate revenues from one specific external customer for an amount more than 10% of the Bank's income.

Table 1

Cumulative Purchase or Sales of the Same Securities Totaling NTD 300 Million or More Than 20% of the Paid-in Shares Capital:

Name of Company	Types and names of securities	Accounting titles	Counterparties	Relation	Beginning period		Beginning balance		Sale				Ending period	
					No. of shares (Shares)	Amount	No. of shares (Shares)	Amount	No. of shares (Shares)	Selling Price	Amount	Gain (loss) from disposal	No. of shares (Shares)	Amount
The Company	WanTai Securities Corporation	Investment under the equity method	Non-related party	Investee accounted for using the equity method	-	\$-	19,901,336	\$320,611	-	\$-	\$-	\$-	19,901,336	\$320,611

Table 2

Acquisition of Real Estate Totaling NTD 300 Million or More Than 20% of the Paid-in Capital:

Companies acquiring real properties	Asset title	Date of event	Transaction amount	Payment status	Counterparties	Relation	If the counterparty is a related party, the information on previous transaction				Reference for price determination	Purpose of acquisition and the state of use	Other stipulations of the transaction
							Owner	Relationship with the issuer	Date of transfer	Amount			
King's Town Bank Co., Ltd.	Xin Dong Sec. Beitun Dist., Taichung City	2020.4.6~2020.8.24	320,795	320,795	A and 7 other counterparties	None	-	-	-	-	Appraisal report	Construction of branch building	None
King's Town Bank Co., Ltd.	Sanmin Section, Taoyuan Dist., Taoyuan City	2020.12.7	390,745	265,945	B and 7 other counterparties	None	-	-	-	-	Appraisal report	Construction of branch building	None

Note 1. If the appraisals are required for acquired assets, the appraisal results shall be stated in the "Reference for price determination."

Note 2. Paid-in capital refer to the Paid-in Capital of the parent company. If the issuer has issued shares without face value or at face values other than NTD10 per share, the specified 20% requirement on paid-up capital shall be calculated instead at 10% of equity attributable to parent company shareholders as in the balance sheet.

Note 3. Date of event refers to the transaction contract signing date, payment date, commission Closing Date, transfer date and the Board resolution date or the date the counterparty and transaction amount sufficiently determined whichever is earlier or sooner.

Table 3

## Business Relationships and Significant Transactions Between Parent Company and Subsidiaries:

Unit: NTD thousand

No. (Note 1)	Trader's name	Counterparty	Relationship with trader (Note 2)	January 1, 2020 - December 31, 2020			
				Transaction details			
				Accounting titles	Amount	Terms and conditions	Percentage of total consolidated revenue or total assets (Note 3)
0	The Company	Kings Town Bank International Lease Corporation	1	Deposits and remittances	13,997	General	-
0	The Company	Kings Town Bank International Lease Corporation	1	Other non-interest net profit or loss	768	General	0.01
0	The Company	Kings Town Intl. Construction Management Corporation	1	Deposits and remittances	498	General	-
0	The Company	Kings Town Intl. Construction Management Corporation	1	Other non-interest net profit or loss	120	General	-
0	The Company	WanTai Securities Corporation	1	Deposits and remittances	200,028	General	0.06
0	The Company	WanTai Securities Corporation	1	Payables	336	General	-
0	The Company	WanTai Securities Corporation	1	Other business and administrative expenses	600	General	0.01

Note 1. 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 percentage 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.

Table 4

## Loaning to Others

Unit: NTD thousand

No. (Note 1)	Name of lenders	Name of borrowers	Transaction title	Related party	Maximum balance for the period	Ending balance	Actual drawn down amount	Interest rate collar	Nature of loan (Note 4)	Transaction amount (Note 5)	Reason for short-term financing (Note 6)	Loss allowance	Collateral		Loan limit for individual borrower (Note 2)	Total loan limit amount (Note 3)
													Name	Value		
1	Kings Town Bank International Lease Corporation	Company A	Accounts receivable	No	430,000	430,000	430,000	5%~18%	1	500		4,413	Real estate	401,816	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company B	Accounts receivable	No	350,000	350,000	350,000	5%~18%	1	500		3,606	Real estate	304,612	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company C	Accounts receivable	No	500,000	350,000	90,000	5%~18%	1	500		1,053	Real estate	143,185	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company D	Accounts receivable	No	295,000	295,000	260,590	5%~18%	1	500		2,666	Real estate	285,140	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company E	Accounts receivable	No	170,300	170,300	170,300	5%~18%	1	2,000		1,763	Real estate	218,867	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company F	Accounts receivable	No	170,000	170,000	7,500	5%~18%	1	30,000		83	Real estate	53,764	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company G	Accounts receivable	No	160,000	160,000	160,000	5%~18%	1	10,000		1,703	-	-	350,217	4,202,602
1	Kings Town Bank International Lease Corporation	Other customers	Accounts receivable	No	2,051,049	1,135,361	1,071,361	5%~18%	1	726,830		11,646	No/Movable property/ Real estate	2,008,861	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Other customers	Accounts receivable	No	345,110	260,555	210,055	5%~18%	2	-	Operation needs	2,392	No/Real estate	335,300	175,108	280,173



- 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) Issuer is numbered 0.
  - (2) Investee is numbered starting 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. For the nature of type 1, the amount of business dealings should be provided. The amount of business dealings refers to the amount business transaction amount between the lender and the borrower in the most recent year.
- Note 6. For the nature of type 2, the reasons for the need, purpose and use of the loan shall be provided. Such reasons may include repayment of loans, purchase of equipment, operation needs, etc.
- Note 7. The investee, King's Town International Leasing Co., Ltd., has granted loans to 68 customers; however, a detailed list is not prepared since no individual loan amount exceeds 5% of the total loan.

Table 5

Marketable Securities Held at the End of the Period (Excluding Investment in Subsidiaries, Associates, and Joint Venture): Unit: NTD thousand

Investing company	Types and names of securities (Note 1)	Relationship with the securities issuer	Accounting titles	Ending balance				Remarks
				Shares (thousand shares)	Book value	Percentage of shareholding	Fair value	
Kings Town Bank International Lease Corporation	Bank of Panhsin	Financial assets measured at FVTOCI	Financial assets measured at FVTOCI	11,258	79,253	0.75%	79,253	
Kings Town Bank International Lease Corporation	Hoyii Life Co., Ltd.	Financial assets measured at FVTOCI	Financial assets measured at FVTOCI	526	6,268	2.49%	6,268	
Kings Town Bank International Lease Corporation	Forest Water Environmental Engineering Co., Ltd.	Financial assets measured at FVTPL	Financial assets measured at FVTPL	3,512	144,000	2.61%	144,000	
Kings Town Bank International Lease Corporation	Radium Life Tech Co., Ltd.	Financial assets measured at FVTPL	Financial assets measured at FVTPL	1,530	18,436	0.17%	18,436	
Kings Town Bank International Lease Corporation	Mirle Automation Corporation	Financial assets measured at FVTPL	Financial assets measured at FVTPL	1,023	45,012	0.52%	45,012	
Kings Town Bank International Lease Corporation	WPG Holdings	Financial assets measured at FVTPL	Financial assets measured at FVTPL	430	18,447	0.02%	18,447	
Kings Town Bank International Lease Corporation	YAGEO Corporation	Financial assets measured at FVTPL	Financial assets measured at FVTPL	40	20,720	0.01%	20,720	
Kings Town Bank International Lease Corporation	Taiwan Semiconductor Manufacturing Co., Ltd.	Financial assets measured at FVTPL	Financial assets measured at FVTPL	120	63,600	-	63,600	
WanTai Securities Corporation	Taiwan Futures Exchange	Financial assets measured at FVTOCI	Financial assets measured at FVTOCI	175	16,712	0.05%	16,712	

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."

Table 6

## Information on Major Shareholders

Name of major shareholder	No. of shares held (shares)	Percentage of shareholding
Chen-Chih Tai	78,209,000	6.97%
Tien-Tsan Tsai	72,752,033	6.48%
Mercuries Life Insurance	71,351,000	6.36%

## Remarks:

- (1) The major shareholders in this table are shareholders holding more than 5% of the common and preference shares that have completed delivery of non-physical registration (including treasury shares) on the last business day of each quarter calculated by the Taiwan Depository & Clearing Corporation. However, the share capital recorded in the Company's financial report and the number of shares actually delivered by the company without physical registration may differ due to calculation basis.
- (2) The above are shares entrusted by the shareholders, the information thereto shall be based on the shares disclosed by the individual trust account of opened by the trustees. For information on shareholders, who declare to be insiders holding more than 10% of shares in accordance with the Securities and Exchange Act, and their shareholdings include their shareholdings plus their delivery of trust and shares with the right to make decisions on trust property, please refer to MOPS.

Table 7

## Quality of Assets

## Non-performing Loans and Overdue Accounts Receivable

Unit: NTD thousand, %

Year / month		December 31, 2020					December 31, 2019				
Business category/Items		Non-performing loan amount (Note 1)	Total amount of loans	NPL ratio (Note 2)	Allowance for bad debt	Coverage ratio of allowance for bad debt (Note 3)	Non-performing loan amount (Note 1)	Total amount of loans	NPL ratio (Note 2)	Allowance for bad debt	Coverage ratio of allowance for bad debt (Note 3)
Corporate banking	Secured	\$15,466	\$116,158,497	0.01%	\$1,843,815	11921.73%	\$14,290	\$89,267,889	0.02%	\$1,301,331	9106.59%
	Unsecured	-	52,030,811	-	770,578	-	-	48,127,976	-	657,645	-
Consumer banking	Residential mortgage loans (Note 4)	5,646	15,848,747	0.04%	271,702	4,812.29%	7,517	16,092,535	0.05%	252,526	3359.40%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small credit loans (Note 5)	307	133,851	0.23%	4,089	1331.92%	1,059	126,260	0.84%	4,432	418.51%
	Others (Note 6)	Secured	3,591	3,535,909	0.10%	49,325	1373.67%	-	3,862,417	-	49,526
	Unsecured	-	134,714	-	1,790	-	-	141,349	-	2,288	-
Total amount		\$25,010	\$187,842,529	0.01%	\$2,941,299	11760.49%	\$22,866	\$157,618,426	0.01%	\$2,267,748	9917.55%
		NPL amount	Balance of accounts receivable	Proportion of overdue accounts ratio	Allowance for bad debt	Coverage ratio of allowance for bad debt	NPL amount	Balance of accounts receivable	Proportion of overdue accounts ratio	Allowance for bad debt	Coverage ratio of allowance for bad debt
Credit card		\$486	\$486	100.00%	\$376	77.37%	\$376	\$376	100.00%	\$376	100.00%
Non-recourse receivables factoring business (Note 7)		-	-	-	-	-	-	-	-	-	-

Note 1. 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 Jin-Guan-Yin-(IV)-Zi Letter No. 0944000378 dated July 6, 2005.

Note 2. Non-performing loan ratio = Non-performing loan/total loan amount. Non-performing credit card ratio = Non-performing amount/balance of accounts receivable

Note 3. Coverage ratio of allowance for bad debt = Allowance for bad debt appropriated for loans/NPL amount. Coverage ratio of allowance for bad debt of credit card = Allowance for bad debt appropriated for credit card receivables/NPL 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 furnish houses.
- Note 5. Small credit loans refer to small credit loans other than credit cards and cash cards. Also, it is subject to the Jin-Guan-Yin-(IV)-Zi Letter No. 09440010950 dated December 19, 2005.
- Note 6. The "Others" in consumer banking 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. Non-recourse receivables factoring business 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 Jin-Guan-Yin-(IV)-Zi Letter No. 094000494 dated July 19, 2005.

Table 8

## Non-performing Loans or Overdue Accounts Receivable Exempted from Report

Unit: NTD thousand

	December 31, 2020		December 31, 2019	
	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)	\$2,861	\$60	\$3,847	\$76
Performance of debt clearance program and rehabilitation program (Note 2)	8,289	36	12,311	70
Total	\$11,150	\$96	\$16,158	\$146

Note 1. For the Jin-Guan-Yin-(I)-Zi Letter No. 09510001270 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. In accordance to the Jin-Guan-Yin-(I)-Zi Letter No. 09700318940 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."

Table 9

## Concentration of Credit Risk

Unit: NTD thousand, %

Year	December 31, 2020		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	As a percentage of the current net value (%)
1	Company (Group) A - Construction engineering business	7,328,686	15.73%
2	Company (Group) B - General product wholesale business	5,561,428	11.94%
3	Company (Group) C - Glass container manufacturing business	5,348,000	11.48%
4	Company (Group) D - Real estate development business	4,114,180	8.83%
5	Company (Group) E - Real estate leasing and sales business	3,726,012	8.00%
6	Company (Group) F - Power supply business	3,288,948	7.06%
7	Company (Group) G - Unclassified other financial service business	2,881,884	6.19%
8	Company (Group) H - Power supply business	2,480,518	5.33%
9	Company (Group) I - Unclassified other financial service business	2,456,650	5.27%
10	Company J - Construction services and consulting business	2,378,223	5.11%

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 group refers to 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.

Table 9-1

## 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)	As a percentage 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 H - Construction services and consulting business	2,541,028	6.50%
9	Company I - Wire & Cable manufacturing business	2,198,529	5.62%
10	Company 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 group refers to 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.



Table 10

## Interest Rate Sensitive Assets and Liabilities Analysis Table (NTD)

January 1, 2020 - December 31, 2020

Unit: NTD thousand, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 years	Total
Interest rate sensitivity assets	\$201,772,175	\$281,529	\$2,948,182	\$42,398,641	\$247,400,527
Interest rate sensitivity liabilities	184,388,695	15,970,540	22,534,770	1,850,382	224,744,387
Interest rate sensitivity gap	17,383,480	(15,689,011)	(19,586,588)	40,548,259	22,656,140
Net value					39,959,689
Interest rate sensitivity assets and liabilities rate					110.08
Interest rate sensitivity gap and net value rate					56.70

January 1, 2019 - December 31, 2019

Unit: NTD thousand, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 years	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

- Note: I. This table is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches.
- II. 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.
- III. Interest rate sensitivity gap = Interest rate sensitivity assets - Interest rate sensitivity liabilities.
- IV. 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)

## Interest Rate Sensitive Assets and Liabilities Analysis Table (USD)

January 1, 2020 - December 31, 2020

Unit: USD thousand, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 years	Total
Interest rate sensitivity assets	\$311,974	\$10,154	\$-	\$1,351,536	\$1,673,664
Interest rate sensitivity liabilities	1,299,242	95,538	55,830	-	1,450,610
Interest rate sensitivity gap	(987,268)	(85,384)	(55,830)	1,351,536	223,054
Net value					232,272
Interest rate sensitivity assets and liabilities rate					115.38
Interest rate sensitivity gap and net value rate					96.03

January 1, 2019 - December 31, 2019

Unit: USD thousand, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 years	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

- Note: I. This table 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.
- II. 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.
- III. Interest rate sensitivity gap = Interest rate sensitivity assets - Interest rate sensitivity liabilities.
- IV. 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 USD)

Table 11

## Profitability

Unit: %

Items		2020.12.31	2019.12.31
Return on Assets (ROA)	Before tax	2.06	1.38
	After tax	1.81	1.21
Return on Equity (ROE)	Before tax	14.31	10.26
	After tax	12.55	8.93
Net profit rate		61.65	40.03

- 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

## Maturity Date Structure Analysis Table (NTD)

2020.12.31

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	\$271,668,534	\$78,483,469	\$12,704,457	\$22,535,530	\$47,400,525	\$110,544,553
Outward remittance of due fund	\$295,381,414	36,218,246	32,329,569	41,352,446	47,315,088	138,166,065
Period difference	(23,712,880)	42,265,223	(19,625,112)	(18,816,916)	85,437	(27,621,512)

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)

## Maturity Date Structure Analysis Table (USD)

2020.12.31

Unit: USD 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	\$1,723,931	\$165,331	\$7,215	\$16,684	\$32,500	\$1,502,201
Outward remittance of due fund	\$1,704,434	801,093	349,349	128,208	121,001	304,783
Period difference	19,497	(635,762)	(342,134)	(111,524)	(88,501)	1,197,418

2019.12.31

Unit: USD 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

Table 13

## Capital Adequacy (Explanation 1)

Unit: NTD thousand

Items		Year (Explanation 2)	December 31, 2020	December 31, 2019
Self-owned capital	Common stock equity		\$41,798,281	\$35,718,515
	Other category I capital		-	-
	Category II capital		5,099,791	1,160,997
	Self-owned capital		46,898,072	36,879,512
Total risk-weighted assets	Credit risk	Standardized approach	235,788,899	203,419,934
		Internal ratings-based approach	-	-
		Asset securitization	-	-
	Operational risk	Basic indicator approach	15,364,635	14,518,830
		Standard method / Selective standard method	-	-
		Advanced measurement method	-	-
	Market risks	Standardized approach	37,874,809	27,297,382
		Internal models approach	-	-
	Total risk-weighted assets		289,028,343	245,236,146
	Capital adequacy ratio		16.23%	15.04%
Proportion of common stock equity to risk assets		14.46%	14.56%	
Proportion of category I capital to risk assets		14.46%	14.56%	
Leverage ratio		12.27%	11.81%	

## 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:
  - 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.

**King's Town Bank Co., Ltd.**  
**Financial Statements and Independent Auditor's Report**  
**From January 1 to December 31, 2020 and 2019**

Address: No. 506, Section 1, Ximen Road, Xiancaoli, West Central District, Tainan  
Tel: +886-6-213-9171

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

## Independent Auditors' Report

King's Town Bank Co., Ltd.

### **Audit opinion**

We have audited the accompanying individual balance sheets of King's Town Bank Co., Ltd. as of December 31, 2020 and 2019, and the individual statements of comprehensive income, individual statements of changes in equity, individual statements of cash flows, and notes to the individual financial statements (including a summary of significant accounting policies) from January 1 to December 31, 2020 and 2019.

In our opinion, the individual financial statements referred to above present fairly in all significant aspects of the financial position of King's Town Bank Co., Ltd. as of December 31, 2020 and 2019, and the results of its financial performance and cash flows for the year ended on December 31, 2020 and 2019 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 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. Our responsibilities under those standards are further described in the responsibilities of auditors for the audit of the individual financial statements section. 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.

### **Key audit matters**

Key audit matters are those matter that, in our professional judgment, were of most significant in our audit of the individual financial statements of King's Town Bank Co., Ltd. in 2020. These matters were addressed in the context of our audit of the individual financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.



### Financial instrument evaluation

King's Town Bank Co., Ltd. invests in different types of financial assets. As of December 31, 2020, the total financial assets measured at fair value were NT\$ 93,438,937 thousand, accounting for about 29% 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\$ 42,130,155 thousand, accounting for 45% 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, VIII, 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, 2020, the book value of the loans of King's Town Bank Co., Ltd. was NT\$ 184,901,230 thousand, accounting for 58% 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.

## **Other Matters - Mentioning of the Audit Result of Other Certified Public Accountants (CPAs)**

We did not audit the financial statements of certain investees furnished to the individual financial statements. The financial statements of these investees were audited by other independent accountants. Therefore, our opinions regarding to the amounts listed in such investee financial reports from the individual financial statements mentioned above are based on the audit report from other CPAs. The investments in the aforementioned investees under equity method as of December 31, 2020 were NT\$329,223 thousand, accounting for 0.1% of the total assets. The Company's share of profit of associates under equity method for the fiscal year 2020 was NT\$946 thousand accounting for 0.02% of the net income before tax. The Company's share of other comprehensive income of associates under equity method was NT\$5 thousand accounting for 0% of the net other comprehensive income.

## **Responsibilities of Management and Those in Charge with Governance of the Individual Financial Statements**

The Management is responsible for the preparation and fair presentation of the individual 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 individual financial statements to be free from significant misstatement whether due to fraud or error.

In preparing the individual 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 cease 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.

## **Independent Auditor's Responsibilities for the Audit of the Individual Financial Statements**

Our objectives are to obtain reasonable assurance about whether the individual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the generally accepted auditing standards in the Republic of China will always detect a significant misstatement when it exists. Misstatement may arise from frauds or errors. 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 individual 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:

7. Identify and assess the risks of material misstatement of the individual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a 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.
8. 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.
9. Evaluate the appropriateness of accounting policies used and the reasonability of accounting estimates and related disclosures made by the management.
10. 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 individual financial statements or, if such disclosures 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.
11. Evaluate the overall expression, structure, and content of the individual financial statements (including related notes) and whether the individual financial statements include the relevant transactions and events expressed adequately.
12. 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 2020 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 communications.

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

CPA

Cheng-Tao Chang

February 22, 2021

King's Town Bank Co., Ltd.  
Individual Balance Sheets  
December 31, 2020 and 2019

Unit: NTD thousand

Assets			December 31, 2020		December 31, 2019	
Code	Item	Note	Amount	%	Amount	%
10000	Assets					
11000	Cash and cash equivalents	IV/VI. 1	\$3,819,429	1	\$3,505,067	1
11500	Due from the central bank and call loans to banks	IV/VI. 2	12,542,608	4	11,162,682	4
12000	Financial assets measured at FVTPL	IV/VI. 3/VIII	44,721,848	14	34,733,596	13
12100	Financial assets measured at FVTOCI	IV/VI. 4, 26/VIII	48,717,089	15	50,810,145	18
12200	Debt instrument investments measured at amortized cost	IV/VI. 5, 26	18,897,382	6	17,698,135	6
12500	Securities purchased under agreements to resell	IV/VI. 6	200,248	-	150,022	-
13000	Receivables, net	IV/VI. 7	891,330	-	1,270,450	1
13500	Discounts and loans, net	IV/V/VI. 8	184,901,230	58	155,350,678	56
15000	Investments under the equity method, net	IV/VI. 9	1,167,990	-	699,890	-
15500	Other financial assets, net	IV/VI. 10	363	-	4,396	-
18500	Property, plant, and equipment, net	IV/VI. 11	3,373,133	1	2,706,831	1
18600	Right-of-use assets, net	III/IV/VI. 27	217,504	-	215,683	-
19300	Deferred income tax assets	IV/VI. 30	180,966	-	142,041	-
19500	Other assets, net	VI. 12	1,204,398	1	956,932	-
	Total assets		\$320,835,518	100	\$279,406,548	100

(Please refer to the Notes to the Individual Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd.  
Individual Balance Sheets (continued)  
December 31, 2020 and 2019

Unit: NTD thousand

Liabilities and Equity			December 31, 2020		December 31, 2019	
Code	Item	Note	Amount	%	Amount	%
20000	Liabilities					
21000	Deposits from the Central Bank and other banks	IV/VI. 13	\$21,117,468	7	\$14,533,849	5
21500	Due to the Central Bank and banks	VI. 14	907,650	-	1,655,830	1
22000	Financial liabilities measured at FVTPL	IV/VI. 15	13,062	-	6,002	-
22500	Securities sold under agreements to repurchase	IV/VI. 16	21,990,934	7	28,218,020	10
23000	Payables	VI. 17	1,432,333	-	1,223,956	-
23200	Current income tax liabilities	IV/VI. 30	566,736	-	71,953	-
23500	Deposits and remittances	VI. 18	227,147,197	71	191,812,314	69
25600	Provisions	IV/VI. 19, 20, 26	394,957	-	383,414	-
26000	Lease liabilities	III/IV/VI. 27	219,898	-	217,256	-
29300	Deferred income tax liabilities	IV/VI. 30	299,314	-	135,832	-
29500	Other liabilities	VI. 21	164,512	-	216,613	-
	Total liabilities		274,254,061	85	238,475,039	85
31000	Equity	VI. 22				
31100	Share capital		11,212,343	3	11,312,343	4
31500	Capital surplus		55,622	-	56,095	-
32000	Retained earnings					
32001	Legal reserve		11,438,543	4	10,418,637	4
32003	Special reserve		115,319	-	538,481	-
32011	Unappropriated retained earnings		17,605,151	6	14,596,680	5
32500	Other equity interest	IV	6,252,901	2	4,107,695	2
32600	Treasury stock	IV	(98,422)	-	(98,422)	-
	Total equity		46,581,457	15	40,931,509	15
	Total liabilities and equity		\$320,835,518	100	\$279,406,548	100

(Please refer to the Notes to the Individual Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd.  
Individual Statements of Comprehensive Income  
From January 1 to December 31, 2020 and 2019

Unit: NTD thousand

Code	Item	Note	2020		2019	
			Amount	%	Amount	%
41000	Interest revenue	IV	\$6,233,702	72	\$6,649,901	80
51000	Less: Interest expenses	IV	(1,217,287)	(14)	(2,046,344)	(25)
	Net interest income	VI. 23	5,016,415	58	4,603,557	55
	Non-interest net income					
49100	Net service fee income	IV/VI. 24	1,857,694	21	1,647,842	20
49200	Gain on financial assets and financial liabilities measured at FVTPL	IV/VI. 25	2,009,215	23	1,456,344	18
49310	Realized gain or loss on financial assets at FVTOCI	IV	306,334	4	128,683	2
49600	Net exchange (loss) gain	IV	(134,144)	(2)	181,050	2
47003	Profit in the subsidiary, affiliated company and joint ventures recognized under the equity method	IV	135,706	2	214,445	3
49700	Impairment loss on assets	IV/VI. 26	(512,890)	(6)	(27,311)	-
49800	Other non-interest net income	IV	30,515	-	75,647	-
	Net income		8,708,845	100	8,280,257	100
58200	Allowances for bad-debts, commitments and guarantees	IV/VI. 7, 8, 26	(636,327)	(7)	(2,553,305)	(31)
58400	Operating expenses					
58500	Employee benefits expenses	VI. 20, 28	(1,008,083)	(12)	(990,007)	(12)
59000	Depreciation and amortization expenses	IV/VI. 11, 28	(130,886)	(2)	(124,825)	(2)
59500	Other business and administrative expenses	IV	(702,348)	(8)	(766,569)	(9)
61000	Net income before taxes from continuing operations		6,231,201	71	3,845,551	46
61003	Income tax (expense)	IV/VI. 30	(740,235)	(8)	(445,864)	(5)
64000	Net income after tax		5,490,966	63	3,399,687	41
65000	Other comprehensive income (loss)					
65200	Items that will not be reclassified to profit or loss	IV/VI. 29, 30				
65201	Remeasurements of the defined benefit plan		(2,903)	-	6,589	-
65204	Gain or loss on evaluation of equity instruments at FVTOCI		375,313	4	423,680	5
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		4,122	-	6,815	-
65220	Income tax expenses related to items that will not be reclassified subsequently to profit or loss		349	-	(19,752)	-
65300	Items that may be reclassified subsequently to profit or loss	IV/VI. 29, 30				
65301	Exchange differences on translation of foreign financial statements		(3,825)	-	(85,655)	(1)
65308	Gain or loss from debt instrument investment at FVTOCI		1,739,742	20	4,124,894	50
65320	Income tax related to components of other comprehensive income that will be reclassified to profit or loss		459	-	13,122	-
	Other comprehensive income (after tax)		2,113,257	24	4,469,693	54
66000	Total comprehensive income (after tax)		\$7,604,223	87	\$7,869,380	95
	Earnings per share (NTD)	VI. 31				
67500	Basic earnings per share		\$4.90		\$2.99	
67700	Diluted earnings per share		\$4.90		\$2.99	

(Please refer to the Notes to the Individual Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd.  
Individual Statements of Changes in Equity  
From January 1 to December 31, 2020 and 2019

Unit: NTD thousand

Items	Share capital	Capital surplus	Retained earnings			Other equity items		Treasury stock	Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized (loss) profit of financial assets in other comprehensive income measured at FVTPL		
Balance on January 1, 2019	\$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 year ended December 31, 2019	-	-	-	-	3,399,687	-	-	-	3,399,687
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	(13,163)	(72,533)	4,555,389	-	4,469,693
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	3,386,524	(72,533)	4,555,389	-	7,869,380
Buyback of treasury stocks								(410,080)	(410,080)
Disposal of treasury stocks	(200,000)	(43,490)			(383,033)			626,523	-
Disposal of equity instruments measured at FVTOCI					(93,550)		93,550		-
Balance on 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
The 2019 appropriation and distribution of earnings									
Appropriation of legal reserve			1,019,906		(1,019,906)				-
Reversal of special reserve				(423,162)	423,162				-
Common stock cash dividends					(1,677,351)				(1,677,351)
Net income for the year ended December 31, 2020	-	-	-	-	5,490,966	-	-	-	5,490,966
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	(2,554)	(3,366)	2,119,177	-	2,113,257
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	5,488,412	(3,366)	2,119,177	-	7,604,223
Buyback of treasury stocks								(276,924)	(276,924)
Disposal of treasury stocks	(100,000)	(473)			(176,451)			276,924	-
Disposal of equity instruments measured at FVTOCI					(29,395)		29,395		-
Balance on December. 31, 2020	<u>\$11,212,343</u>	<u>\$55,622</u>	<u>\$11,438,543</u>	<u>\$115,319</u>	<u>\$17,605,151</u>	<u>\$(47,468)</u>	<u>\$6,300,369</u>	<u>\$(98,422)</u>	<u>\$46,581,457</u>

(Please refer to the Notes to the Individual Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen



King's Town Bank Co., Ltd.  
Individual Statements of Cash Flows  
From January 1 to December 31, 2020 and 2019

Unit: NTD thousand

Items	2020	2019	Items	2020	2019
	Amount	Amount		Amount	Amount
Cash flows from operating activities:			Cash flows from investing activities:		
Profit before tax for the period	\$6,231,201	\$3,845,551	Acquisition of property and equipment	(720,753)	(390,919)
Adjustments:			Proceeds from disposal of property and equipment	-	41,921
Non-cash income and expense items			Acquisition of investment under equity method	(320,611)	-
Expected credit impairment loss/bad debt expense	636,327	2,553,305	Cash inflow due to merger	-	212,281
Impairment loss on assets	512,890	27,311	Net cash (outflow) from investing activities	(1,041,364)	(136,717)
Depreciation and amortization expenses	130,886	124,825			
Net interest income	(5,016,415)	(4,603,557)	Cash flows from financing activities:		
(Profit) in the subsidiary recognized under the equity method	(135,706)	(214,445)	Due to the Central Bank and banks (decrease)	(748,180)	(802,810)
Compensation cost of share-based payments	-	-	Securities sold under agreements to repurchase (decrease)	(6,227,086)	(1,098,476)
Loss (gain) on disposal and retirement of property, plant and equipment	137	(19,291)	Cash dividend paid	(1,677,351)	(1,711,852)
(Gains) on disposal of other assets	(88)	(1)	Cost of treasury stock repurchase	(276,924)	(410,080)
(Gain) on bargain purchase	(7,661)	-	Repayment of the principal amount of lease liabilities	(78,924)	(78,122)
Changes in operating assets and liabilities			Net cash (outflow) from financing activities	(9,008,465)	(4,101,340)
Due from the central bank and call loans to banks (increase)	(655,248)	(172,399)			
Financial assets measured at FVTPL (increase)	(9,988,252)	(3,142,934)	Effect of exchange rate changes on cash and cash equivalents	(3,825)	(85,655)
Receivables decrease (increase)	325,680	(298,052)			
Discount and loan (increase)	(30,116,447)	(5,679,720)	Current cash and cash equivalents increase (decrease)	1,089,266	(4,142,623)
Financial assets measured at FVTOCI decrease	3,695,974	7,123,745	Cash and cash equivalents at beginning of year	9,330,776	13,473,399
Debt instrument investments measured at amortized cost (increase)	(1,200,000)	(100,000)	Cash and cash equivalents at end of the year	\$10,420,042	\$9,330,776
Other assets decrease (increase)	4,033	(917)			
Other assets (increase)	(247,466)	(83,382)	Composition of cash and cash equivalents		
Deposits from the Central Bank and banks increase (decrease)	6,583,619	(5,403,402)	Cash and cash equivalents recorded on the balance sheet	\$3,819,429	\$3,505,067
Financial liabilities measured at FVTPL increase (decrease)	7,060	(19,782)	Due from the Central Bank and call loans to banks meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	6,400,365	5,675,687
Payables increase (decrease)	257,744	(1,063,044)	Investments in bills and bonds under resale agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	200,248	150,022
Deposits and remittances increase	35,334,883	3,135,014			
Liability reserve (decrease)	(70,303)	(37,660)	Cash and cash equivalents at end of the year	\$10,420,042	\$9,330,776
Other liabilities (decrease)	(52,101)	(70,269)			
Interest received	6,295,653	6,770,514			
Dividend received	-	143,002			
Interest paid	(1,263,393)	(2,055,794)			
Income tax paid	(120,087)	(577,529)			
Net cash inflow from operating activities	11,142,920	181,089			

(Please refer to the Notes to the Individual Financial Statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Supervisor: Yu-Hsuan Chen

King's Town Bank Co., Ltd.  
Notes to the Individual Financial Statements  
From January 1 to December 31, 2020 and 2019  
(In Thousands of New Taiwan Dollars, unless otherwise specified)

I. Company History

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, 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 960 and 975 employees as of December 31, 2020 and 2019, respectively.

II. Approval Date and Procedures of the Financial Statements

The individual financial statements of the Company for the period of January 1 to December 31, 2020 and 2019 were approved for publication by the Board of Directors on February 22, 2021.

III. Application of New, Revised, and Amended Standards and Interpretations

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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

The Company has adopted the 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, 2020. The first-time application has no significant impact on the Company.

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

No.	New/Amended/Revised Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Interest rate benchmark reform - Phase II (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)	January 1, 2021

- (1) Interest rate benchmark reform - Phase II (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)

The impact of Phase II Interest Rate Benchmark Reform on the financial statements include:

- A. Regarding cash flows of financial instruments, the carrying amounts thereof will not be de-recognized or adjusted due to the changes in the reform. Instead, changes result directly from interbank offered rates (IBORs) will be accounted for by updating the effective interest rates;
- B. If a hedging relationship is subject to hedging accounting, the hedging relationship will still be subject to hedging accounting regardless of changes in the requirements of the reform; and
- C. The Company is required to disclose the risks arise from the reform and the Company's risk management in the transition.

The Company evaluates that the amendments which are to be adopted in the fiscal year starting January 1, 2021 have no significant impact on the Company.

3. As of the date of the issuance of the financial report, the Company has not adopted the following new publication, revision, and amendments or interpretations announced by International Accounting Standards Board and approved by the FSC.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

No.	New/Amended/Revised Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Amendments to IFRS 10 - Consolidated Financial Statements, and IAS 28 - Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by International Accounting Standards Board
2	IFRS 17 "Insurance Contracts"	January 1, 2023
3	Liabilities classified as current or non-current (Amendment to IAS 1)	January 1, 2023
4	Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements	January 1, 2022
5	Disclosure Initiative - Accounting Policies (Amendment to IAS 1)	January 1, 2023
6	Definition of Accounting Estimates (Amendment to IAS 8)	January 1, 2023

- (1) Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments addressed the inconsistency between the requirements in IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures," in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture shall be offset through downstream sale. IFRS 10 requires full profit or loss recognition other loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets as defined in IFRS 3 shall be recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

(2) IFRS 17 - Insurance Contracts

This standard provides a comprehensive model to insurance contracts, including all accounting treatment (recognition, measurement, expression, and disclosure principle). The core of the standard is general, and under this model, initial recognition measures the insurance contract group by the combination of the cash flow from performance obligation and contract service margin, wherein the performance obligation cash flow includes:

- A. Estimated 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 carrying amount of the insurance contract group 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, the standard also provides:

- A. Specific applicable methods with contracts characterized by direct participation (variable fee method)
- B. Simplified short-term contract method (premium allocation approach)

IFRS 17 was issued in May 2017 and it was amended in June 2020. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after January 1, 2023 (from the original effective date of January 1, 2021); provide additional transition reliefs; simplify some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim standard - IFRS 4 Insurance Contracts - from annual reporting periods beginning on or after January 1, 2023.

(3) Liabilities classified as current or non-current

This amendment targets sections 69-76 in IAS 1 - Presentation of Financial Statements concerning the classification of liability as either current or non-current.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

- (4) Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37, and the Annual Improvements

A. Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

This amendment replaces the old version of the index on the Conceptual Framework for Financial Reporting and updates IFRS No. 3 with the latest version of the index published in March 2018. The amendments also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities. In addition, clarify existing guidelines for contingent assets that are not affected by the replacement structure index.

B. Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit a company from deducting from the cost of property, plant, and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

C. Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

D. Annual Improvements to IFRS Standards 2018 – 2020

*Amendment to IFRS 1*

The amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.

*Amendment to IFRS 9 Financial Instruments*

The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

*Amendment to Illustrative Examples Accompanying IFRS 16 Leases*

The amendment to Illustrative Example 13 accompanying IFRS 16 modifies the treatment of lease incentives relating to lessee's leasehold improvements.

*Amendment to IAS 41*

The amendment removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

(5) Disclosure Initiative - Accounting Policies (Amendment to IAS 1)

The objective of the amendment was to improve accounting policy disclosures and help stakeholders provide more relevant information for investors and primary users of financial statements.

(6) Definition of Accounting Estimates (Amendment to IAS 8)

The amendments introduced the definition of accounting estimates and included other amendments to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) to help entities distinguish changes in accounting estimates from changes in accounting policies.

The aforementioned standards or interpretations have been issued by the IASB but have yet to be 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 Company's individual financial reports for the period January 1, to December 31, 2020 and 2019 are prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks," and "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

2. Basis of preparation

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Besides the individual financial instruments measured at fair value, the Individual Financial Statements are prepared on the basis of historical costs. Unless otherwise specified, the Individual Financial Statements are denoted in thousands of New Taiwan Dollars (NTD 1,000).

3. Foreign currency transaction

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 every reporting period, items denoted in foreign currencies will be translated at the closing exchange rate of the day. Non-monetary foreign currency items measured at fair value will be translated using the exchange rate on the date when the fair value is measured. Non-monetary foreign currency items measured at historical cost are translated at the exchange rate of the date of the transaction.

Except for the following items, exchange differences resulting from delivery or exchange of monetary items will be recognized as gain or loss as they occur:

- (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.
- (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.



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

4. Translation 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 Consolidated Statement of Cash Flows, 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 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 individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

(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 measured at 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. Business model used in managing the financial assets: financial asset is held to receive contractual cash flows
- 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 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 credit impairment of 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Financial assets measured at fair value through other comprehensive income

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: 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 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 equity instruments applicable to IFRS 9 and are not held as available-for-sale or applicable as a contingent consideration by the acquirer in business consolidation in IFRS 3, during initial recognition, the Company will choose (this is not reversible) to state its subsequent fair value changes in the other comprehensive income (loss). Amounts stated in other comprehensive income cannot be converted to income or loss (during disposal of such equity instrument, the accumulated amount stated in other equity item will be directly transferred to retained earnings), and will be stated in the Balance Sheet as financial assets measured at fair value through other comprehensive income (loss). Investment dividends will be recognized in income or loss, unless such dividends clearly represent a portion of the investment cost.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Financial assets at fair value through profit and loss

In addition to the aforementioned measurement at cost after amortization for having met certain conditions or measurement at fair value through other comprehensive income (loss), financial assets are all measured at fair value through income or loss, and are stated in the balance sheet as financial assets at fair value through profit or loss.

These financial assets are measured at fair value, and any gain or loss from their revaluation will be recognized as profit or loss. The gain or loss recognized as profit or loss includes any dividend or interest received from the financial asset.

(2) Impairments of financial asset

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. For the debt instrument investment measured at fair value through other comprehensive income, allowance for loss is recognized in the other comprehensive income (loss), and the book value of the investment will not be reduced. Loans and receivables and off-balance sheet credit assets are recognized and measured in accordance with the expected credit losses. Also, adequate allowances, reserve for guarantee liability, 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 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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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, this also includes those with allowance loss measured by the expected credit loss during the previous reporting period, but no longer meets the condition in which the credit risk has significant increased 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, 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 individual financial statements of King's Town Bank Co., Ltd. (continued)  
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(3) Derecognized financial assets

The Company's financial assets will be derecognized when one of the following conditions occurs:

- A. The contractual right from the cash flow of the financial asset is terminated.
- B. When nearly all risk and compensations associated with ownership of a financial asset has been transferred.
- C. Nearly all risk and compensations associated with ownership of an asset has neither been transferred nor retained, but the control of the asset has been transferred.

When a financial asset is derecognized in its entirety, the difference between its carrying amount and any cumulative gain or loss that has been received or is receivable and recognized in other comprehensive income (loss), will be recognized in profit or loss.

(4) Financial liabilities and equity instruments

Classification of liability or equity

The Company classifies the liabilities and equities instrument issued as financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

Equity instruments refer to any contract with residual interest after subtracting all liabilities from assets. Equity instruments issued by the Company are recognized by the acquisition cost minus direct distribution costs.

Hybrid instruments

The Company recognizes the financial liabilities and equity components of the convertible corporate bonds issued in accordance with contractual terms. In addition, the conversion of corporate bonds issued is based on the assessment of whether the economic characteristics and risks of the embedded purchase and sale rights are closely related to the primary debt commodity before classifying the equity elements.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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For liabilities that do not involve derivatives, the fair value is measured using the market interest rate of a bond of comparable nature and without conversion characteristics. This amount is classified as a financial liability measured by amortized cost before conversion or redemption settlement. For other embedded derivatives that are not closely related to the risk characteristics of the principal contract (for instance, the embedded buy back and redemption rights are confirmed to be substantially inconsistent with the amortized cost of the debt commodity on each execution date), they will be classified as components of liability and is measured at fair value through profit or loss in subsequent periods except for equity components. The amount of the equity component is determined by the conversion of fair value of the corporate bonds subtract the component of the liability, and the carrying amount will not be remeasured in subsequent accounting periods. If the issued conversion corporate bonds from the Company do include an equity element, they are handled in accordance with IFRS 9 Hybrid Instruments.

The transaction costs are allocated to the liability and equity components in proportion to the ratio of the convertible corporate bonds' allocations to liability and equity components during initial recognition.

When holder of the convertible corporate bonds should request to exercise conversion rights before the maturity of the convertible bond, the person should adjust the carrying amount of the liability component element to the carrying amount at the time of exercise as the basis of entry for issuance of ordinary 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 measured at fair value through profit and loss

Financial liabilities at fair value through profit or loss include available-for-sale financial liabilities and designated financial liabilities at fair value through profit and loss.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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A financial asset will be classified as available-for-sale when it meets one of the following conditions:

- A. The primary purpose for acquisition of the asset is short-term sales;
- B. It is part of an identifiable financial instrument combination of the consolidated management at the time of initial recognition, and there is evidence that the combination is a short-term profit operating model in the near future; or
- C. It is a derivative (except for financial guarantee contract or a designated and effective hedging instrument).

For contracts that include one or multiple embedded derivative instruments, the entire hybrid (integrated) contract could be designated as a financial instrument at fair value through profit or loss. In addition, when it meets one the following conditions and can provide more relevant information, it could be designated as at fair value through profit or loss during initial recognition:

- 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 amortized cost

Financial liabilities measured at amortized cost include accounts payables and loans, and will continue to be measured through effective interest method after initial recognition. When financial liabilities are derecognized and amortized using effective interest method, related gain or loss and amortization will be recognized in profit or loss.

Calculation of the amortized cost will take discount or premium during acquisition and transaction cost into consideration.



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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De-recognition of financial liabilities

When the obligation of a financial liability is terminated, canceled or no longer effective, the financial liability will be derecognized.

When the Company and the creditors exchange debt instruments with significant differences, or make major changes to all or part of the existing financial liabilities (whether due to financial difficulties or otherwise), treatment will include derecognition of the original liabilities and the recognition of new liabilities. During derecognition of financial liabilities, the difference between the carrying amount and the total amount of the consideration paid or payable, including the transferred non-cash assets or liabilities assumed, is recognized in profit or loss.

(5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities can only be offset and presented in net terms on the balance sheet only when the recognized amounts currently contain exercise of legal rights for offset and are intended to be settled on a net basis or can be realized simultaneously and the debt can be settled.

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.

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in fair value of derivatives are recognized directly in profit or loss. In the case of effective 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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 refers to the price required or transferred to an asset in an orderly transaction between market participants on a measurement date. Fair value measurement assumes that the transaction for the asset being sold or liability being transferred takes place in one of the following markets:

- (1) Principal market of the asset or liability, or
- (2) If no principal market exists, the most favorable market for the asset or liability

The Company needs to be able to enter the principal or most favorable market in order to carry out the transaction.

Fair value measurement of the asset or liability uses the assumption that market participants would adopt while pricing the asset or liability, where the assumption is that the market participants would take the most favorable economic conditions into consideration.

The fair value measurement of a non-financial asset takes into consideration the market participant's use of the asset for its highest price and best use or by selling the asset to another market participant who will use the asset for its highest price and best use to generate economic benefits.

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

10. Impairment of non-financial assets

At the end of every reporting period, the Company will evaluate all assets for indicators of impairment pursuant to IAS 36 - Impairment of Assets. If signs of impairment exist or if regular annual impairment test is required for a certain asset, the Company will test it on the basis of individual assets or the cash generating unit to which the asset belongs. If

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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result of the impairment test indicates that the carrying amount of the asset or the cash generating unit to which the asset belongs is greater than its recoverable amount, impairment loss will be recognized. The recoverable amount is the higher of fair value net of the disposal cost or the value in use.

At the end of every reporting period, the Company will evaluate all assets except for goodwill for indicators of whether previously recognized impairment loss no longer exists or has been reduced. If such signs exist, the Company will estimate the recoverable amount of the asset or the cash generating unit. If the estimated service potential of the asset changes, resulting in an increase in the recoverable amount, the impairment will be reversed to profit or loss. However, the carrying amount after reversal shall not exceed the amount of the depreciation or amortization of the asset after deducting the depreciation or amortization.

Impairment loss and reversal of continuing operations will be 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

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 individual 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."

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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.

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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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 to 60 years
Transport equipment	3 to 5 years
Other equipment	3 to 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 Company assesses whether the contract is (or includes) a lease on the date the contract is made. 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.

For contracts that are (or include) leases, the Company will treat each lease component in the contract individually, and to separately treat them from the non-lease components in the contracts. For leases that include one lease component and one or more additional lease or non-lease components, the Company will use the single comparison price of each lease component and the aggregated single prices of non-lease components as the basis, and distribute the consideration in the contract to the lease component. The comparison single unit price of the lease and non-lease components will be decided upon the prices separately received by the lessor (or supplier) for such components. If observable single unit prices are not readily available, the Company will maximize the use of observable information to estimate their respective single unit prices.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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 yet to be 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 yet to be 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 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 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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 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.

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.



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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.

(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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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) The original recognition of, or and 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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20. Corporate combination and goodwill

The acquisition method is used for accounting of corporate mergers. The transfer price, identifiable assets acquired and liabilities incurred from the merger are measured by the fair value of the date of purchase. The acquirer of a merger measures the non-controlling interest at fair value or the relative proportion of the identifiable net assets of the acquiree. The costs incurred from the acquisition are recognized as expenses in the current period and included in the administrative expenses.

When the Company acquires a business, it assesses the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in acquiree's host contracts.

When a business merger is to be completed in phases, the acquirer's previously held equity in the acquiree is remeasured at fair value on the date of acquisition and the resulting gain or loss is recognized as current profit or loss.

The acquirer expects that the contingent consideration of the transfer will be recognized at fair value on the date of acquisition. Subsequent changes in fair value of contingent considerations deemed to be assets or liabilities will be recognized as changes in profit or loss for the current period or changes in other comprehensive income in accordance with IAS 9. However, if the contingent consideration is classified as equity, it will not be re-measured until it is finally settled in equity.

The goodwill is initially measured as the excess of the sum of the consideration transfer and the non-controlling interest over the amount of fair value of the identifiable assets acquired and liabilities assumed. If the sum of consideration is lower than the fair value of the net assets obtained, the difference will be recognized in current profit or loss.

After the initial recognition, goodwill is measured as cost less accumulated impairment. Goodwill arising from a business merger is, from the date of acquisition, allocated to each cash-generating unit of the Group which is expected to benefit from the merger, irrespective of whether the other assets or liabilities of the acquiree are allocated to such cash-generating units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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When goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the disposed operation must be included in the carrying amount of the operation. The disposed goodwill is measured based on the relative proportion of recoverable amounts of the operation disposed of and the cash-generating unit retained.

V. Main Source of Significant Accounting Judgment, Estimation, and Assumption Uncertainties

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 uncertainties 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 individual 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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VI. Descriptions of Material Accounting Items

1. Cash and cash equivalents

	2020.12.31	2019.12.31
Cash on Hand	\$1,380,247	\$1,790,402
Foreign currency on hand	201,570	223,202
Notes and checks for clearing	362,649	252,376
Due from Central Bank and other banks	1,874,963	1,239,087
Total	\$3,819,429	\$3,505,067

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

	2020.12.31	2019.12.31
Cash and cash equivalents recorded on the balance sheet	\$3,819,429	\$3,505,067
Due from the Central Bank and call loans to banks meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	6,400,365	5,675,687
Investments in bills and bonds under resale agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	200,248	150,022
Cash and cash equivalents on the Statement of Cash Flows	\$10,420,042	\$9,330,776

2. Due from the Central Bank and call loans to banks

	2020.12.31	2019.12.31
Reserve for deposits - Type A	\$4,143,721	\$2,267,322
Reserve for deposits - Type B	6,142,243	5,486,995
Reserve for deposits - Foreign currency	31,644	18,365
Call loans to other banks	2,225,000	3,390,000
Total	\$12,542,608	\$11,162,682

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.



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Please refer to Note VIII for details of the Company's collateral due from the Central Bank and call loans to banks.

3. Financial assets at fair value through profit and loss

	2020.12.31	2019.12.31
Mandatorily measured at fair value through profit or loss:		
Stock	\$5,303,263	\$3,318,000
Beneficiary certificates	2,615,089	1,921,705
Domestic and foreign bonds	36,342,634	29,056,073
Derivatives	7,369	8,805
Real estate investment trust fund	453,493	429,013
Total	<u>\$44,721,848</u>	<u>\$34,733,596</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.

4. Financial assets at fair value through other comprehensive income

	2020.12.31	2019.12.31
Debt instrument investments measured at fair value through other comprehensive income:		
Bonds	\$8,127,640	\$8,850,669
Corporate bonds	31,425,497	33,039,873
Financial bonds	924,475	3,283,306
Subtotal (total book value)	<u>40,477,612</u>	<u>45,173,848</u>
Evaluation adjustment	4,413,672	3,148,095
Subtotal	<u>44,891,284</u>	<u>48,321,943</u>
Equity instrument investments measured at fair value through other comprehensive income:		
Listed stocks	1,132,511	35,225
Non-TWSE/TPEX-listing companies stock	2,693,294	2,452,977
Subtotal	<u>3,825,805</u>	<u>2,488,202</u>
Total	<u>\$48,717,089</u>	<u>\$50,810,145</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 other comprehensive income.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Please refer to Note VI 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.

The recognized dividend income of the Company from equity instrument investments measured at fair value through other comprehensive income for the year ended December 31, 2020 and 2019 were NTD 98,770 thousand and NTD 77,143 thousand respectively and all were related to investments 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, 2020 and 2019, the fair values at the time of disposition were NTD 20,861 thousand, and NTD 72,467 thousand. Also, the accumulated unrealized loss in valuation at the time of disposal for the amounts of NTD 29,395 thousand and NTD 93,550 thousand were transferred from other equity to retained earnings.

5. Financial assets measured at cost after amortization

	<u>2020.12.31</u>	<u>2019.12.31</u>
Convertible certificate of deposit (total book value)	\$18,900,000	\$17,700,000
Less: Allowance for losses	<u>(2,618)</u>	<u>(1,865)</u>
Total	<u>\$18,897,382</u>	<u>\$17,698,135</u>

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 purchased under agreements to resell

	<u>2020.12.31</u>	<u>2019.12.31</u>
Bonds	<u>\$200,248</u>	<u>\$150,022</u>

The Company's bonds and securities purchased under agreements to resell were processed at the agreed price for an amount of NTD 200,261 thousand, and NTD 150,031 thousand on December 31, 2020 and 2019, respectively.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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7. Receivables – net

	2020.12.31	2019.12.31
Accounts receivable and notes	\$19,410	\$44,284
Interests receivable	856,260	918,211
Clearing amount receivable	7,500	309,606
Other receivables	36,476	28,367
Subtotal (total book value)	919,646	1,300,468
Less: Allowance for losses	(28,316)	(30,018)
Net	<u>\$891,330</u>	<u>\$1,270,450</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

	2020.12.31	2019.12.31
Export Negotiations	\$1,024	\$-
Overdraft	93,953	202,095
Loans	187,729,057	157,395,540
Collections of overdue loans	18,495	20,791
Total amount	187,842,529	157,618,426
Less: allowance for bad debt	(2,941,299)	(2,267,748)
Net	<u>\$184,901,230</u>	<u>\$155,350,678</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.

9. Investment accounted for using equity method

	2020.12.31		2019.12.31	
	Book value	Shareholding (%)	Book value	Shareholding (%)
Invested companies:				
Tainan Life Insurance Agency Co., Ltd.	(Note 1)		(Note 1)	
Fuchen Property Insurance Agency Co., Ltd.	(Note 1)		(Note 1)	
Kings Town Bank	\$838,767	100.00	\$699,890	100.00
International Lease Corporation	329,223	99.51	(Note 2)	
WanTai Securities Corporation				
Total	<u>\$1,167,990</u>		<u>\$699,890</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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The gains and losses of the investment in subsidiaries under the equity method from January 1 to December 31, 2020 and 2019 were recognized for an amount of NTD 135,706 thousand and NTD 214,445 thousand, respectively.

Note 1. 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.

Note 2. In order to provide clients with a comprehensive and diverse finance service, it is resolved at the board meeting on October 12, 2020 that the Company acquires WanTai Securities Corporation by cash. The investment was approved by the competent authority on October 27, 2020 and obtained control on November 3, 2020.

For further information about the subsidiaries of the Company, please refer to Note VI. 33 of the Company's 2020 consolidated financial statements.

10. Other financial assets, net

	2020.12.31	2019.12.31
Delinquent loans not restated from loans	\$-	\$1,168
Others	363	4,396
Subtotal (total book value)	363	5,564
Less: Allowance for losses	-	(1,168)
Total	<u>\$363</u>	<u>\$4,396</u>

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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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	Land	Buildings and structures	Transport equipment	Other equipment	Construction in progress and prepayments	Total
Cost:						
2020.01.01	\$2,316,149	\$1,172,105	\$15,418	\$188,685	\$8,610	\$3,700,967
Acquisition	245,792	3,207	-	40,510	431,244	720,753
Disposal	-	-	(56)	(6,660)	-	(6,716)
Other Changes	316,611	14,593	-	-	(331,204)	-
2020.12.31	<u>\$2,878,552</u>	<u>\$1,189,905</u>	<u>\$15,362</u>	<u>\$222,535</u>	<u>\$108,650</u>	<u>\$4,415,004</u>
2019.01.01	\$2,015,003	\$1,169,735	\$17,708	\$163,223	\$4,776	\$3,370,445
Acquisition	326,470	1,765	-	32,782	29,902	390,919
Disposal	(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>
Depreciation and impairment:						
2020.01.01	\$-	\$842,531	\$12,861	\$138,744	\$-	\$994,136
Depreciation	-	19,984	944	33,386	-	54,314
Disposal	-	-	(56)	(6,523)	-	(6,579)
2020.12.31	<u>\$-</u>	<u>\$862,515</u>	<u>\$13,749</u>	<u>\$165,607</u>	<u>\$-</u>	<u>\$1,041,871</u>
2019.01.01	\$11,209	\$840,074	\$12,845	\$118,819	\$-	\$982,947
Depreciation	-	20,242	1,595	27,119	-	48,956
Disposal	(11,209)	(17,785)	(1,579)	(7,194)	-	(37,767)
2019.12.31	<u>\$-</u>	<u>\$842,531</u>	<u>\$12,861</u>	<u>\$138,744</u>	<u>\$-</u>	<u>\$994,136</u>
Net book value:						
2020.12.31	<u>\$2,878,552</u>	<u>\$327,390</u>	<u>\$1,613</u>	<u>\$56,928</u>	<u>\$108,650</u>	<u>\$3,373,133</u>
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>

The Company did not provide property, plant, and equipment as collateral.

12. Other assets – net

	2020.12.31	2019.12.31
Prepayments	\$11,143	\$9,934
Inter-bank clearing fund	1,050,689	726,810
Other prepayments	-	69,153
Refundable deposits	106,284	119,434
Others	36,282	31,601
Net	<u>\$1,204,398</u>	<u>\$956,932</u>

As of December 31, 2020, and 2019, the other asset - other accumulated impairment of each period amounted to NTD 20,280 thousand.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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13. Deposits from Central Bank and other banks

	2020.12.31	2019.12.31
Deposits of other banks	\$1,836	\$2,049
Call loans to other banks	21,115,632	14,531,800
Total	<u>\$21,117,468</u>	<u>\$14,533,849</u>

14. Funds borrowed from Central Bank and other banks

	2020.12.31	2019.12.31
Funds borrowed from other banks	\$-	\$1,655,830
Other funds borrowed from Central Bank	907,650	-
Total	<u>\$907,650</u>	<u>\$1,655,830</u>

15. Financial liabilities at fair value through profit and loss

	2020.12.31	2019.12.31
Available-for-sale financial liabilities:		
Derivatives	<u>\$13,062</u>	<u>\$6,002</u>

16. Bills and bonds sold under repurchase agreements

	2020.12.31	2019.12.31
Bonds	\$9,443,465	\$8,280,000
Corporate bond	12,179,630	19,411,343
Financial bonds	367,839	526,677
Total	<u>\$21,990,934</u>	<u>\$28,218,020</u>

The Company's bills and bonds sold under repurchase agreements were processed at the agreed price for an amount of NTD 22,002,911 thousand, and NTD 28,267,625 thousand on December 31, 2020 and 2019, respectively.

17. Payables

	2020.12.31	2019.12.31
Accrued expenses	\$387,170	\$375,010
Interest payable	92,009	142,146
Notes and checks in clearing	362,649	252,376
Clearing amount payable	215,069	47,150
Others	375,436	407,274
Total	<u>\$1,432,333</u>	<u>\$1,223,956</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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18. Deposits and remittances

	2020.12.31	2019.12.31
Check deposits	\$2,268,174	\$2,217,464
Demand deposits	45,992,941	36,068,305
Time deposits	40,970,737	21,442,825
Savings deposit	137,912,535	132,078,219
Remittances	2,810	5,501
Total	<u>\$227,147,197</u>	<u>\$191,812,314</u>

19. Provisions for liabilities

	2020.12.31	2019.12.31
Retirement benefits plan	\$180,997	\$248,385
Reserve for guarantee liability	183,642	115,711
Provision for commitment of financing	30,318	19,318
Total	<u>\$394,957</u>	<u>\$383,414</u>

The changes in the reserve for guarantee liability are as follows:

	2020	2019
Beginning balance	\$115,711	\$105,994
Amount appropriated (reversed) for the period	67,943	9,735
Foreign exchange impact amount	(12)	(18)
Ending balance	<u>\$183,642</u>	<u>\$115,711</u>

The changes in the financing commitment reserve are as follows:

	2020	2019
Beginning balance (in accordance with IFRS 9)	\$19,318	\$21,818
Amount (reversed) for the period	11,000	(2,500)
Foreign exchange impact amount	-	-
Ending balance	<u>\$30,318</u>	<u>\$19,318</u>

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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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The Company had recognized the insurance expense of the defined contribution plan for an amount of NTD 31,659 thousand and NTD 31,170 thousand in 2020 and 2019, 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. By December 31, 2020, the Company's defined benefits plan has estimated to contribute NTD 37,007 thousand for the following year.

As of December 31, 2020 and 2019, the defined benefit plans of the Company are expected to expire in 2028.



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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

	2020	2019
Current service cost	\$828	\$1,271
Net interest of the net defined benefit liabilities	5,240	5,098
Expected return on plan assets	(2,937)	(2,359)
Total	<u>\$3,131</u>	<u>\$4,010</u>

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

	2020.12.31	2019.12.31
Determined benefit obligation	\$527,801	\$535,820
The fair value of plan assets	(346,804)	(287,435)
Liability reserve - Net defined benefit liabilities amount booked	<u>\$180,997</u>	<u>\$248,385</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)
2019.1.1	\$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
Current service cost	828	-	828
Interest expenses (income)	5,240	(2,937)	2,303
Subtotal	541,888	(290,372)	251,516
Defined benefit liabilities/assets re-measurement amount:			
Actuarial gains and losses resulting from changes in financial assumption	11,736	-	11,736
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(8,833)	(8,833)
Subtotal	11,736	(8,833)	2,903
Payment of benefits	(25,823)	20,504	(5,319)
Contributions of employer	-	(68,103)	(68,103)
2020.12.31	<u>\$527,801</u>	<u>\$(346,804)</u>	<u>\$180,997</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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

	2020.12.31	2019.12.31
Discount rate	0.75%	1.00%
Expected salary increase rate	2.00%	2.00%

Sensitivity analysis of every material actuarial assumption:

	2020		2019	
	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%	\$-	\$(5,596)	\$-	\$(6,422)
Discount rate decreased by 0.25%	5,769	-	6,627	-
Expected salary increases by 0.5%	11,759	-	13,510	-
Expected salary decreases by 0.5%	-	(11,183)	-	(12,823)

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

	2020.12.31	2019.12.31
Deposits received	\$5,136	\$6,711
Advance income	141,254	205,166
Others	18,122	4,736
Total	<u>\$164,512</u>	<u>\$216,613</u>

22. Equity

(1) Common stock

As of December 31, 2020, and 2019 the authorized capital stock of the Company was NTD 30,000,000 thousand; also, the issued capital stock was NTD 11,212,343 thousand, and NTD 11,312,343 thousand, with 1,121,234 thousand shares, and 1,131,234 thousand shares issued at par value of NTD 10, respectively. Each share is entitled to one voting right and the right to receive dividends.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

(2) Capital surplus

	2020.12.31	2019.12.31
Common stock premium	\$53,036	\$53,509
Others	2,586	2,586
Total	<u>\$55,622</u>	<u>\$56,095</u>

The various capital reserve balances on December 31, 2020, and 2019 are adjusted as follows:

	Common stock premium	Treasury stock transactions	Others	Total
Balance as of January 1, 2020	\$53,509	\$-	\$2,586	\$56,095
Share-based payment transaction	-	-	-	-
Transfer of treasury stock	-	-	-	-
Retirement of treasury stock	(473)	-	-	(473)
Balance as of December 31, 2020	<u>\$53,036</u>	<u>\$-</u>	<u>\$2,586</u>	<u>\$55,622</u>
Balance as of January 1, 2019	\$54,455	\$42,544	\$2,586	\$99,585
Share-based payment transaction	-	-	-	-
Transfer of treasury stock	-	-	-	-
Retirement of treasury stock	(946)	(42,544)	-	(43,490)
Balance, December 31, 2019	<u>\$53,509</u>	<u>\$-</u>	<u>\$2,586</u>	<u>\$56,095</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, 2020 to December 31, 2020:

Cause	Number of shares - beginning of year	Increase in current period	Decrease in current period	Number of shares - end of year
Transfer to employees	3,000 thousand shares	-	-	3,000 thousand shares
Maintain the Company's credit and shareholder's equity	-	10,000 thousand shares	10,000 thousand shares	-
Total	<u>3,000 thousand shares</u>	<u>10,000 thousand shares</u>	<u>10,000 thousand shares</u>	<u>3,000 thousand shares</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

January 1, to December 31, 2019:

Cause	Number of shares - beginning of year	Increase in current period	Decrease in current period	Number of shares - end of year
Transfer to employees	-	3,000 thousand shares	-	3,000 thousand shares
Maintain the Company's credit and shareholder's 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

- b. As of December 31, 2020 and 2019, the amount of Treasury Stocks that are yet to have retired or distributed to employees was NTD 98,422 thousand or 3,000 thousand shares in both years.
- c. Based on the resolution of the Board of Directors, the Company had scheduled January 21, 2019 and September 30, 2019 as the base date of de-capitalization. 20,000 thousand shares of treasury stock were bought back and canceled with a total of NTD 200,000 thousand.
- d. Based on the resolution of the Board of Directors, the Company had scheduled April 30, 2020 as the base date of de-capitalization. 10,000 thousand shares of treasury stock were bought back and canceled with a total of NTD 100,000 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 Incorporation of the Company, if there are earnings at the annual final accounts, it should be distributed in the following order:

- A. Payment of all taxes and dues
- B. Offset operation losses
- C. Appropriate 30% as the legal reserve
- D. Other special surplus reserve recognized or reversed in accordance with laws and regulations or supervisory authorities.
- E. The remaining earnings shall be distributed by the Board of Directors according to the dividend policy, and reported to the shareholders' meeting.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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 NTD 0.1, it will not be distributed.

Pursuant to the Banking Act, legal capital reserve shall be appropriated until the total sum of which has reached the total capital. Unless and until the accumulated legal capital reserve equals the paid-in capital, the maximum cash surplus which may be distributed shall not exceed 15% of the total paid-in capital. The legal reserve can be used to set off deficits. When the Company has no loss, the portion of the legal reserve exceeds 25% of the paid-in capital should be distributed as new shares or cash to shareholders proportional 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 adoption of the IFRS, pursuant to Jin-Guan-Zheng-Fa Letter No. 1010012865 from the FSC dated July 6, 2012, when the Company adopted IFRSs for the first-time, 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 may be distributed.

As of January 1, 2020 and 2019, the special reserve at the first-time adoption amounted to NTD 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, 2020 and 2019 that caused the reversal of special reserve to the undistributed earnings. As of December 31, 2020 and 2019, the special reserve for the first time was NTD 45,549 thousand.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

The 2019 and 2018 earnings appropriation and distribution and the dividend per share was proposed and resolved in the board meeting on February 22, 2021 and the Shareholders' Meeting on May 12, 2020 as follows:

	Distribution of retained earnings		Dividends per share (NTD)	
	2020	2019	2020	2019
Legal reserve	\$1,637,705	\$1,019,906		
Special reserve	4,720	(423,162)		
Common stock cash dividends	2,018,222	1,677,351	\$1.8	\$1.5
Total	<u>\$3,660,647</u>	<u>\$2,274,095</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

	2020	2019
<u>Interest revenue</u>		
Discount and loan interest income	\$4,000,178	\$4,194,505
Due from bank and interbank offered interest income	33,298	52,041
Security investment interest income	2,166,777	2,364,921
Other interest incomes	33,449	38,434
Subtotal	<u>6,233,702</u>	<u>6,649,901</u>
<u>Interest expenses</u>		
Deposits Interest expenses	(876,837)	(1,030,751)
Interest expense of funds borrowed from Central Bank and other banks	(112,169)	(398,743)
Interest expense of the RP bonds	(224,250)	(613,021)
Others	(4,031)	(3,829)
Subtotal	<u>(1,217,287)</u>	<u>(2,046,344)</u>
Total	<u>\$5,016,415</u>	<u>\$4,603,557</u>

24. Service fee, net

	2020	2019
Service fee income	\$1,903,514	\$1,695,428
Service fee expenses	(45,820)	(47,586)
Total	<u>\$1,857,694</u>	<u>\$1,647,842</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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

	2020	2019
Stock investment	\$1,022,488	\$809,407
Bond investment	865,277	601,153
Derivatives	79,382	(36,418)
Others	42,068	82,202
Total	<u>\$2,009,215</u>	<u>\$1,456,344</u>

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

	2020	2019
Financial assets measured at fair value through other comprehensive income	\$(512,137)	\$(27,450)
Financial assets measured at cost after amortization	(753)	139
Subtotal	<u>(512,890)</u>	<u>(27,311)</u>
Loan and receivables bad debt (appropriation)	(557,384)	(2,546,070)
Reserve for guarantee liability (appropriation)	(67,943)	(9,735)
Financing commitments reserve reversed (appropriation)	(11,000)	2,500
Subtotal	<u>(636,327)</u>	<u>(2,553,305)</u>
Total	<u><u>\$(1,149,217)</u></u>	<u><u>\$(2,580,616)</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 2-10 years.

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

A. Amount recognized on the balance sheet

- (a) Right-of-use assets

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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The book value of the right-of-use assets

	2020.12.31	2019.12.31
Buildings and structures	\$214,730	\$211,245
Other equipment	2,774	4,438
Total	<u>\$217,504</u>	<u>\$215,683</u>

The Company had added right-of-use assets for the amounts of NTD 88,048 thousand and NTD 19,868 thousand in the year 2020 and 2019.

(b) Lease liabilities

	2020.12.31	2019.12.31
Lease liabilities	<u>\$(219,898)</u>	<u>\$(217,256)</u>
Current liability	<u>\$(219,898)</u>	<u>\$(217,256)</u>

The interest expenses of the Company's lease liabilities were NTD 4,031 thousand and NTD 3,827 thousand in 2020 and 2019, respectively. For the maturity analysis of the lease liabilities on December 31, 2020, and 2019, please refer to Note XIV. 4 "Liquidity Risk Management."

B. Amount recognized in the statements of comprehensive income

Depreciation of the right-of-use assets

	2020	2019
Buildings and structures	\$74,908	\$74,205
Other equipment	1,664	1,664
Total	<u>\$76,572</u>	<u>\$75,869</u>

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

	2020	2019
Short-term lease expense	\$1,797	\$1,738
Low-value asset lease expense (excluding the low-value assets lease expense of the short-term leases)	2,305	2,027

D. The lessee and the lease activity related cash outflow

The total cash outflow for the lease of the Company were NTD 78,924 thousand and NTD 78,122 thousand in the year 2020 and 2019, respectively.



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

28. Operating expenses

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

	<u>2020</u>	<u>2019</u>
Employee benefits expenses		
Salaries and wages	\$853,600	\$840,422
Labor insurance and national health insurance	66,082	64,481
Pension expenses	34,790	35,180
Remuneration to Directors	16,763	13,815
Other employee benefits expenses	36,848	36,109
Depreciation	130,886	124,825
Total	<u>\$1,138,969</u>	<u>\$1,114,832</u>

The Company has 960 and 975 employees this year and in the previous year. Among them, 7 Directors are not concurrently employees.

According to the Articles of Incorporation, 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 aforementioned remuneration to employees is to be paid in the form of shares or cash. Approval for such benefits should be passed by at least half of the Directors in attendance in a Board meeting attended by no less than two-thirds of all Board members. The results should be reported during 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.

Based on the Company's profit in 2020 and 2019, the Company appropriates 0.01% of the earnings to be remuneration to employees, which were NTD 630 thousand and NTD 400 thousand, respectively, and were listed in the "salary expense."

The Company's Board of Directors had resolved on February 22, 2021 to distribute the 2020 remuneration to employees and the remuneration to directors and supervisors at the amount of NTD 630 thousand and NTD 0 respectively, which was not significantly different from the expenses booked in the 2020 financial report.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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The Company's Board of Directors had resolved on February 24, 2020 to distribute the 2019 remuneration to employees and the remuneration to directors and supervisors at the amount of NTD 400 thousand and NTD 0 respectively, which was not significantly different from the expenses booked in the 2019 financial report.

There is no significant difference between the actual employees' remuneration and remuneration to directors and supervisors distributed in 2020 and the expenses booked in the 2019 financial report.

29. Other comprehensive income

Other comprehensive income for the year ended December 31, 2020 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income (loss)	Income tax benefit (expense)	After tax amount
Items not reclassified to income:					
Gain or loss on evaluation of equity instruments at fair value through other comprehensive income	\$375,313	\$-	\$375,313	\$-	\$375,313
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	4,122	-	4,122	-	4,122
Remeasurements of the defined benefit plans	(2,903)	-	(2,903)	349	(2,554)
Items may be re-classified subsequently to income:					
Exchange differences from the foreign translation of financial statement	(3,825)	-	(3,825)	459	(3,366)
Gain or loss from debt instrument investment at fair value through other comprehensive income	1,947,306	(207,564)	1,739,742	-	1,739,742
Total	<u>\$2,320,013</u>	<u>\$(207,564)</u>	<u>\$2,112,449</u>	<u>\$808</u>	<u>\$2,113,257</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Other comprehensive income for the year ended December 31, 2019:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income (loss)	Income tax benefit (expense)	After tax amount
Items not reclassified to income:					
Gain or loss on evaluation of equity instruments at fair value through other comprehensive income	\$423,680	\$-	\$423,680	\$-	\$423,680
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	6,815	-	6,815	-	6,815
Remeasurements of the defined benefit plans	6,589	-	6,589	(19,752)	(13,163)
Items may be re-classified subsequently to income:					
Exchange differences from the translation of foreign financial statement	(85,655)	-	(85,655)	13,122	(72,533)
Gain or loss from debt instrument investment 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 Company's debt instrument investment measured at fair value through other comprehensive income in the year ended 2020 and 2019 are reclassified to profit or loss from the cumulative other comprehensive income at the time of de-recognition for an amount of NTD 207,564 thousand and NTD 51,540 thousand, respectively.

30. Income tax

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

Income tax recognized in the profit or loss

	2020	2019
Current income tax expenses (benefit):		
Income tax payable for the current period	\$616,574	\$256,270
Adjustments in respect of current income tax of prior periods	(1,704)	(3,413)
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to the original generation of the temporary difference and its reversal	125,365	193,007
Income tax expense	<u>\$740,235</u>	<u>\$445,864</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Income tax recognized in the other comprehensive income

	2020	2019
Deferred income tax expense (benefit):		
Exchange differences from the translation of foreign financial statement	\$(459)	\$(13,122)
Actuarial gain (loss) from defined benefit plan	(349)	19,752
The other comprehensive income related income tax	<u>\$(808)</u>	<u>\$6,630</u>

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

	2020	2019
Net income before tax of the continuing business units	<u>\$6,231,201</u>	<u>\$3,845,551</u>
Tax amount calculated according to the domestic tax rate applicable to the income of the country concerned	\$1,246,240	\$769,110
Income tax effect of the tax-free income	(432,751)	(670,431)
Income tax effect of non-deductible expenses on tax returns	348	44
Income tax effect of deferred income tax assets/liabilities	(124,557)	102,392
Basic tax adjustment	4,252	248,162
Surtax on undistributed earnings	48,407	-
Adjustments in respect of current income tax of prior periods	(1,704)	(3,413)
Total income tax expense recognized in profit or loss	<u>\$740,235</u>	<u>\$445,864</u>

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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

2020

	Beginning balance	Recognized in the profit or loss	Recognized in the other comprehensive profit or loss	Ending balance
Temporary differences:				
Financial assets valuation measured at fair value through profit or loss	\$(85,697)	\$(162,563)	\$-	\$(248,260)
Allowance for bad debt	80,309	44,054	-	124,363
Impairment of Assets	13,941	(1,571)	-	12,370
Employees' leave benefits liabilities	3,562	115	-	3,677
Compensation payable	1,162	(13)	-	1,149
Reserve for guarantee liability	7,059	3,967	-	11,026
Net determined benefit liability non-current	29,994	(8,435)	349	21,908
Conversion difference of the financial statements of foreign institutions	6,014	-	459	6,473
Gain on bargain purchase	-	(919)	-	(919)
Deferred income tax benefit		<u>\$(125,365)</u>	<u>\$808</u>	
Net deferred income tax assets	<u>\$56,344</u>			<u>\$(68,213)</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$142,041</u>			<u>\$180,966</u>
Deferred income tax liabilities	85,697			249,179
Deferred income tax liabilities - land value incremental tax	<u>50,135</u>			<u>50,135</u>
Total	<u>\$135,832</u>			<u>\$299,314</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

2019

	Beginning balance	Recognized in the profit or loss	Recognized in the other comprehensive profit or loss	Ending balance
Temporary differences:				
Financial assets valuation measured at FVTPL	\$(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		\$(193,007)	\$(6,630)	
Net deferred income tax assets	<u>\$255,981</u>			<u>\$56,344</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$265,736</u>			<u>\$142,041</u>
Deferred income tax liabilities	9,755			85,697
Deferred income tax liabilities - land value incremental tax	<u>50,135</u>			<u>50,135</u>
Total	<u>\$59,890</u>			<u>\$135,832</u>

Income tax declaration and audit

The Company's income tax returns before 2018 (inclusive) had already been assessed and approved by the tax authority.

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 dividing the net profit of parent company ordinary shares by weighted average number of ordinary shares outstanding during the 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

	2020	2019
(1) Basic earnings per share		
Net income (NTD thousands)	\$5,490,966	\$3,399,687
Weighted average number of common stock shares (thousand shares) of the earnings per share	1,120,378	1,137,777
Base earnings per share (NTD)	\$4.90	\$2.99
(2) Diluted earnings per share		
Net income (NTD thousands)	\$5,490,966	\$3,399,687
Weighted average number of common stock shares (thousand shares) of the earnings per share	1,120,378	1,137,777
Dilutive effect	-	-
Weighted average number of common stock shares (thousand shares) after adjusting the dilutive effect	1,120,378	1,137,777
Diluted earnings per share (NTD)	\$4.90	\$2.99

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)
Kings Town Bank International Lease Corporation	Subsidiaries of the Company
Kings Town Intl. Construction Management Corporation	Sub-subsidiary of the Company
WanTai Securities Corporation	Subsidiaries of the Company (acquired on November 3, 2020)
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
Fu Chiang Investment Co., Ltd.	Director of the Company (2020.5.12 took office)
Chuan-Fu Hou	Independent Director of the Company (2020.5.12 took office)
Ming-Tai Chen	Independent Director of the Company (2020.5.12 end of the term)
Chao-Long Chen	Independent Director of the Company
Hung-Liang Chiang	Independent Director of the Company

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Name	Relationship with the Company
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) Deposits

Item	Amount	% of the account balance
<u>2020.12.31</u>		
Deposits	\$494,315	0.22%
<u>2019.12.31</u>		
Deposits	\$230,354	0.12%

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 with 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) Loans

Item	Amount	% of the account balance
<u>2020.12.31</u>		
Loans	\$61,691	0.03%
<u>2019.12.31</u>		
Loans	\$28,796	0.02%



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

December 31, 2020

Type	Number of accounts or name of stakeholder	Current period maximum balance	Ending balance	Performance		Collateral contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	Non-performing loans		
Consumer loan	10	\$6,281	\$6,037	\$6,037	-	None	None
Residential mortgage Loan	6	16,575	16,374	16,374	-	Real estate	None
Other loans	Chou OO	3,000	3,000	3,000	-	Real estate	None
Other loans	Huang OO	500	500	500	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Chen OO	15,800	15,800	15,800	-	Real estate	None
Other loans	Ou OO	9,000	9,000	9,000	-	Real estate	None
Other loans	Chen OO	2,230	2,230	2,230	-	Certificate of Deposit	None
Other loans	Hsu OO	950	950	950	-	Certificate of Deposit	None
Other loans	Wang OO	470	470	470	-	Certificate of Deposit	None
Other loans	Chang OO	6,155	6,155	6,155	-	Real estate	None

December 31, 2019

Type	Number of accounts or name of stakeholder	Current period maximum balance	Ending balance	Performance		Collateral contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	Non-performing loans		
Consumer loan	12	\$5,601	\$5,374	\$5,374	\$-	None	None
Residential mortgage Loan	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

(3) Leases

- 1) The rent revenue received by the Company for offices leased to the related parties in the period of January 1 to December 31, 2020 and 2019 were NTD 888 thousand and NTD 844 thousand, respectively.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

- 2) The rental expenses paid to the related party for the lease of the office in the period of January 1 to December 31, 2020 and 2019 were NTD 3,840 thousand.
- (4) The handling fee income from the related party and remuneration to the Chairman and directors and supervisors in the year 2020 and 2019 (booked in the "statements of comprehensive income - other business and administrative expenses") are as follows:

	2020	2019
Tainan Life Insurance Agency Co., Ltd.	(Note)	\$27,004
Fuchen Property Insurance Agency Co., Ltd.	(Note)	687
WanTai Securities Corporation	600,000	-
	<u>600,000</u>	<u>\$27,691</u>

Note: Tainan Life Insurance Agency Co., Ltd. and Fuchen Property Insurance Agency Co., Ltd. are merged into the Company on June 3, 2019.

- (5) Guarantees: 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

	2020	2019
Short-term employee benefits	\$34,962	\$26,555
Retirement benefits	1,981	1,864
Total	<u>\$36,943</u>	<u>\$28,419</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

VIII. Pledged Assets

The Company has the following assets provided as collateral:

Items	Book value		Guaranteed debt
	2020.12.31	2019.12.31	
Financial assets measured at FVTPL	\$5,828,699	\$6,563,455	RP transaction
Financial assets measured at FVTPL	720,194	705,688	Various business reserves and collaterals
Financial assets measured at fair value through other comprehensive income	18,583,715	25,086,282	RP transaction
Financial assets measured at fair value through other comprehensive income	3,906,144	6,469,473	Funds borrowed from other banks
Due from the Central Bank and call loans to banks	2,000,000	-	Funds borrowed from Central Bank and other banks
Total	<u>\$31,038,752</u>	<u>\$38,824,898</u>	

IX. Significant Contingent Liabilities and Unrecognized Contract Commitments

(1) The Company has the following or various trust agents and guarantees:

	2020.12.31	2019.12.31
Receivable and collection	\$12,340,695	\$10,764,902
Receivable guarantees	9,057,037	5,619,363
Receivables from L/C	49,727	54,661
Trust and custody	32,554,784	31,605,353
Agreed financing amount	26,358,085	21,220,207

(2)

Major contents	Contract amount	Amount paid	Amount yet to be paid
Land in Guang Pu Phase II	\$423,500-\$653,400	\$21,175	\$402,325-\$632,225

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:

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Balance Sheet of Trust Accounts

Trust assets	2020.12.31	2019.12.31	Trust liabilities	2020.12.31	2019.12.31
Bank deposits	\$2,442,840	\$909,909	Mid-term borrowings	\$4,721,230	\$4,821,230
Stock	2,284,733	2,524,592	Long-term borrowings	614,806	-
Funds	8,791,795	9,171,811	Payables	23,320	22,179
Real estate	18,613,156	18,070,304	Other liabilities	38,447	31,402
Other assets	276,593	866,230	Trust capital	27,055,583	26,505,245
			Reserve and accumulated earnings	(44,269)	162,790
Total trust assets	<u>\$32,409,117</u>	<u>\$31,542,846</u>	Total trust liabilities	<u>\$32,409,117</u>	<u>\$31,542,846</u>

Income Statement of Trust Accounts

Items	2020	2019
Trust revenue		
Interest revenue	\$977	\$1,105
Rent income	499,446	385,687
Dividend income	115,703	129,037
Unrealized capital gains	97,169	53,013
Other profits	1,807	16,158
Subtotal	<u>715,102</u>	<u>585,000</u>
Trust expenses		
Administrative expenses	(41,132)	(34,571)
Tax expenses	(30,412)	(22,850)
Interest expenses	(69,293)	(40,298)
Unrealized capital loss	(255,828)	(69,166)
Unrealized exchange losses	(143,472)	-
Appraisal expenses	(1,620)	(3,000)
Remuneration expenses	(1,200)	(1,200)
Other Expenses	(11,847)	(58,645)
Subtotal	<u>(554,804)</u>	<u>(229,730)</u>
Net profit before tax (net loss)	160,298	355,270
Income tax expense	-	(25)
Net income (net loss)	<u>\$160,298</u>	<u>\$355,245</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

	Property Catalog of Trust Accounts	
Investment	2020.12.31	2019.12.31
Bank deposits	\$2,442,840	\$909,909
Stock	2,284,733	2,524,592
Funds	8,791,795	9,171,811
Real estate		
Land	13,372,181	13,193,092
Buildings and structures	5,192,597	4,870,632
Construction in progress	48,378	6,580
Others	276,593	866,230
Total	\$32,409,117	\$31,542,846

XI. Significant Disaster Loss

No such event.

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:

	2020.12.31		2019.12.31	
	Book value	Fair value	Book value	Fair value
Financial assets measured at FVTPL:				
Mandatorily measured at fair value through profit or loss	\$44,721,848	\$44,721,848	\$34,733,596	\$34,733,596
Financial assets measured at fair value through other comprehensive income	48,717,089	48,717,089	50,810,145	50,810,145
Financial assets measured at cost after amortization:				
Debt instrument investments measured at amortized cost	18,897,382	18,897,382	17,698,135	17,698,135
Cash and cash equivalents (excluding cash on hand)	2,237,612	2,237,612	1,491,463	1,491,463
Due from the Central Bank and call loans to banks	12,542,608	12,542,608	11,162,682	11,162,682
Bonds and securities purchased under agreements to resell	200,248	200,248	150,022	150,022
Receivables	891,330	891,330	1,270,450	1,270,450
Discounts and loans	184,901,230	184,901,230	155,350,678	155,350,678
Other financial assets	363	363	4,396	4,396

Financial liabilities:

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

	2020.12.31		2019.12.31	
	Book value	Fair value	Book value	Fair value
Financial liabilities measured at amortized cost:				
Deposits from the Central Bank and other banks	\$21,117,468	\$21,117,468	\$14,533,849	\$14,533,849
Funds borrowed from Central Bank and other banks	907,650	907,650	1,655,830	1,655,830
Bills and bonds sold under repurchase agreements	21,990,934	21,990,934	28,218,020	28,218,020
Payables	1,432,333	1,432,333	1,223,956	1,223,956
Deposits and remittances	227,147,197	227,147,197	191,812,314	191,812,314
Lease liabilities	219,898	219,898	217,256	217,256
Financial liabilities measured at FVTPL:				
Held for transaction purposes	13,062	13,062	6,002	6,002

The derivative financial instrument transactions are detailed as follows:

	Items	Contract amount	Fair value
2020.12.31			
	Foreign exchange contracts	\$636,677	\$(5,693)
2019.12.31			
	Foreign exchange contracts	\$1,984,179	\$2,803

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

Fair value refers to the price required or transferred to an asset in an orderly transaction between market participants on a 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 based on the book value on the balance sheet. As the maturity date of such products is very close or the current collection price is equivalent to the book value, the book value is a reasonable basis for estimating the fair value. This method is applied to cash and cash equivalents, deposits at the Central Bank and inter-bank loans, RS bills and bond investments, receivables, deposits of the Central Bank and other banks, funds borrowed from Central Bank and other banks, RP bills and bond liabilities, payables, deposits and remittances, and other financial liabilities.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

- (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 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 active market price, the fair value is determined by the counterparty's quotation or valuation method. The valuation method 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 pay if it wishes to terminate the contract at the agreed reporting date. The Company calculates the fair value of the position held based on 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).

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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

It refers to the public offer (unadjusted) of the same financial instrument available on the active 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. This includes the convertible corporate bonds, Taiwan Central Government bonds, and general derivatives invested by the Company.

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. This includes the unlisted stocks in which the Company invests.

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.



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

2020.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets measured at FVTPL				
Stock investment	\$5,303,263	\$5,303,263	\$-	\$-
Bond investment	36,342,634	2,593,994	33,748,640	-
Derivatives	7,369	-	7,369	-
Others	3,068,582	3,068,582	-	-
Financial assets measured at fair value through other comprehensive income				
Stock investment	3,825,805	1,076,369	56,142	2,693,294
Bond investment	44,891,284	36,573,280	8,318,004	-
<u>Liabilities measured at fair value</u>				
Financial liabilities measured at FVTPL				
Derivatives	13,062	-	13,062	-

2019.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets measured at FVTPL				
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 measured 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 measured at FVTPL				
Derivatives	6,002	-	6,002	-

(3) Transfer between Level I and Level II fair value

From January 1 to December 31, 2020 and 2019, the Company's assets and liabilities measured at repetitive fair value did not experience any transfer between fair value Level I and II.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

(4) Changes in repetitive fair value level III statement

For the Company's liabilities measured at repetitive fair value that are categorized as Level III, adjustments from beginning to ending balance is as follows:

	Financial assets measured at fair value through other comprehensive income - stocks
2020.1.1	<u>\$2,452,977</u>
Total benefits recognized in 2020:	
Recognized in other comprehensive income (reporting in "Unrealized gain(loss) on valuation of equity instrument investments measured at fair value through other comprehensive income")	225,325
Achievements in the current period	<u>14,992</u>
2020.12.31	<u><u>\$2,693,294</u></u>

	Financial assets measured at fair value through other comprehensive income - Stock
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>

Significant unobservable input value information of Level III fair value

For the Company's assets measured at repetitive fair value and categorized in fair value rank 3, the material unobservable input used toward fair value measurement is as follows:

	Valuation technique	Significant unobservable input value	Range	Relationship of inputs to fair value
Financial assets measured 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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

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 in which only fair value is disclosed:	Level I	Level II	Level III	Total
<u>2020.12.31</u>				
Debt instrument investments measured at amortized cost				
Convertible certificate of deposit	\$18,897,382	\$-	\$-	\$18,897,382
<u>2019.12.31</u>				
Debt instrument investments measured at amortized cost				
Convertible certificate of deposit	\$17,698,135	\$-	\$-	\$17,698,135

4. Transfer of financial assets

Transferred financial assets that are not fully derecognized

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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

The table below shows the financial assets not qualified under all conditions and related financial liabilities:

December 31, 2020					
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 measured at FVTPL with R/P agreement	\$5,828,699	\$5,915,465	\$5,828,699	\$5,915,465	\$(86,766)
Financial assets measured at fair value through other comprehensive income with R/P agreement	18,583,715	16,075,469	18,583,715	16,075,469	2,508,246

#### 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, based on the overall risk exposure, the Company implements appropriate overall capital allocation, and establishes management mechanisms for various business risks in order to strengthen business performance. The risks 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 Company' scope of risk management. Policies and methods are stipulated according to different risks, such as, "Credit Policy," "Rules Governing Credit Review and Authorization," "Rules Governing Risks," etc. Besides, according to the needs of the policies and methods, management guidelines were formulated, such as formulating "Regulations Governing Credit Risk," "Regulations Governing Market Risk," and "Regulations Governing Operational Risk" in accordance with the "Rules Governing Risks" which were 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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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, and 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 is not entitled with voting rights. 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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

transaction clearing and settlement, such as, bank-wide fund scheduling and securities trading.

(2) Risk 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, the committee is 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 Service and Business Department, and the personnel designated by the President to strengthen the review and risk control of credit extensions 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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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 President. 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 is not entitled with voting rights. 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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 poor 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 included 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 derivatives, and 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 extension, 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 extension business and control credit risk, the "Regulations Governing Credit Risk" was formulated 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 hierarchical organization structure of credit management, each level shall, in accordance with the "Rules Governing Credit Review and Authorization," strictly execute case review within the authority to ensure the quality of credit assets. The Company also formulated the "Directions for Credit Review and Implementation," and the Credit Review Department is authorized by the Head Office in handling related matter to strengthen post-loan management, in aim to effectively control credit risk.

The credit risk management procedures and measurement methods for each major business of the Company are described below:



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

1) Credit extension (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 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 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 reference for credit approval and as reference in determining credit conditions. 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 is initiated. Before the end of each year, the Company determines the NTD and foreign currency loan limits according to domestic and foreign financial interbank credit ratings. And such matters are submitted to the Credit Review Committee for review and reported to the Board of Directors for approval.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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 stipulation of credit limit restrictions, 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 claim of the Company. The Company has formulated 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, in order to ensure the Company's credit claim. The Company has formulated the creditor's right security clauses, collateral clauses, and offset clauses, which clearly define that in an event of credit, the credit limit may be reduced, repayment period may be reduced or deemed to be fully due, or the debt may be offset by debtor's deposit at the Company to reduce the credit risk.

The Company carries out on-site appraisal of the collateral on a regular basis or at any time. The Company carries out credit check or revaluation of collaterals according to the status of credit granting accounts. The Company also evaluates the degree of guarantee provided by debtor and the legal effectiveness of the guarantor in order to ensure the security 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 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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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 and the Company agrees with the counterparties upon the 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 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	Maximum credit risk exposure amount	
	2020.12.31	2019.12.31
Customer's developed and irrevocable loan commitments	\$26,358,085	\$21,220,207
Customer's outstanding letters of credit amount	18,287	207,684
Guarantee payments	9,057,037	5,619,363
Total	\$35,433,409	\$27,047,254

(5) The financial information related to asset on balance sheet, off-balance sheet collateral held as guarantees, master netting arrangement and other credit enhancements, that have impact on maximum credit risk exposure amount are shown below:

December 31, 2020	Collateral	Master netting arrangement	Total
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Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

<u>Items on the statement</u>			
Discounts and loans	\$135,382,209	\$ -	\$135,382,209
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	9,624,965	-	9,624,965
Customer's outstanding letters of credit amount	3,000	-	3,000
Guarantee payments	4,435,540	-	4,435,540
Total	<u>\$149,445,714</u>	<u>\$ -</u>	<u>\$149,445,714</u>

<u>December 31, 2019</u>	<u>Collateral</u>	<u>Master netting arrangement</u>	<u>Total</u>
<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	<u>\$123,318,738</u>	<u>\$ -</u>	<u>\$123,318,738</u>

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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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	2020.12.31		2019.12.31	
	Amount	%	Amount	%
I. Private enterprises	\$143,012,218	76	\$118,440,765	75
II. Government agencies	-	-	-	-
III. Non-profit groups	155,410	-	161,417	-
IV. Private	44,674,901	24	39,016,244	25
V. Financial institutions	-	-	-	-
Total	\$187,842,529	100	\$157,618,426	100

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	2020.12.31		2019.12.31	
	Amount	%	Amount	%
Unsecured	\$52,460,320	28	\$48,296,819	31
Secured				
- Financial collateral	19,490,849	10	13,342,931	8
- Real estate	102,855,828	55	85,331,445	54
- Guarantee	5,849,882	3	2,932,494	2
- Other collaterals	7,185,650	4	7,714,737	5
Total	\$187,842,529	100	\$157,618,426	100

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

(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, 2020 and 2019.

(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 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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.

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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

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

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 individual 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 Company 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 2020 to assess the expected credit loss. However, the Company reinforces and increases frequency of monitor control, and modifies models to reflect the increases in defaults and recoveries.

(12) Consideration of prospective information

The Company uses archive 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 prospective adjustment based on 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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The relevant economic factor of credit assets identified by the Company in 2020 was the economic growth rate. The relevant economic factors of debt instrument identified by the Company in 2020 were the global economic growth rate and inflation rate.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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, 2020 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
Beginning balance	\$341,497	\$2,232	\$-	\$121,436	\$-	\$465,165	\$1,802,583	\$2,267,748
Changes in financial instruments recognized at the beginning of the period:								
- Converted to expected credit losses of the duration	(1,042)	402	-	-	-	(640)	-	(640)
- Converted to financial assets with credit impairment	-	(34)	-	3,205	-	3,171	-	3,171
- Converted to 12-month expected credit loss	-	(16)	-	-	-	(16)	-	(16)
- Financial assets derecognized in the current period	(279,891)	(478)	-	(192,488)	-	(472,857)	-	(472,857)
Purchased or originated new financial assets	81,864	246	-	63,538	-	145,648	-	145,648
Impairment difference recognized in accordance with the "Regulations	-	-	-	-	-	-	890,589	890,589

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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	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
Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"								
Write-off bad debts	-	-	-	(277,636)	-	(277,636)	-	(277,636)
Recovered amount after write-off bad debts	-	-	-	393,161	-	393,161	-	393,161
Other changes	-	-	-	-	-	-	-	-
Changes in exchange rate	-	-	-	-	-	-	(7,869)	(7,869)
Ending balance	<u>\$142,428</u>	<u>\$2,352</u>	<u>\$-</u>	<u>\$111,216</u>	<u>\$-</u>	<u>\$255,996</u>	<u>\$2,685,303</u>	<u>\$2,941,299</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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, 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
Beginning balance	\$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	-	-	-	-	-	-	20,475	20,475

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

	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
recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"								
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 rate	-	-	-	-	-	-	(4,256)	(4,256)
Ending balance	\$341,497	\$2,232	\$-	\$121,436	\$-	\$465,165	\$1,802,583	\$2,267,748

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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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, 2020 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
Beginning balance	\$156,744,815	\$595,799	\$-	\$277,812	\$-	\$157,618,426
Converted to expected credit losses of the duration	(438,692)	356,533	-	-	-	(82,159)
Converted to financial assets with credit impairment	-	(11,854)	-	11,315	-	(539)
Transferred out from the financial assets with credit impairment	6,245	(7,658)	-	-	-	(1,413)
Discount and loan assessed collectively	-	-	-	-	-	-
Originated or purchased discounts and loans	110,317,437	377,865	-	96,953	-	110,792,255
Write-off bad debts	-	-	-	(277,636)	-	(277,636)
Derecognition	(80,125,708)	(226,317)	-	145,620	-	(80,206,405)
Changes in the revisions that do not cause derecognition	-	-	-	-	-	-
Other Changes	-	-	-	-	-	-
Ending balance	<u>\$186,504,097</u>	<u>\$1,084,368</u>	<u>\$-</u>	<u>\$254,064</u>	<u>\$-</u>	<u>\$187,842,529</u>

Notes to the individual 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, 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
Beginning balance	\$150,797,346	\$3,461,185	\$-	\$338,444	\$-	\$154,596,975
Converted to expected credit losses of the duration	(337,536)	258,937	-	(3,040)	-	(81,639)
Converted to 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)
Discount and loan 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)
Derecognition	(87,572,571)	(3,288,419)	-	(91,390)	-	(90,952,380)
Changes in the revisions that do not cause derecognition	-	-	-	-	-	-
Other Changes	-	-	-	-	-	-
Ending balance	<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 individual 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 measured at fair value through other comprehensive income - allowance for losses	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, 2020	\$32,546	\$104,030	\$-	\$-	\$136,576
Changes arising from the recognition of financial instruments on January 1, 2020					
Converted to expected credit losses of the duration	(7,302)	547,419	-	-	540,117
Converted to financial assets with credit impairment	-	-	-	-	-
Converted to 12-month expected credit loss	-	-	-	-	-
Financial assets derecognized in the current period	(4,341)	(79,581)	-	-	(83,922)
Purchased or originated new financial assets	9,578	-	-	-	9,578
Changes in model/risk parameters	7,594	3,164	-	-	10,758
Other changes and exchange rate changes	(1,068)	(1,298)	-	-	(2,366)
Expected credit losses on December 31, 2020	<u>\$37,007</u>	<u>\$573,734</u>	<u>\$-</u>	<u>\$-</u>	<u>\$610,741</u>

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Financial assets measured at fair value through other comprehensive income - allowance for losses	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 to expected credit losses of the duration	(486)	24,449	-	-	23,963
Converted to financial assets with credit impairment	-	-	-	-	-
Converted to 12-month expected credit loss	-	-	-	-	-
Financial assets derecognized in the current period	(5,698)	-	-	-	(5,698)
Purchased or originated 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>

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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 measured at fair value through other comprehensive income - total book value	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, 2020 (Note)	\$43,244,481	\$1,929,367	\$-	\$-	\$45,173,848
Converted to expected credit losses of the duration	(5,012,696)	4,740,147	-	-	(272,549)
Converted to financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	-	-	-	-	-
Financial assets assessed collectively	-	-	-	-	-
Purchased or originated new financial assets	7,823,112	-	-	-	7,823,112
Financial assets derecognized in period	(9,605,812)	(1,477,358)	-	-	(11,083,170)
Changes in the revisions that do not cause derecognition	-	-	-	-	-
Other changes and exchange rate changes	(1,139,564)	(24,065)	-	-	(1,163,629)
Total book value on December 31, 2020 (Note)	<u>\$35,309,521</u>	<u>\$5,168,091</u>	<u>\$-</u>	<u>\$-</u>	<u>\$40,477,612</u>

Note: The total book value does not include evaluation adjustments.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Financial assets measured at fair value through other comprehensive income - total book value	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 to expected credit losses of the duration	(461,497)	452,009	-	-	(9,488)
Converted to financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	-	-	-	-	-
Financial assets assessed collectively	-	-	-	-	-
Purchased or originated new financial assets	7,900,013	139,884	-	-	8,039,897
Financial assets derecognized in period	(15,727,345)	-	-	-	(15,727,345)
Changes in the revisions that do not cause derecognition	-	-	-	-	-
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 evaluation adjustments.

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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, 2020 and 2019 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 NTD 919,646 thousand and NTD 1,300,468 thousand, the allowance for loss is measured with an expected credit loss rate of 0%~5%, so it is for an amount of NTD 28,316 thousand and NTD 30,018 thousand.

Changes in allowances or loss of notes and accounts receivables of the Company in 2020 and 2019 are as follows:

	<u>Receivables</u>
2020.1.1	\$30,018
Amount appropriated (reversed) for the period	(8,511)
Write-off amount	(1,702)
Recovery of write-off amount	8,511
2020.12.31	<u>\$28,316</u>
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	<u>\$30,018</u>

(14) The Company's financial assets with the maximum credit risk exposures as of December 31, 2020 and 2019 amounted to NTD 229,181,773 thousand and NTD 203,536,045 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>2020.12.31</u>	<u>2019.12.31</u>
Financial assets measured at FVTPL		
- Debt instruments	\$36,342,634	\$29,056,073
- Derivatives	7,369	8,805

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(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 used 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.
- Movable 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 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.

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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	\$148,463	\$39,471	\$108,992
Total financial assets with impairment	<u>\$148,463</u>	<u>\$39,471</u>	<u>\$108,992</u>

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 to liquidate assets or obtain loans to have the funds needed to repay the soon-to-expire financial liabilities, such as depositors terminating deposits before the maturity date, worsening of financing channels and conditions for inter-bank lending due to specific market influences, the worsening of debtor's credit default leading to abnormal recovery of funds, and the difficulty for realization of financial instruments. 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:

- 1) Schedule daily finds, monitor future cash flows to ensure the fulfillment of various needs.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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- 2) Maintain an appropriate amount of high liquidity assets that can be easily realized to buffer unforeseen and unexpected events that may interrupt cash flow.

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 flow of funds one day and one month in the future (such period is used by the Company for the management of liquidity risk). 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 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 consolidated balance sheet.

2020.12.31

	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 the Central Bank and other banks	\$21,117,468	\$-	\$-	\$-	\$21,117,468
Funds borrowed from Central Bank and other banks	-	895,450	12,200	-	907,650
Bills and bonds sold under repurchase agreements	15,960,934	4,030,000	2,000,000	-	21,990,934
Deposits and remittances	18,926,629	26,012,870	84,603,398	97,604,300	227,147,197
Lease liabilities (Note)	6,554	13,094	53,479	239,561	312,688

Derivative financial  
liabilities

Derivative financial  
liabilities measured at  
FVTPL



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	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
Foreign exchange derivatives					
Cash outflow	\$649,739	\$-	\$-	\$-	\$649,739
Cash inflow	636,677	-	-	-	636,677
Net cash flow	<u>\$(13,062)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(13,062)</u>

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 the 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
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 FVTPL					
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>

Note: 1. Further information on the maturity analysis of the lease liabilities is provided in the following table:

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Lease liabilities	Period to expiry				Total
	Less than 1 year	1~5 years	6~10 years	10~15 years	
2020.12.31	\$73,127	\$173,681	\$65,880	\$-	\$312,688
2019.12.31	\$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 Bank.
- 2) The market risk management strategies shall be appropriately adjusted in response to the Company's operating environment and changes in risk. They shall also be in line 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

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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 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 base on the market price at least once a day. All model parameters should be evaluated daily if the model is used for evaluation.
- iv. The Company should develop a procedure for measuring the overall position risk exposure according to the scale and complexity of the portfolio held to avoid excessive concentration of the investment portfolio on a certain risk factor. When performing risk measurement, the individual

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risk of the subject matter of the transaction and the possible risk dispersion effect should be taken into account upon 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 shall 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 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 interest.
- iv. Information needed for the review of financial products valuation should be obtained by the Company externally or through a channel other than the

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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trading unit in order to avoid manipulation of price data due to conflicts of interest.

- v. 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

Financial transactions 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,

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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 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 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.

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- 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 the interest rate risk in banking book management decisions, and adopting the risk offset treatment method or response measures approved by the President 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

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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 President 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

1) Stress test

The stress test is used to assess the Company's risk tolerance ability under a stress scenario so that the Company is able to 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 are authorized to determine whether the Company's risk exposure is suitable for its risk appetite. This serves as one of the important tools for



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identifying, measuring, and controlling capital adequacy and liquidity planning decisions.

\* The Company 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. Among them, sovereign state-based risk is mainly based on its external rating results to give a default rate, and stress tests are only conducted for more serious scenarios. Otherwise, counterparties are given a different probability of default (PD) depending on whether the counterparties belong to 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 changes in each risk factor lead to different benefits and losses in depending on the severity of scenarios. Among all risk factors and domestic and foreign scenarios, there may be loss in certain parts of the position while gains in other parts under the same scenario. The greatest loss resulted from the fluctuation of

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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scenario is deemed as the estimated loss in the stress scenario.

2) Sensitivity Analysis

Test items: For the main trading book positions in different markets, the listed scenario test is carried out if the computed market risk capital of the position accounts for more than 5% of the total market risk capital.

A. Interest rate risk

Shifted downward/upward by 100 base points on December 31, 2020, the Company's net profit or loss would increase/decrease by NTD 2,294,100 thousand.

B. Exchange rate risk

Other things being equal, if the major currency exchange rates on December 31, 2020 were relatively appreciated/depreciated by 3%, the Company's net profit or loss before tax would increase/decrease by NTD 25,942 thousand. The main currencies are the USD, EUR, and JPY.

C. Equity securities price risk

Other things being equal, if the price of equity securities on December 31, 2020 were relatively increased/decreased by 15%, the Company's net profit or loss before tax would increase/decrease by NTD 1,425,653 thousand.

D. Sensitivity analysis is compiled as follows:

2020

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Percentage
Equity market	Major stock markets +15 %	\$1,425,653	\$2,980,350	47.84%
	Major stock markets -15 %	(1,425,653)		-47.84%
Interest rate market	Main interest rate +100bp	(2,294,100)		-76.97%
	Main interest rate -100bp	2,294,100		76.97%
Foreign exchange market	Main currency +3%	25,942		0.87%
	Main currency -3 %	(25,942)		-0.87%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest	(3,693,811)		-123.94%

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Percentage
	rates +100bp, main currencies +3%, product prices -15%			

2019

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Percentage
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%

(7) Exchange rate risk concentration information

The Company's foreign currency financial assets and liabilities with significant impact are as follows:

	2020.12.31			2019.12.31		
	Foreign currency (thousand)	Exchange rate	NTD	Foreign currency (thousand)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$1,697,479	28.51	\$48,391,730	\$1,574,328	30.11	\$47,396,726
HKD	28,660	3.68	105,398	96,000	3.87	371,138
AUD	50,409	21.97	1,107,674	16,974	21.10	358,111
JPY	2,429,822	0.28	671,846	2,481,013	0.28	687,241
EUR	2,618	35.05	91,765	4,136	33.73	139,517
RMB	306,196	4.38	1,341,998	649,292	4.32	2,807,344
<u>Non-monetary items</u>	-	-	-	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$1,454,548	28.51	\$41,466,264	\$1,438,479	30.11	\$43,306,861
HKD	9,920	3.68	36,482	10,835	3.87	41,890

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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	2020.12.31			2019.12.31		
	Foreign currency (thousand)	Exchange rate	NTD	Foreign currency (thousand)	Exchange rate	NTD
AUD	50,408	21.97	1,107,659	53,336	21.10	1,125,285
JPY	816,715	0.28	225,822	1,197,931	0.28	331,827
EUR	2,629	35.05	92,140	4,179	33.73	140,951
RMB	290,529	4.38	1,273,329	297,901	4.32	1,288,033
<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 from January 1 to December 31, 2020 and 2019 were NTD (134,144 thousand) and NTD 181,050 thousand, respectively.

(8) Others

In the year 2020, due to the outbreak of the COVID-19 and the unstable economic environment in the domestic and overseas markets, the credit risk of the Company's domestic credit assets and various financial instruments in foreign countries increased, the Company considered the impact in preparing the financial statements. However, it is assessed that the epidemic has no material impact on the Company's financial condition, ability of going concern, and impairment of assets.

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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

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 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 "the Methods for calculating Bank's regulatory capital and Risk Weighted Assets" (hereinafter referred to as the "calculation methods") that is issued by the competent 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:

A. Category I capital:

(a) 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 share premium, advance capital, additional paid-in capital, legal reserve, special reserve, accumulated profit or loss, non-controlling equity, and other equity items.

(b) Other Category I capital other than common stock equity: Includes perpetual non-cumulative preferred stock and its share premium, non-cumulative subordinated bonds without a maturity date, perpetual non-cumulative preferred stock and its share premium issued by the subsidiaries that are not directly or indirectly held by Bank, and non-cumulative subordinated bonds without a maturity date.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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B. Category II capital: Includes perpetual cumulative preferred stock and its share premium, cumulative subordinate bonds without a maturity date, convertible subordinate bonds, long-term subordinate bonds, non-perpetual preferred stock and its share premium, real estate's first-time adoption of IAS, 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 share premium issued by the subsidiaries that are not directly or indirectly held by the Bank, and cumulative subordinated bonds without maturity date, convertible subordinate bonds, long-term subordinate bonds, and non-perpetual preferred stock and its share premium.

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 exceeding 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 divide the legal capital available by the total amount of the risk assets to calculate the capital adequacy ratio. The basic objective is to ensure that the Company's capital adequacy ratio is higher than the mandatory legal ratio.

(3) Capital Adequacy

The Company's qualified regulatory capital ratio and risk assets ratio on December 31, 2020 and 2019 were 16.15% and 15.06%, respectively. These were in line with the capital management regulations of the competent authorities.

XVI. Supplementary Disclosure

1. Information on significant transactions

- (1) Cumulative purchased or sales of the same securities totaling NTD 300 million or more than 20% of the paid-in capital: Table 1.
- (2) Acquisition of real estate totaling NTD 300 million or more than 10% of the paid-in

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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capital: Table 2.

- (3) Disposal of real estate totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (4) Discount of service charges in transaction with related party totaling more than NTD 5 million: None.
  - (5) Receivables from related party totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (6) Information regarding sale of non-performing loan: 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 significant transactions and amounts between parent company and subsidiaries and among subsidiaries: None.
  - (9) Other important transactions sufficient to affect the decision-making of financial statements users: None.
2. Information on reinvestment and total shareholding
- (1) Information on reinvestment: Please refer to Table 3.
  - (2) Loaning to others: Please refer to Table 4.
  - (3) Endorsements/guarantees to others: None.
  - (4) Marketable securities held at the end of the period: Please refer to Table 5.
  - (5) Cumulative amount of the stock of the same investee purchased or sold totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (6) Information on trading in derivative instruments: None.
  - (7) Acquisition of real estate totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (8) Disposal of real estate totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (9) Discount of service charges in transaction with related party totaling more than NTD 5 million: None.
  - (10) Receivables from related party totaling NTD 300 million or more than 10% of the paid-in capital: None.
  - (11) Information regarding sale of non-performing loan: 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 decision-making of financial statements users: None.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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3. Setting up branches and investments in Mainland China  
No such event.
4. Information on major shareholders: Please refer to Table 6.
5. Disclosure of other supplementary information
  - (1) Loans and receivables and allowance for bad debt assessment form: Please refer to XIV.3(13) for details.
  - (2) Quality of assets: Please refer to Table 7.
  - (3) Non-performing loans or overdue accounts receivable exempted from report: Please refer to Table 8.
  - (4) Concentration of credit risk: Please refer to Table 9 and Table 9-1.
  - (5) Interest rate sensitive assets and liabilities analysis table: Please refer to Table 10 and 10-1.
  - (6) Profitability: Please refer to Table 11.
  - (7) Maturity date structure analysis table: Please refer to Table 12 and Table 12-1.
  - (8) Capital Adequacy: Please refer to Table 13.

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)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 1

Cumulative Purchased or Sales of the Same Securities Totaling NTD 300 Million or More Than 20% of the Paid-in Capital:

Name of Company	Types and names of securities	Accounting titles	Counterparties	Relation	Beginning period		Purchase		Sale				Ending period	
					No. of shares (shares)	Amount	No. of shares (shares)	Amount	No. of shares (shares)	Selling Price	Amount	Gain (loss) from disposal	No. of shares (shares)	Amount
The Company	WanTai Securities Corporation	Investment under the equity method	Non-related party	Investee accounted for using equity method	-	\$-	19,901,336	\$320,611	-	\$-	\$-	\$-	19,901,336	\$320,611

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Table 2

Acquisition of Real Estate Totaling NTD 300 Million or More Than 20% of the Paid-in Capital:

Companies acquiring real properties	Asset title	Date of event	Transaction amount	Payment status	Counterparties	Relation	If the counterparty is a related party, the information on previous transaction				Reference for price determination	Purpose of acquisition and the state of use	Other stipulations of the transaction
							Owner	Relationship with the issuer	Date of transfer	Amount			
King's Town Bank Co., Ltd.	Xin Dong Sec., Beitun Dist., Taichung City	2020.4.6 ~2020.8.24	320,795	320,795	A and 7 other counterparties	None	-	-	-	-	Appraisal report	Construction of branch building	None
King's Town Bank Co., Ltd.	Sanmin Section, Taoyuan Dist., Taoyuan City	2020.12.7	390,745	265,945	B and 7 other counterparties	None	-	-	-	-	Appraisal report	Construction of branch building	None

Note 1. If the appraisals are required for acquired assets, the appraisal results shall be stated in the "Reference for price determination."

Note 2. Paid-in capital refer to the Paid-in Capital of the parent company. If the issuer has issued shares without face value or at face values other than NTD10 per share, the specified 20% requirement on paid-up capital shall be calculated instead at 10% of equity attributable to parent company shareholders as in the balance sheet.

Note 3. Date of event refers to the transaction contract signing date, payment date, commission Closing Date, transfer date and the Board resolution date or the date the counterparty and transaction amount sufficiently determined whichever is earlier or sooner.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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Table 3

2020.01.01~2020.12.31

Information on Reinvestment:

Name of investee (Note 1)	Location	Primary 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) / (Note 2)	Total Quantity		
								No. of shares	Percentage of shareholding	
Kings Town Bank International Lease Corporation	Taiwan	Leases	100.00%	838,767	134,760	71,695	-	71,695	100.00%	
Kings Town Intl. Construction Management Corporation	Taiwan	Construction Management	100.00%	18,937	7,413	1,000	-	1,000	100.00%	
WanTai Securities Corporation	Taiwan	Securities brokerage	99.51%	329,223	946	19,901	-	19,901	99.51%	

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 yet to be 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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 4

Loaning to Others:

Unit: NTD thousand

No. (Note 1)	The lender of fund name	The borrower of fund Company	Transaction title	Related party	Maximum balance for the period	Ending balance	Actual drawn down amount	Interest rate range	Nature of loan (Note 4)	Transaction amount (Note 5)	Reasons for the necessity of short-term financing (Note 6)	Loss allowance	Collateral		Loan limit for individual borrower (Note 2)	Total loan limit amount (Note 3)
													Name	Value		
1	Kings Town Bank International Lease Corporation	Company A	Accounts receivable	No	430,000	430,000	430,000	5%~18%	1	500		4,413	Real estate	401,816	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company B	Accounts receivable	No	350,000	350,000	350,000	5%~18%	1	500		3,606	Real estate	304,612	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company C	Accounts receivable	No	500,000	350,000	90,000	5%~18%	1	500		1,053	Real estate	143,185	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company D	Accounts receivable	No	295,000	295,000	260,590	5%~18%	1	500		2,666	Real estate	285,140	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company E	Accounts receivable	No	170,300	170,300	170,300	5%~18%	1	2,000		1,763	Real estate	218,867	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company F	Accounts receivable	No	170,000	170,000	7,500	5%~18%	1	30,000		83	Real estate	53,764	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Company G	Accounts receivable	No	160,000	160,000	160,000	5%~18%	1	10,000		1,703	-	-	350,217	4,202,602
1	Kings Town Bank International Lease Corporation	Other customers	Accounts receivable	No	2,051,049	1,135,361	1,071,361	5%~18%	1	726,830		11,646	No/ Movable property/Real estate	2,008,861	1,050,651	4,202,602
1	Kings Town Bank International Lease Corporation	Other customers	Accounts receivable	No	345,110	260,555	210,055	5%~18%	2	-	Operation needs	2,392	No/Real estate	335,300	175,108	280,173

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
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- 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) Issuer is numbered 0.
  - (2) Investee is numbered starting 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. For the nature of type 1, the amount of business dealings should be provided. The amount of business dealings refers to the amount business transaction amount between the lender and the borrower in the most recent year.
- Note 6. For the nature of type 2, the reasons for the need, purpose and use of the loan shall be provided. Such reasons may include repayment of loans, purchase of equipment, operation needs, etc.
- Note 7. The investee, King's Town International Leasing Co., Ltd., has granted loans to 68 customers; however, a detailed list is not prepared since no individual loan amount exceeds 5% of the total loan.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 5

Marketable Securities Held at the End of the Period (Excluding Investment in Subsidiaries, Associates, and Joint Venture): Unit: NTD thousand

Investing company	Types and names of securities (Note 1)	Relationship with the securities issuer	Accounting titles	Ending balance				Remarks
				Shares (thousand shares)	Book value	Percentage of shareholding	Fair value	
Kings Town Bank International Lease Corporation	Bank of Panhsin	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income	11,258	79,253	0.75%	79,253	
Kings Town Bank International Lease Corporation	Hoyii Life Co., Ltd.	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income	526	6,268	2.49%	6,268	
Kings Town Bank International Lease Corporation	Forest Water Environmental Engineering Co., Ltd.	Financial assets measured at FVTPL	Financial assets measured at FVTPL	3,512	144,000	2.61%	144,000	
Kings Town Bank International Lease Corporation	Radium Life Tech Co., Ltd.	Financial assets measured at FVTPL	Financial assets measured at FVTPL	1,530	18,436	0.17%	18,436	
Kings Town Bank International Lease Corporation	Mirle Automation Corporation	Financial assets measured at FVTPL	Financial assets measured at FVTPL	1,023	45,012	0.52%	45,012	
Kings Town Bank International Lease Corporation	WPG Holdings	Financial assets measured at FVTPL	Financial assets measured at FVTPL	430	18,447	0.02%	18,447	
Kings Town Bank International Lease Corporation	YAGEO Corporation	Financial assets measured at FVTPL	Financial assets measured at FVTPL	40	20,720	0.01%	20,720	
Kings Town Bank International Lease Corporation	Taiwan Semiconductor Manufacturing Co., Ltd.	Financial assets measured at FVTPL	Financial assets measured at FVTPL	120	63,600	-	63,600	
WanTai Securities Corporation	Taiwan Futures Exchange	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income	175	16,712	0.05%	16,712	

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)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 6

Information on Major Shareholders

Shareholding	No. of shares held (shares)	Percentage of shareholding
Name of major shareholder		
Chen-Chih, Tai	78,209,000	6.97%
Tien-Tsan, Tsai	72,752,033	6.48%
Mercuries Life Insurance	71,351,000	6.36%

Remarks:

- (1) The major shareholders in this table are shareholders holding more than 5% of the common and preference shares that have completed delivery of non-physical registration (including treasury shares) on the last business day of each quarter calculated by the Taiwan Depository & Clearing Corporation. However, the share capital recorded in the Company's financial report and the number of shares actually delivered by the company without physical registration may differ due to calculation basis.
- (2) The above are shares entrusted by the shareholders, the information thereto shall be based on the shares disclosed by the individual trust account of opened by the trustees. For information on shareholders, who declare to be insiders holding more than 10% of shares in accordance with the Securities and Exchange Act, and their shareholdings include their shareholdings plus their delivery of trust and shares with the right to make decisions on trust property, please refer to MOPS.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 7

Quality of Assets

Non-performing Loans and Overdue Accounts Receivable

Unit: NTD thousand, %

Year / month		December 31, 2020					December 31, 2019					
Business category\Items		Non-performing loan (NPL) amount (Note 1)	Total amount of loans	NPL ratio (note 2)	Allowance for bad debt	Coverage ratio of allowance for bad debt (Note 3)	Non-performing loan (NPL) amount (Note 1)	Total amount of loans	NPL ratio (Note 2)	Allowance for bad debt	Coverage ratio of allowance for bad debt (Note 3)	
Corporate banking	Secured	\$15,466	\$116,158,497	0.01%	\$1,843,815	11921.73%	\$ 14,290	89,267,889	0.02%	1,301,331	9106.59%	
	Unsecured	-	52,030,811	-	770,578	-	-	48,127,976	-	657,645	-	
Consumer banking	Residential mortgage loans (Note 4)	5,646	15,848,747	0.04%	271,702	4812.29%	7,517	16,092,535	0.05%	252,526	3359.40%	
	Cash card	-	-	-	-	-	-	-	-	-	-	
	Small credit loans (Note 5)	307	133,851	0.23%	4,089	1331.92%	1,059	126,260	0.84%	4,432	418.51%	
	Others (Note 6)	Secured	3,591	3,535,909	0.10%	49,325	1373.67%	-	3,862,417	-	49,526	-
		Unsecured	-	134,714	-	1,790	-	-	141,349	-	2,288	-
Total amount		\$25,010	\$187,842,529	0.01%	\$2,941,299	11760.49%	\$22,866	157,618,426	0.01%	2,267,748	9917.55%	
		NPL amount	Balance of accounts receivable	Proportion of overdue accounts ratio	Allowance for bad debt	Coverage ratio of allowance for bad debt	NPL amount	Balance of accounts receivable	Proportion of overdue accounts ratio	Allowance for bad debt	Coverage ratio of allowance for bad debt	
Credit card		\$486	\$486	100.00%	\$376	77.37%	\$376	\$376	100.00%	\$376	100.00%	
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



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Jin-Guan-Yin-(IV)-Zi Letter No. 0944000378 dated July 6, 2005.

Note 2. Non-performing loan ratio = Non-performing loan/total loan amount. Non-performing credit card ratio = Non-performing amount/balance of accounts receivable.

Note 3. Allowance for bad debt ratio = Allowance for bad debt appropriated for loans/NPL amount. Allowance for bad debt ratio of credit card = Allowance for bad debt appropriated for credit card receivables/NPL 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 furnish houses.

Note 5. Small credit loans refer to small credit loans other than credit cards and cash cards. Also, it is subject to the Jin-Guan-Yin-(IV)-Zi Letter No. 09440010950 dated December 19, 2005.

Note 6. The "Others" in consumer banking 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. Non-recourse receivables factoring business 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 Jin-Guan-Yin-(IV)-Zi Letter No. 094000494 dated July 19, 2005.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 8

Non-performing Loans or Overdue Accounts Receivable Exempted from Report, Unit: NTD thousand

	December 31, 2020		December 31, 2019	
	Total NPL exempted from report	Total non-performing accounts receivable exempted from report	Total NPL exempted from report	Total non-performing accounts receivable exempted from report
Exempted amount after a debt negotiation and contractual performance (Note 1)	\$2,861	\$60	\$3,847	\$76
Performance of debt clearance program and rehabilitation program (Note 2)	8,289	36	12,311	70
<b>Total</b>	<b>\$11,150</b>	<b>\$96</b>	<b>\$16,158</b>	<b>\$146</b>

- Note 1. For the Jin-Guan-Yin-(I)-Zi Letter No. 09510001270 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. In accordance to the Jin-Guan-Yin-(I)-Zi Letter No. 09700318940 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)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 9

Concentration of Credit Risk

Unit: NTD thousand, %

Year	December 31, 2020		
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	7,328,686	15.73%
2	Company (Group) B - General product wholesale business	5,561,428	11.94%
3	Company (Group) C - Glass container manufacturing business	5,348,000	11.48%
4	Company (Group) D - Real Estate Development business	4,114,180	8.83%
5	Company (Group) E - Real estate leasing and sales business	3,726,012	8.00%
6	Company (Group) F - Power supply business	3,288,948	7.06%
7	Company (Group) G - Unclassified other financial service business	2,881,884	6.19%
8	Company (Group) H - Power supply business	2,480,518	5.33%
9	Company (Group) I - Unclassified other financial service business	2,456,650	5.27%
10	Company J - Construction services and consulting business	2,378,223	5.11%

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 group refers to 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)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 9-1

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 leasing and sales business	2,710,530	6.93%
8	Company (Group) H - Construction services and consulting business	2,541,028	6.50%
9	Company I - Electric Wires and Cables Manufacturing	2,198,529	5.62%
10	Company 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 group refers to 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. Regarding total balance of loan as a percentage of the current net value, "net value" shall refer to that of the headquarter for domestic banks, and that of the Taiwan branch for foreign banks.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 10

Interest Rate Sensitive Assets and Liabilities Analysis Table (NTD)

January 1, 2020 - December 31, 2020

Unit: NTD thousand, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 years	Total
Interest rate sensitivity assets	\$201,772,175	\$281,529	\$2,948,182	\$42,398,641	\$247,400,527
Interest rate sensitivity liabilities	184,388,695	15,970,540	22,534,770	1,850,382	224,744,387
Interest rate sensitivity gap	17,383,480	(15,689,011)	(19,586,588)	40,548,259	22,656,140
Net value					39,959,689
Interest rate sensitivity assets and liabilities rate					110.08
Interest rate sensitivity gap and net value rate					56.70

January 1, 2019 - December 31, 2019

Unit: NTD thousand, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 years	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

Note 1. This table is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches.

Note 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.

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

Note 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)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 10-1

Interest Rate Sensitive Assets and Liabilities Analysis Table (USD)

January 1, 2020 - December 31, 2020

Unit: USD thousand, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 years	Total
Interest rate sensitivity assets	\$311,974	\$10,154	\$-	\$1,351,536	\$1,673,664
Interest rate sensitivity liabilities	1,299,242	95,538	55,830	-	1,450,610
Interest rate sensitivity gap	(987,268)	(85,384)	(55,830)	1,351,536	223,054
Net value					232,272
Interest rate sensitivity assets and liabilities rate					115.38
Interest rate sensitivity gap and net value rate					96.03

January 1, 2019 - December 31, 2019

Unit: USD thousand, %

Items	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 years	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

Note 1. This table 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.

Note 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.

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

Note 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 USD)

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 11

Profitability

Unit: %

Items		2020.12.31	2019. 12.31
Return on Assets (ROA)	Before tax	2.08	1.38
	After tax	1.83	1.22
Return on Equity (ROE)	Before tax	14.24	10.10
	After tax	12.55	8.93
Net profit rate		63.05	41.06

Note 1.  $ROA = \text{Income before (after) tax} / \text{Average total assets}$

Note 2.  $ROE = \text{Income before (after) tax} / \text{Average net value}$

Note 3.  $\text{Profit rate} = \text{Income after tax} / \text{income-net}$

Note 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)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 12

Maturity Date Structure Analysis Table (NTD)

2020.12.31

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	\$271,668,534	\$78,483,469	\$12,704,457	\$22,535,530	\$47,400,525	\$110,544,553
Outward remittance of due fund	\$295,381,414	36,218,246	32,329,569	41,352,446	47,315,088	138,166,065
Period difference	(23,712,880)	42,265,223	(19,625,112)	(18,816,916)	85,437	(27,621,512)

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)



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 12-1

Maturity Date Structure Analysis Table (USD)

2020.12.31

Unit: USD 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	\$1,723,931	\$165,331	\$7,215	\$16,684	\$32,500	\$1,502,201
Outward remittance of due fund	\$1,704,434	801,093	349,349	128,208	121,001	304,783
Period difference	19,497	(635,762)	(342,134)	(111,524)	(88,501)	1,197,418

2019.12.31

Unit: USD 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

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Table 13

Capital Adequacy (Explanation 1)

Unit: NTD thousand

Items		Year (Explanation 2)	December 31, 2020	December 31, 2019
Total self-owned capital	Common stock equity		\$41,214,286	\$35,406,623
	Other Category I Capital		-	-
	Category II Capital		4,448,388	849,105
	Total self-owned capital		45,662,674	36,255,728
Total risk-weighted assets	Credit risk	Standardized approach	230,396,305	199,737,743
		Internal ratings-based approach	-	-
		Asset securitization	-	-
	Operational risk	Basic indicator approach	15,006,874	14,230,138
		Standard Method/Selective Standard Method	-	-
		Advanced Measurement Method	-	-
	Market risks	Standardized approach	37,254,379	26,804,987
		Internal models approach	-	-
	Total risk-weighted assets		282,657,558	240,772,868
	Capital adequacy ratio		16.15%	15.06%
Proportion of common stock equity to risk assets		14.58%	14.71%	
Proportion of category I capital to risk assets		14.58%	14.71%	
Leverage ratio		12.28%	11.85%	

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.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

Descriptions of Material Accounting Items

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<b>Statements of Assets, Liabilities and Equity Items</b>	
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Financial assets at fair value through profit and loss	Statement 1
Financial assets at fair value through other comprehensive income	Statement 3
Statement of Investment of debt instruments at amortized cost	Statement 5
Bonds and securities purchased under agreements to resell	Note VI.6
Receivables	Note VI.7
Discounts and loans	Statement 2
Investment under the equity method	Statement 4
Other financial assets	Note VI.10
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Funds borrowed from Central Bank and other banks	Note VI.14
Financial liabilities measured at fair value through profit and loss	Note VI.15
Bills and bonds sold under repurchase agreements	Note VI.16
Payables	Note VI.17
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<b>Profit and Loss Statements</b>	
Interest revenue	Statement 10
Interest expenses	Statement 11
Net service fee income	Statement 12
Statement of changes in measure at fair value through profit and loss	Statement 13
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Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

1. Statement of financial assets at fair value through profit and loss

December 31, 2020

Unit: NTD thousand / thousand shares / thousand units

Name of financial instrument	Summary	Number of shares or units	Book value	Total amount	Interest rate	Acquisition cost	Evaluation adjustment	Fair value		Remarks
								Unit price (NTD)	Total amount	
Domestic financial instruments										
Stock	-	89,316 thousand shares	NTD 10	\$893,160	-	\$4,688,093	\$536,678	14~530	\$5,224,771	
Real estate trust fund	-	24,238 thousand units	-	-	-	387,171	66,322	18.71	453,493	
Beneficiary certificates	-	204,073 thousand units	-	-	-	2,600,000	15,089	10.43~16.27	2,615,089	
Bonds	Sep. 7, 2026 - May. 26, 2047	-	-	31,450,000	0.63-1.88	31,171,030	1,477,617	102.11-123.32	32,648,647	
Financial bonds	Aug. 7, 2030	-	-	1,100,000	0.71	1,100,000	(7)	99.99	1,099,993	
Foreign exchange contracts	-	-	-	-	-	-	7,369	-	7,369	
Subtotal						39,946,294	2,103,068		42,049,362	
Overseas financial instruments										
Stock	-	251 thousand shares	-	-	-	99,664	(21,172)	USD 3.89 - 71.92	78,492	
Bonds	Aug. 15, 2030 - Mar. 22, 2100	-	-	2,651,244	0.625-4.875	2,632,037	(38,043)	USD 97.39 - 111.34	2,593,994	
Subtotal						2,731,701	(59,215)		2,672,486	
Total						\$42,677,995	\$2,043,853		\$44,721,848	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.  
2. Statement of discounts and loans  
December 31, 2020

Unit: NTD thousand

Items	Amount	Remarks
Short-term loans	\$12,944,259	
Short-term secured loans	54,683,897	
Mid-term loans	32,955,747	
Mid-term secured loans	47,596,760	
Long-term loans	7,025,751	
Long-term secured loans	32,522,643	
Others	113,472	
Total	187,842,529	
Less: allowance for bad debt	(2,941,299)	
Net	<u>\$184,901,230</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

3. Statement of financial assets at fair value through other comprehensive income  
December 31, 2020

Unit: NTD thousand / thousand shares / thousand units

Name of financial instrument	Summary	Number of shares or units	Face value	Total amount	Interest rate	Acquisition cost	Accumulated impairment	Evaluation adjustment	Fair value		Remarks
									Unit price (NTD)	Total amount	
Equity instruments measured at FVOCI											
Stocks - listed	-	36,365 thousand shares	NTD 10	\$363,650	-	\$968,533	\$ -	\$148,173	13.55~87.3	\$1,116,706	
Stocks - overseas stocks	-	90 thousand shares	-	-	-	15,286	-	519	USD 6.16	15,805	
Stocks - non-listed	-	34,443 thousand shares	-	-	-	1,531,556	-	1,161,738	4.9~101.37	2,693,294	
Subtotal						2,515,375	-	1,310,430		3,825,805	
Debt instruments measured at FVOCI											
Bonds	Oct. 25, 2021 - Jun. 11, 2030	-	-	8,050,000	0.38-2.50%	8,127,640	-	190,364	100.45-106.07	8,318,004	
Corporate bond	Apr. 5, 2022 - Jun. 15, 2166	-	-	30,568,587	3.75-8.38%	31,425,497	-	4,061,767	USD 78.36-152.755	35,487,264	
Financial bonds	Nov. 21, 2023 - Nov. 22, 2025	-	-	940,764	5.94-6.8%	924,475	-	161,541	USD 111.38-120.31	1,086,016	
Subtotal						40,477,612	-	4,413,672		44,891,284	
Total						\$42,992,987	\$ -	\$5,724,102		\$48,717,089	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

4. Statement of investment under the equity method

December 31, 2020

Unit: NTD thousand / thousand shares

Investee company	Balance on January 1, 2020		Increase in current period		Decrease in the period		Balance on December 31, 2020			Net market price or equity		Collateral or pledge	Remarks
	No. of shares (thousand shares)	Amount	No. of shares (thousand shares)	Amount	No. of shares (thousand shares)	Amount	No. of shares (thousand shares)	Percentage of shareholding	Amount	Unit price (NTD)	Total		
Kings Town Bank International Lease Corporation	65,323	\$699,890	6,373 (Note 5)	\$134,760 (Note 1) \$4,117 (Note 2)	-	\$-	71,696	100%	\$838,767	-	\$838,767	None	
WanTai Securities Corporation	-	-	19,901	320,611 (Note 3) 946 (Note 1) 7,661 (Note 4) 5 (Note 2)	-	-	19,901	99.51%	329,223	-	329,223	None	
Total		<u>\$699,890</u>		<u>\$468,100</u>		<u>\$-</u>			<u>\$1,167,990</u>		<u>\$1,167,990</u>		

Note 1. Share of profit or loss of subsidiaries, associates and joint ventures accounted for using equity method.

Note 2. The unrealized profit of financial assets held by subsidiaries at fair value through other comprehensive income.

Note 3. Amount paid for the acquisition of the subsidiary.

Note 4. Gain on bargain purchase of the acquisition of the subsidiary.

Note 5. Share dividends distributed

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

5. Statement of Investment of debt instruments at amortized cost

December 31, 2020

Unit: NTD thousand

Name of financial instrument	Summary	Units	Book value	Total amount	Interest rate	Acquisition cost	Accumulated impairment	Book value	Remarks
Central Bank convertible certificates of deposit	-	-	-	\$18,900,000	0.34%	\$18,900,000	\$(2,618)	\$18,897,382	
Total				<u>\$18,900,000</u>		<u>\$18,900,000</u>		<u>\$18,897,382</u>	



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

6. Statement of changes in right-of-use assets

January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Beginning balance	Increase in current period	Decrease in the period	Ending balance	Remarks
Buildings and structures	\$285,198	\$88,048	\$(30,407)	\$342,839	
Other equipment	6,102	-	-	6,102	
Total	<u>\$291,300</u>	<u>\$88,048</u>	<u>\$(30,407)</u>	<u>\$348,941</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

7. Statement of changes in accumulated depreciation of right-of-use assets

January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Beginning balance	Increase in the period	Decrease in the period	Ending balance	Remarks
Buildings and structures	\$73,953	\$74,907	\$(20,751)	\$128,109	
Other equipment	1,664	1,664	-	3,328	
Total	<u>\$75,617</u>	<u>\$76,571</u>	<u>\$(20,751)</u>	<u>\$131,437</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

8. Statement of deposits and remittances

December 31, 2020

Unit: NTD thousand

Items	Amount	Remarks
Check deposits	\$1,410,664	
Cashier's check	857,510	
Demand deposits	39,261,363	
Foreign currency demand deposits	6,731,578	
Time deposits	20,828,307	
Convertible certificate of deposit	1,080,600	
Foreign currency time deposits	19,061,830	
Demand savings deposits	81,395,989	
Staff demand savings deposits	525,567	
Regular savings deposits	5	
Round-amount savings deposits	3,023,892	
Withdrawals of interest savings deposits	52,967,082	
Outward remittances	2,810	
Total	<u>\$227,147,197</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

9. Statement of changes in lease liabilities

December 31, 2020

Unit: NTD thousand

Items	Summary	Lease term	Discount rate	Ending balance	Remarks
Buildings and structures	Branch buildings	2 to 10 years	1.57%	\$217,081	
Other equipment	Offsite backup equipment	5 years	1.57%	2,817	
Total				<u>\$219,898</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.  
10. Statement of interest revenue  
January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Amount	Remarks
Security investment interest income	\$2,166,777	
Central Bank deposit interest	13,776	
Due from Central Bank and other banks interest	3,392	
Call loans to other banks interest	16,131	
Short-term loan interest	355,228	
Short-term secured loan interest	1,001,058	
Mid-term loan interest	904,926	
Mid-term secured loan interest	990,295	
Long-term loan interest	156,681	
Long-term secured loan interest	588,387	
Miscellaneous interest	37,051	
Total	<u>\$6,233,702</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

11. Statement of interest expenses

January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Amount	Remarks
Interest of funds borrowed from Central Bank and other banks	\$17,714	
RP Bills and bonds interest	224,250	
Interbank call loans interest	94,455	
Time deposit interest	83,040	
Foreign currency time deposit interest	171,741	
Demand savings deposit interest	63,158	
Round-amount savings deposits interest	28,259	
Withdrawals of interest savings deposits interest	511,838	
Miscellaneous interest	22,832	
Total	<u>\$1,217,287</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

12. Statement of net service fee income

January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Amount	Remarks
Service fee revenue		
Remittance fee	\$69,214	
Guarantee fee	94,975	
Trust business fee	80,203	
Syndicate loan fee	50,603	
Financing fee	1,124,479	
Agency insurance fee	178,773	
Credit term change fee	33,282	
Organization fee	125,405	
Miscellaneous fee	146,580	
Subtotal	<u>1,903,514</u>	
Service fee expenses		
Interbank fee	11,837	
Trust fee	1,312	
Credit card fee	1,210	
Remittance fee	2,047	
Credit inquiry fee	1,290	
Miscellaneous fee	28,124	
Subtotal	<u>45,820</u>	
Net service fee income	<u><u>\$1,857,694</u></u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

13. Statement of gain (loss) on financial liabilities measured at fair value through profit and loss  
 January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Amount	Remarks
Realized		
Stock investment	\$300,410	
Bond investment	296,286	
Derivatives	87,878	
Others	8,238	
Unrealized		
Stock investment	722,078	
Bond investment	568,991	
Derivatives	(8,496)	
Others	33,830	
Total	<u>\$2,009,215</u>	



Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

14. Statement of loss or gain on reversal of assets impairment

January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Impairment losses	Reversed gains	Remarks
Debt instrument investment measured at fair value through other comprehensive income	\$(578,990)	\$66,853	
Debt instrument measured at amortized cost	(767)	14	
Total	<u>\$(579,757)</u>	<u>\$66,867</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

15. Statement of other non-interest net income - other

January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Amount	Remarks
Other non-interest net income		
Lease revenue	\$14,372	
Gain on disposal of assets	88	
Others	17,954	
Subtotal	<u>32,414</u>	
Other non-interest net losses		
Loss on disposal of assets	137	
Others	1,762	
Subtotal	<u>1,899</u>	
Net	<u><u>\$30,515</u></u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
 (Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

16. Statement of business and administrative expenses

January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Amount	Remarks
Lease expense	\$4,102	
Repairs and maintenance expense	25,418	
Utilities expense	20,323	
Insurance expense	67,314	
Tax expense	298,545	
Entertainment expense	22,204	
Membership expense	22,571	
Consumables expense	27,792	
Professional service expense	91,246	
Other expenses	122,833	
Total	<u>\$702,348</u>	

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

King's Town Bank Co., Ltd.

17. Statement of employee benefits expenses

January 1, 2020 to December 31, 2020

Unit: NTD thousand

Items	Amount				Remarks
	Employee benefits expenses	Non-interest net income	Other business and administrative expenses	Total	
Salaries and wages	\$853,600	\$-	\$-	\$853,600	
Labor insurance and national health insurance	66,082	-	-	66,082	
Pension expenses	34,790	-	-	34,790	
Remuneration to Directors	16,763	-	90	16,853	
Other employee benefits expenses	36,848	-	-	36,848	
<b>Total</b>	<b>\$1,008,083</b>	<b>\$-</b>	<b>\$90</b>	<b>\$1,008,173</b>	

Notes:

1. The Company has 960 and 975 employees this year and in the previous year. Among them, 7 Directors are not concurrently employees.
2. The average employee benefits expenses in the current year is NTD 1,040 thousand = [(Total employee benefits expenses in the current year - Total directors' remuneration) / (Number of employees in the current year - Number of non-employ directors) ].
3. The average employee benefits expense for the previous year was NTD 1,008 thousand = [ (Total employee benefit expenses for the previous year - Total Directors' remuneration) / (Number of employees for the previous year - Number of Directors who are not part-time employees) ].
4. The average employee salary expenses in the current year is NTD 896 thousand = [Total salary expenses in the current year / (Number of employees in the current year - Number of non-employee directors) ].
5. The average employee salary expenses in the previous year was NTD 868 thousand = [Total employee salary expenses in the previous year / (Number of employees in the previous year - Number of non-employee directors) ].
6. The rate of adjustment in average salary expenses was 3.23% = [ (Average salary expense for the current year - Average salary expense for the previous year) / Average salary expense for the previous year].
7. Remunerations to Supervisors in the current year and the previous year are NTD 0 thousand, and NTD 0 thousand, respectively. The Company has established the Audit Committee in place of Supervisors, thus, the remuneration to Supervisors is NTD 0.

Notes to the individual financial statements of King's Town Bank Co., Ltd. (continued)  
(Unless otherwise provided, Unit: NTD Thousand)

8. Remuneration policy

(1) Directors

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." The Company determines the remuneration to Directors based on the evaluations on remuneration level of the peer companies, individual performances, Company's operating performance and Board performance.

(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 and a business practice fee same as the payment standards for 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 Directors is resolved.

(3) President, Vice President, Chief Auditor, Managers and Employees

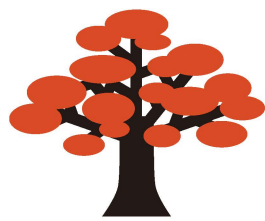
The performance evaluation and remuneration system of the Bank's President, Vice President, Chief Auditor, managers and employees are handled in accordance with the "Employee Annual Evaluation Measures," "Employee Benefit Payment Methods" and "Annual Bonus Payment Methods" approved by the Board of Directors. 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. The Company handles the salary to employees in accordance with "Employee Benefit Payment Methods," and the abide by Paragraph 1, Article 5 of the Employment Service Act: "... employer is prohibited from discriminating against any job applicant or employee on the basis of race, class, language ..."

**King's Town Bank Co., Ltd.**



Chairman Chen-Chih Tai





京城銀行

King's Town Bank

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