

Stock code: 5876  
Taiwan Stock Exchange

**The Shanghai Commercial & Savings  
Bank, Ltd.**

**Standalone Financial Statements  
for the Six Months Ended June 30, 2020 and 2019  
and Independent Auditors' Report**

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## Table of Contents

Contents	Page	Notes
1. Table of Contents	1	-
2. Independent Auditors' Report	2~5	-
3. Balance Sheets	6	-
4. Statements of Comprehensive Income	7~8	-
5. Statements of Changes In Stockholders' Equity	9	-
6. Statements of Cash Flows	10~11	-
7. Notes to Financial Statements		
(1) Organization and Operations	12	1
(2) Authorization of Financial Statements	12	2
(3) Application of Newly Issued or Revised Standards and Interpretations	12~13	3
(4) Summary of Significant Accounting Policies	13~14	4
(5) Critical Accounting Judgments and Key Sources of Estimation Uncertainty	14	5
(6) Summary of Major Accounts	15~40	6~34
(7) Related-Party Transactions	40~44	35
(8) Pledged Assets	44~45	36
(9) Significant Contingent Liabilities and Unrecognized Commitments	45	37
(10) Significant Catastrophic Losses	-	-
(11) Significant Subsequent Events	-	-
(12) Others	45~76	38~44
(13) Disclosure Required		
(a) Related Information on Significant Transactions	76~83	45
(b) Related Information on Investee Companies	76~77, 82	45
(c) Related Information on Investments in Mainland China	77, 83	45
(d) Related Information on Intercompany Relationships and Significant Intercompany Transactions	77	45
(14) Segment Information	77	46



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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
The Shanghai Commercial & Savings Bank, Ltd.

### **Opinion**

We have audited the accompanying financial statements of The Shanghai Commercial & Savings Bank, Ltd. (the "Bank"), which comprise the balance sheets as of June 30, 2020, December 31, 2019 and June 30, 2019, the statements of comprehensive income, changes in equity and cash flows for the six months ended June 30, 2020 and 2019, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2020, December 31, 2019 and June 30, 2019, and its financial performance and its cash flows for the six months ended June 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the six months ended June 30, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in the Bank's financial statements as of and for the six months ended June 30, 2020 is described as follows:

### **Allowance for Impairment Losses on Discounts and Loans**

The Bank primarily engages in the loan business. As of June 30, 2020, the loan business is significant to the accompanying financial statements. The Bank assessed its discounts and loans for impairment in accordance with IFRS 9 and recognized the allowance for bad debts according to regulations. The Bank's management applied the expected credit loss model in the impairment assessment of discounts and loans. The Bank assessed whether the credit risk had increased significantly since initial recognition by taking into consideration factors like the amount of impairment loss based on past experience, current market situation and perceptiveness. In addition, credit-impaired loans were also evaluated for the prospect of future recovery. Refer to Notes 4, 5, 14 and 38 to the financial statements for disclosures related to the impairment of loan portfolios. As the cash flow forecasts involved management's critical judgments in accounting estimates and assumptions, we determined the impairment assessment of loan portfolios as a key audit matter.

In response to the abovementioned key audit matter, our key audit procedures performed included the following:

1. We understood and tested the Bank's internal control on loans and discounts, and performed relevant substantive procedures in assessing loan impairment.
2. We tested whether the method and important parameters (probability of default, loss given default, exposure at default and forward-looking information) adopted in the expected credit loss model properly reflected the actual situations and also calculated the amount of impairment losses.
3. We reviewed the loan accounts in which credit impairments had occurred and assessed the reasonableness of estimated future cash flows and value of collateral held.
4. We tested the classification of credit assets to assess whether the allowance for credit impairment met the requirements of competent authorities' regulations.
5. We assessed the potential risks for discounted lending rates of customers derived from publicly available information, and assured that they had been associated with the appropriate stage of evaluation.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms for such internal control as management determines is necessary to ensure the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Bank's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the six months ended June 30, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chun-Hung Chen and Tzu-Jung Kuo.

Deloitte & Touche  
Taipei, Taiwan

August 8, 2020

#### Notice to Readers

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

*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 Taiwan. 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.*

# THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

## Balance Sheets

**June 30, 2020, December 31, 2019 and June 30, 2019**

(Expressed in Thousands of New Taiwan Dollars)

Codes	ASSETS	June 30, 2020		December 31, 2019		June 30, 2019	
		Amount	%	Amount	%	Amount	%
11000	Cash and cash equivalents (Notes 6 and 35)	\$ 44,096,918	3	\$ 22,497,324	2	\$ 24,781,285	2
11500	Due from the Central Bank and call loans to banks, net (Note 7)	110,471,897	8	112,615,345	9	86,764,676	7
12000	Financial assets measured at fair value through profit or loss (Note 8)	2,934,275	-	3,171,234	-	2,783,260	-
12100	Financial assets measured at fair value through other comprehensive income (Notes 9, 11 and 36)	226,341,326	17	207,965,724	16	189,353,705	16
12200	Debt instrument investments measured at amortized cost (Notes 10, 11 and 36)	87,811,238	7	99,749,266	8	101,850,072	8
12500	Securities purchased under resale agreements (Note 12)	1,168,783	-	1,899,574	-	3,379,281	-
13000	Receivables, net (Notes 13 and 35)	10,723,781	1	7,932,983	1	9,613,088	1
13200	Current income tax assets (Note 32)	108,492	-	37,830	-	75,098	-
13500	Discounts and loans, net (Notes 14 and 35)	750,331,882	57	722,895,002	57	719,779,253	58
15000	Investments under the equity method, net (Note 15)	74,131,300	6	75,261,305	6	73,306,527	6
15500	Other financial assets, net (Note 16)	2,709,590	-	5,284,234	-	6,096,372	1
18500	Properties, net (Note 17)	11,984,260	1	11,968,217	1	12,059,280	1
18600	Right-of-use assets, net (Note 18)	887,403	-	788,251	-	665,557	-
19000	Intangible assets, net (Note 19)	89,423	-	100,332	-	104,485	-
19300	Deferred income tax assets (Note 32)	626,079	-	622,133	-	598,328	-
19500	Other assets, net (Note 20)	<u>3,480,552</u>	<u>-</u>	<u>2,816,729</u>	<u>-</u>	<u>2,376,114</u>	<u>-</u>
10000	Total assets	<u>\$ 1,327,897,199</u>	<u>100</u>	<u>\$ 1,275,605,483</u>	<u>100</u>	<u>\$ 1,233,586,381</u>	<u>100</u>
<b>Codes</b>	<b>LIABILITIES AND EQUITY</b>						
21000	Due to the Central Bank and banks (Notes 21 and 35)	\$ 15,324,751	1	\$ 25,743,767	2	\$ 36,631,671	3
22000	Financial liabilities measured at fair value through profit or loss (Note 8)	2,718,167	-	2,710,483	-	2,766,794	-
22500	Securities sold under repurchase agreements (Note 22)	32,268,848	3	11,060,621	1	8,194,573	1
23000	Payables (Notes 23 and 35)	30,034,588	2	20,012,828	2	30,255,676	3
23200	Current income tax liabilities (Note 32)	887,184	-	611,581	-	825,648	-
23500	Deposits and remittances (Notes 24 and 35)	1,012,073,210	76	988,279,059	78	952,541,946	77
24000	Bank debentures (Note 25)	66,850,000	5	56,850,000	4	52,150,000	4
25500	Other financial liabilities (Note 26)	4,542,502	1	3,591,874	-	3,455,145	-
25600	Provisions (Notes 27 and 29)	1,620,823	-	1,500,049	-	1,364,445	-
26000	Lease liabilities (Note 18)	893,758	-	790,378	-	665,058	-
29300	Deferred income tax liabilities (Note 32)	9,329,208	1	9,643,656	1	9,618,982	1
29500	Other liabilities (Notes 28 and 35)	<u>1,515,376</u>	<u>-</u>	<u>1,243,568</u>	<u>-</u>	<u>1,338,527</u>	<u>-</u>
20000	Total liabilities	<u>1,178,058,415</u>	<u>89</u>	<u>1,122,037,864</u>	<u>88</u>	<u>1,099,808,465</u>	<u>89</u>
	Equity (Note 30)						
31101	Ordinary shares	<u>44,816,031</u>	<u>3</u>	<u>44,816,031</u>	<u>3</u>	<u>41,016,031</u>	<u>3</u>
31500	Capital surplus	<u>16,432,561</u>	<u>1</u>	<u>16,432,561</u>	<u>1</u>	<u>5,893,238</u>	<u>1</u>
	Retained earnings						
32001	Legal reserve	56,344,918	4	51,946,585	4	51,946,585	4
32003	Special reserve	7,669,374	1	7,669,374	1	7,669,374	1
32005	Unappropriated earnings	<u>18,614,564</u>	<u>1</u>	<u>25,566,273</u>	<u>2</u>	<u>18,652,389</u>	<u>1</u>
32000	Total retained earnings	<u>82,628,856</u>	<u>6</u>	<u>85,182,232</u>	<u>7</u>	<u>78,268,348</u>	<u>6</u>
32500	Other equity	<u>6,044,480</u>	<u>1</u>	<u>7,219,939</u>	<u>1</u>	<u>8,683,443</u>	<u>1</u>
32600	Treasury shares	<u>(83,144)</u>	<u>-</u>	<u>(83,144)</u>	<u>-</u>	<u>(83,144)</u>	<u>-</u>
30000	Total equity	<u>149,838,784</u>	<u>11</u>	<u>153,567,619</u>	<u>12</u>	<u>133,777,916</u>	<u>11</u>
	Total liabilities and equity	<u>\$ 1,327,897,199</u>	<u>100</u>	<u>\$ 1,275,605,483</u>	<u>100</u>	<u>\$ 1,233,586,381</u>	<u>100</u>

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

**THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.**  
**Statements of Comprehensive Income**  
**For the Six Months Ended June 30, 2020, December 31, 2019 and June 30, 2019**  
(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

Codes		For the Six Months Ended June 30			
		2020		2019	
		Amount	%	Amount	%
41000	Interest revenue	\$ 10,031,818	88	\$ 11,160,756	90
51000	Interest expenses	<u>4,007,449</u>	<u>35</u>	<u>4,779,501</u>	<u>39</u>
	Net interest (Notes 31 and 35)	<u>6,024,369</u>	<u>53</u>	<u>6,381,255</u>	<u>51</u>
	Non-interest revenue				
49100	Service fee income, net (Notes 31 and 35)	1,611,424	14	1,635,732	13
49200	Gain on financial assets and liabilities measured at fair value through profit or loss (Note 31)	251,332	2	333,799	3
49310	Realized gain on financial assets measured at fair value through other comprehensive income (Note 31)	409,266	4	106,020	1
49450	Gain on financial assets measured at amortized cost	1,741	-	-	-
49600	Foreign exchange gain, net	68,398	1	256,132	2
49700	Impairment loss on assets (Note 11)	(17,659)	-	(6,967)	-
49750	Proportionate share of profit of subsidiaries, associates and joint ventures under the equity method, net (Notes 15 and 31)	2,972,920	26	3,673,238	30
49800	Other non-interest revenue (Notes 31 and 35)	<u>29,483</u>	<u>-</u>	<u>28,715</u>	<u>-</u>
49020	Total non-interest revenue	<u>5,326,905</u>	<u>47</u>	<u>6,026,669</u>	<u>49</u>
4xxxx	Net revenue	<u>11,351,274</u>	<u>100</u>	<u>12,407,924</u>	<u>100</u>
58200	Bad debt expense, commitment and guarantee liability provisions (Note 14)	<u>300,000</u>	<u>2</u>	<u>300,000</u>	<u>2</u>
	Operating expenses				
58500	Employment benefits (Notes 29, 31 and 35)	2,236,588	20	2,075,397	17
59000	Depreciation and amortization (Note 31)	303,862	3	274,633	2
59500	Other general and administrative (Notes 31 and 35)	<u>1,074,502</u>	<u>9</u>	<u>1,179,428</u>	<u>10</u>
58400	Total operating expenses	<u>3,614,952</u>	<u>32</u>	<u>3,529,458</u>	<u>29</u>
61001	Profit before income tax	7,436,322	66	8,578,466	69
61003	Income tax expense (Note 32)	<u>(663,867)</u>	<u>(6)</u>	<u>(994,189)</u>	<u>(8)</u>
64000	Net income	<u>6,772,455</u>	<u>60</u>	<u>7,584,277</u>	<u>61</u>

(Continued)



**THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.**  
**Statements of Comprehensive Income**  
**For the Six Months Ended June 30, 2020, December 31, 2019 and June 30, 2019**  
(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

Codes		For the Six Months Ended June 30			
		2020		2019	
		Amount	%	Amount	%
	Other comprehensive income (loss)				
	Items that will not be reclassified subsequently to profit or loss:				
65204	Gain (loss) on investments in equity instruments measured at fair value through other comprehensive income	\$ (8,770)	-	\$ 104,815	1
65205	Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL (Note 8)	99,010	1	(10,316)	-
65207	Proportionate share of other comprehensive income of associates and joint ventures under the equity method	(1,383,621)	(13)	188,385	1
65220	Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 32)	(234)	-	(32)	-
65200	Subtotal of items that will not be reclassified subsequently to profit or loss	(1,293,615)	(12)	282,852	2
	Items that may be reclassified subsequently to profit or loss:				
65301	Exchange difference on translation for foreign operations	(1,354,195)	(12)	729,311	6
65307	Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	759,145	7	777,524	6
65309	Loss on debt instruments measured at fair value through other comprehensive income	336,380	3	1,960,525	16
65310	Allowance loss on debt instruments measured at fair value through other comprehensive income (Note 11)	17,609	-	7,133	-
65320	Income tax relating to items that may be reclassified subsequently to profit or loss (Note 32)	220,672	2	(493,650)	(4)
65300	Subtotal of items that may be reclassified subsequently to profit or loss	(20,389)	-	2,980,843	24
65000	Other comprehensive income (loss) for the period, net of income tax	(1,314,004)	(12)	3,263,695	26
66000	Total comprehensive income for the period	\$ 5,458,451	48	\$ 10,847,972	87
	Earnings per share (Note 33)				
67500	Basic	\$ 1.52		\$ 1.85	
67700	Diluted	\$ 1.51		\$ 1.85	

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

(Concluded)

**THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.**  
**Statements of Changes in Equity**  
**For the six months ended June 30, 2020, December 31, 2019 and June 30, 2019**  
(Expressed in Thousands of New Taiwan Dollars)

		Retained Earnings (Note 30)					Retained Earnings (Note 30)				
		Ordinary Shares (Note 30)	Capital Surplus (Note 30)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Gain (Loss) on Financial Assets measured at Fair Value through Other Comprehensive Income	Changes in Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities at FVTPL	Treasury Shares	Total Equity
Codes											
A1	Balance at January 1, 2019	\$ 41,016,031	\$ 5,893,238	\$ 47,832,994	\$ 7,600,814	\$ 23,499,036	\$ (165,709)	\$ 5,562,687	\$ -	\$ (83,144)	\$ 131,155,947
A3	Effect of retrospective application and retrospective restatement	-	-	-	-	(22,797)	-	-	-	-	(22,797)
A5	Balance at January 1, 2019 as restated	41,016,031	5,893,238	47,832,994	7,600,814	23,476,239	(165,709)	5,562,687	-	(83,144)	131,133,150
B1	Appropriation of 2018 earnings										
B5	Legal reserve	-	-	4,113,591	-	(4,113,591)	-	-	-	-	-
B9	Cash dividends	-	-	-	68,560	(68,560)	-	-	-	-	-
	Share dividends	-	-	-	-	(8,203,206)	-	-	-	-	(8,203,206)
D1	Net profit for the six months ended June 30, 2019	-	-	-	-	7,584,277	-	-	-	-	7,584,277
D3	Other comprehensive income (loss) for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	552,125	2,721,886	(10,316)	-	3,263,695
D5	Total comprehensive income (loss) for the six months ended June 30, 2019	-	-	-	-	7,584,277	552,125	2,721,886	(10,316)	-	10,847,972
Q1	Disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	(22,770)	-	22,770	-	-	-
Z1	Balance at June 30, 2019	<u>\$ 41,016,031</u>	<u>\$ 5,893,238</u>	<u>\$ 51,946,585</u>	<u>\$ 7,669,374</u>	<u>\$ 18,652,389</u>	<u>\$ 386,416</u>	<u>\$ 8,307,343</u>	<u>\$ (10,316)</u>	<u>\$ (83,144)</u>	<u>\$ 133,777,916</u>
A1	Balance at January 1, 2020	\$ 44,816,031	\$ 16,432,561	\$ 51,946,585	\$ 7,669,374	\$ 25,566,273	\$ (1,905,481)	\$ 9,170,839	\$ (45,419)	\$ (83,144)	\$ 153,567,619
B1	Appropriation of 2019 earnings										
B9	Legal reserve	-	-	4,398,333	-	(4,398,333)	-	-	-	-	-
	Share dividends	-	-	-	-	(9,187,286)	-	-	-	-	(9,187,286)
D1	Net profit for the six months ended June 30, 2020	-	-	-	-	6,772,455	-	-	-	-	6,772,455
D3	Other comprehensive income (loss) for the six months ended June 30, 2020, net of income tax	-	-	-	-	-	(920,169)	(492,845)	99,010	-	(1,314,004)
D5	Total comprehensive income (loss) for the six months ended June 30, 2020	-	-	-	-	6,772,455	(920,169)	(492,845)	99,010	-	5,458,451
Q1	Disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	(138,545)	-	138,545	-	-	-
Z1	Balance at June 30, 2020	<u>\$ 44,816,031</u>	<u>\$ 16,432,561</u>	<u>\$ 56,344,918</u>	<u>\$ 7,669,374</u>	<u>\$ 18,614,564</u>	<u>\$ (2,825,650)</u>	<u>\$ 8,816,539</u>	<u>\$ 53,591</u>	<u>\$ (83,144)</u>	<u>\$ 149,838,784</u>

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

# THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

## Statements of Cash Flows

For the Six Months Ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Codes		For the Six Months Ended June 30	
		2020	2019
	Cash flows from operating activities		
A00010	Net profit before income tax	\$ 7,436,322	\$ 8,578,466
A20010	Adjustments to reconcile net profit to net cash provided by operating activities		
A20100	Depreciation expenses	226,606	195,301
A20200	Amortization expenses	77,256	79,332
A20300	Bad debt expense, commitment and guarantee liability provisions	300,000	300,000
A21400	Expected credit impairment loss	17,659	6,967
A20400	Financial assets and liabilities measured at fair value through profit or loss	(162,024)	(259,412)
A20900	Interest expenses	4,007,449	4,779,501
A21200	Interest revenue	(10,031,818)	(11,160,756)
A21300	Dividend income	(19,166)	(17,646)
A22400	Share of profit of subsidiaries, associates and joint ventures	(2,972,920)	(3,673,238)
A22500	Loss on disposal of properties and equipment, net	552	629
A29900	Other adjustments	231,759	693,053
A40000	Changes in operating assets and liabilities		
A41110	Due from the Central Bank and call loans to banks	1,316,056	(6,518,987)
A41120	Financial assets measured at fair value through profit or loss	527,659	2,531,483
A41123	Financial assets at fair value through other comprehensive income	(18,250,595)	(423,988)
A41125	Debt instrument investments measured at amortized cost	11,934,924	(5,257,310)
A41150	Receivables	(3,304,726)	(961,104)
A41160	Discounts and loans	(27,596,929)	(37,385,060)
A41190	Other financial assets	2,574,644	(3,635,039)
A42110	Due to the Central Bank and banks	(10,419,016)	20,157,917
A42120	Financial liabilities measured at fair value through profit or loss	(21,982)	172,623
A42140	Securities sold under repurchase agreements	21,208,227	(6,434,957)
A42150	Payables	890,482	(439,791)
A42160	Deposits and remittances	23,794,151	40,895,467
A42170	Other financial liabilities	950,628	(237,962)
A42180	Employment benefit provisions	(60,000)	(24,500)
A42990	Other liabilities	241,533	10,991
A33000	Cash generated from operations	2,896,731	1,971,980
A33100	Interest received	10,690,057	11,361,457
A33200	Dividends received	2,145,315	2,195,921
A33300	Interest paid	(4,066,872)	(4,493,738)
A33500	Income tax paid	(637,870)	(922,920)
AAAA	Net cash generated from operating activities	11,027,361	10,112,700

(Continued)

# THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

## Statements of Cash Flows

**For the Six Months Ended June 30, 2020 and 2019**

(Expressed in Thousands of New Taiwan Dollars)

Codes		For the Six Months Ended June 30	
		2020	2019
	Cash flows from investing activities		
B02700	Acquisition of properties	(97,191)	(49,115)
B02800	Proceeds from disposal of properties	755	449
B03700	Increase in refundable deposits	(183,725)	(36,991)
B04500	Acquisition of intangible assets	(51,567)	(30,150)
B06800	(Increase) decrease in other assets	<u>(486,176)</u>	<u>329,071</u>
BBBB	Net cash (used in) generated from investing activities	<u>(817,904)</u>	<u>213,264</u>
	Cash flows from financing activities		
C01400	Issuance of financial bonds	10,000,000	-
C01500	Payments for financial bonds	-	(5,000,000)
C03100	Increase in guarantee deposits received	30,227	461,551
C04020	Payments for principals of lease liabilities	<u>(148,392)</u>	<u>(109,226)</u>
CCCC	Net cash generated from (used in) financing activities	<u>9,881,835</u>	<u>(4,647,675)</u>
DDDD	Effects of exchange rate changes on the balance of cash held in foreign currencies	<u>(49,881)</u>	<u>58,370</u>
EEEE	Net increase in cash and cash equivalents	20,041,411	5,736,659
E00100	Cash and cash equivalents at the beginning of the period	<u>72,239,191</u>	<u>60,487,611</u>
E00200	Cash and cash equivalents at the end of the period	<u>\$ 92,280,602</u>	<u>\$ 66,224,270</u>

Reconciliation of the cash and cash equivalent amounts in the statements of cash flows with the equivalent item reported in the balance sheets as of June 30, 2020 and 2019:

		June 30, 2020	June 30, 2019
E00210	Cash and cash equivalents in balance sheets	\$ 44,096,918	\$ 24,781,285
E00220	Due from the Central Bank and call loans to banks which fall within the definition of cash and cash equivalents under IAS 7	47,014,901	38,063,704
E00230	Securities purchased under resale agreements which fall within the definition of cash and cash equivalents under IAS7	<u>1,168,783</u>	<u>3,379,281</u>
E00200	Cash and cash equivalents in statements of cash flows	<u>\$ 92,280,602</u>	<u>\$ 66,224,270</u>

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

(Concluded)

# THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD

## Notes to Financial Statements

For the Six Months Ended June 30, 2020 and 2019

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

### 1. ORGANIZATION AND OPERATIONS

The Bank was incorporated in Taiwan and engages in commercial banking businesses under related laws and regulations.

The Bank has a head office in Taipei, 71 domestic branches, 3 foreign branches located in Hong Kong, Vietnam and Singapore, and 3 representative offices located in Thailand, Cambodia and Indonesia.

The operations of the Bank's trust department include services related to planning, managing and operating a trust business under the Banking Act and Trust Enterprise Act.

The shares of the Bank have been listed and traded on the Taiwan Stock Exchange since October 19, 2018.

The financial statements are presented in the Bank's functional currency, the New Taiwan dollar.

In order to integrate the use of resources and achieve the operating synergy, the Bank merged SCSB Life Insurance Agency and SCSB Property Insurance Agency on May 6, 2019, which are were both 100% owned by the Bank. The shareholder's equity was not affected after the merger, refer to Note 44.

### 2. AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on August 8, 2020.

### 3. APPLICATION OF NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

3.1 Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

3.2 New IFRSs in issue by IASB but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
"Annual Improvements to IFRS Standards 2018-2020"	January 1, 2022 (Note 2)
Amendments to IFRS 3 "Reference to the Conceptual Framework"	January 1, 2022 (Note 3)
Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"	Effective immediately upon promulgation by the IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contract - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: This amendment applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

Note 4: This amendment applies to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021 (start date of earliest reporting period).

Note 5: This amendment applies to contracts that have not fulfilled all obligations on January 1, 2022.

As of the date the financial statements were authorized for issue, the Bank is continuously assessing the possible impact that the application of other standards and interpretations will have on the Bank’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

## **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **4.1 Statement of Compliance**

These interim financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### **4.2 Basis of Preparation**

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 4.2.1 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 4.2.2 Level 2 inputs are observable parameters other than quoted prices included within Level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- 4.2.3 Level 3 inputs are unobservable inputs for an asset or liability.

When the Bank prepared the financial statements, its investments in subsidiaries and associates were accounted for using the equity method. To make the current loss and profit as well as the other comprehensive income and equity equal to the current loss and profit and the other comprehensive income and equity which are attributable to the owners of the Bank in the financial statements, “equity investments under the equity method”, the “share of profit or loss of subsidiaries, associates and joint ventures”, and the “share of the other comprehensive income of subsidiaries, associates and joint ventures” were adjusted.

### **4.3 Other Significant Accounting Policies**

Except for the following, the accounting policies applied in these financial statements are consistent with those applied in the financial statements for the year ended December 31, 2019.

#### **4.3.1 Retirement benefits**

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined annual pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

#### **4.3.2 Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Bank's accounting policies, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### **Estimated Impairment of Financial Assets**

Estimates of impairment on loans and receivables, investments in debt instrument and financial guarantee contracts are based on the Bank's assumptions about default rates and expected loss rates. The Bank considers historical experience, current market conditions and forward-looking information to make assumptions and select input values for impairment assessments. For the important assumptions and input values used, refer to Note 38. If the actual cash flows in the future are less than expected, significant impairment losses may occur.

## 6. CASH AND CASH EQUIVALENTS

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Cash on hand and working fund	\$ 6,731,825	\$ 9,419,398	\$ 6,810,128
Checks for clearance	734,061	701,644	2,958,110
Due from banks - domestic	20,560,768	951,981	1,287,181
Due from banks - foreign	<u>16,070,264</u>	<u>11,424,301</u>	<u>13,725,866</u>
	<u>\$ 44,096,918</u>	<u>\$ 22,497,324</u>	<u>\$ 24,781,285</u>

The reconciliation of cash and cash equivalents was reported in the statements of cash flows, the reconciliation between the six-month period ended June 30, 2020 and 2019 and balance sheets as of December 31, 2019 is shown below.

	<u>December 31, 2019</u>
Cash and cash equivalents in the balance sheets	\$ 22,497,324
Due from the Central Bank and call loans to banks which fall within the definition of cash and cash equivalents under IAS 7	47,842,293
Securities purchased under resale agreements which fall within the definition of cash and cash equivalents under IAS 7	<u>1,899,574</u>
Cash and cash equivalents balance on statements of cash flows	<u>\$ 72,239,191</u>

## 7. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS, NET

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Call loans to banks	\$ 79,192,469	\$ 85,457,981	\$ 61,560,542
Deposit reserves - I	9,834,280	6,259,957	4,411,620
Deposit reserves - II	21,267,745	20,732,422	20,630,519
Deposit reserves – foreign currency	<u>177,403</u>	<u>164,985</u>	<u>161,995</u>
	<u>\$ 110,471,897</u>	<u>\$ 112,615,345</u>	<u>\$ 86,764,676</u>

Deposit reserves are statutory reserves and determined monthly at prescribed rates based on average balances of customers' deposits. The entire balance of deposit reserve - II is subject to withdrawal restrictions while no restrictions are placed on other deposit reserves.

## 8. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
<b>Financial assets at fair value through profit or loss</b>			
<b>Financial assets mandatorily classified as at FVTPL</b>			
Shares	\$ 863,164	\$ 880,449	\$ 641,481
Corporate bonds	706,374	713,906	747,460
Beneficiary securities	482,596	863,054	679,300
Interest rate swap contracts	419,021	275,096	359,084
Forward contracts	253,982	253,218	206,848
Currency swap contracts	75,572	50,529	34,574
Government bonds	50,335	49,843	-
Option contracts	37,485	46,129	77,879
Others	<u>45,746</u>	<u>39,010</u>	<u>36,634</u>
	<u>\$ 2,934,275</u>	<u>\$ 3,171,234</u>	<u>\$ 2,783,260</u>



	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
<b>Financial liabilities at fair value through profit or loss</b>			
<b>Held-for-trading financial liabilities</b>			
Forward contracts	\$ 140,060	\$ 172,605	\$ 135,130
Currency swap contracts	135,544	39,047	45,010
Option contracts	75,076	99,743	131,766
Others	<u>13,622</u>	<u>4,259</u>	<u>8</u>
	<u>364,302</u>	<u>315,654</u>	<u>311,914</u>

**Financial liabilities designated at FVTPL**

Bank debentures	<u>2,353,865</u>	<u>2,394,829</u>	<u>2,454,880</u>
	<u>\$ 2,718,167</u>	<u>\$ 2,710,483</u>	<u>\$ 2,766,794</u>

The Bank engages in derivative transactions mainly to accommodate customers' needs and manage its exposure positions.

The financial assets and liabilities' at FVTPL contract (nominal) amounts of derivative transactions were as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Forward contracts	\$ 32,139,829	\$ 44,625,980	\$ 31,236,686
Currency swap contracts	29,715,942	19,759,208	17,381,113
Option contracts	14,945,151	20,872,188	22,343,621
Interest rate swap contracts	3,297,131	2,637,988	2,354,810
Asset swap contracts	530,010	539,856	558,954
Futures contracts	33,438	11,441	3,361

Information for financial liabilities designated by the Bank at FVTPL is as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
The difference between the fair value and the maturity value			
– Fair value	\$ 2,353,865	\$ 2,394,829	\$ 2,454,880
– Maturity value	<u>2,575,207</u>	<u>2,462,289</u>	<u>2,505,586</u>
	<u>\$ (221,342)</u>	<u>\$ (67,460)</u>	<u>\$ (50,706)</u>

	<u>Effects of changes in credit risk</u>
Current change amount of charge	
From January 1, 2020 to June 30, 2020	<u>\$ 99,010</u>
From January 1, 2019 to June 30, 2019	<u>\$ (10,316)</u>
Cumulative change amount of charge	
Up to June 30, 2020	<u>\$ 53,591</u>
Up to December 31, 2019	<u>\$ (45,419)</u>
Up to June 30, 2019	<u>\$ (10,316)</u>

The financial liabilities designated by the Bank at FVTPL were the second issuance of unsecured debentures amounting to US\$70,000 thousand with a 30-year maturity and a interest rate of 0% on October

29, 2018. On the expiration of 5 years and every subsequent year, the Bank may exercise the option at the agreed redemption price. If the option is not exercised during the period, the payment will be made on the expiration date.

The Bank arranged an interest rate swap contract to reduce the interest rate risk of the aforementioned financial bonds. The interest rate swap contract was measured at fair value and the fair value changes were included in profit or loss. The Bank designated the aforementioned financial bonds as financial liabilities measured at FVTPL for consistencies.

The amount of change in the fair value of the financial bonds and the combination of financial assets attributable to the changes in the fair value of financial liabilities and the combination of the fair value of financial assets is calculated as the difference between the changes in the fair value of market risk factor. The amount of change in fair value attributable to the market risk factor is calculated using the benchmark yield curve at the balance sheet date. Fair value of financial bonds and combined commodities is based on the benchmark yield curve on the balance sheet date and the estimated credit risk spread by the creditor's interest rate quote on the similar maturity date of the combined company, such that the estimated future cash flow is discounted.

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Investments in equity instruments measured at FVTOCI			
Shares	\$ 6,045,227	\$ 3,924,394	\$ 4,686,874
Investments in debt instruments measured at FVTOCI			
Corporate bonds	68,597,529	52,642,009	51,435,635
Government bonds	60,629,347	70,333,625	47,262,989
Commercial paper	50,697,908	39,559,030	40,625,522
Bank debentures	35,953,050	37,345,577	42,694,943
Treasury bonds	2,289,639	1,986,829	1,498,160
Asset-backed securities	2,128,626	2,174,260	1,149,582
	<u>220,296,099</u>	<u>204,041,330</u>	<u>184,666,831</u>
	<u>\$ 226,341,326</u>	<u>\$ 207,965,724</u>	<u>\$ 189,353,705</u>

The Bank invests in ordinary shares for medium- and long-term strategic purposes and expects to make a profit through long-term investments. The management of the Bank considers that if the short-term fair value fluctuations of these investments are included in profit or loss, they are inconsistent with the aforementioned long-term investment plans. Therefore, the designated investments are selected to be measured at FVTOCI.

For the information on credit risk management and impairment assessment of investments in debt instruments at FVTOCI, refer to Note 11.

Parts of the aforementioned financial assets at FVTOCI were sold under repurchase agreements as of June 30, 2020, December 31 and June 30, 2019. The par values of bonds and commercial papers sold under repurchase agreements were \$31,318,812 thousand, \$10,213,392 thousand and \$7,717,500 thousand, respectively.

For the information on financial assets pledged at FVTOCI, refer to Note 36.

## 10. DEBT INSTRUMENT INVESTMENTS MEASURED AT AMORTIZED COST

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Negotiable certificates of deposit	\$ 81,485,000	\$ 93,430,000	\$ 93,475,000
Corporate bonds	2,873,688	2,980,648	2,923,480
Government bonds	2,574,471	2,424,389	2,463,754
Bank debentures	879,563	915,721	991,641
Treasury bonds	<u>-</u>	<u>-</u>	<u>1,997,756</u>
	87,812,722	99,750,758	101,851,631
Less: Loss allowance	<u>(1,484)</u>	<u>(1,492)</u>	<u>(1,559)</u>
	<u>\$ 87,811,238</u>	<u>\$ 99,749,266</u>	<u>\$ 101,850,072</u>

For the information on financial assets' related credit risk management and impairment at amortized cost, see Note 11.

For more information on the pledged assets, refer to Note 36.

## 11. CREDIT RISK MANAGEMENT OF INVESTMENTS IN DEBT INSTRUMENTS

The investments in debt instruments are classified as financial assets at FVTOCI and financial assets at amortized cost.

### June 30, 2020

	<u>At FVTOCI</u>	<u>At Amortized Cost</u>	<u>Total</u>
Total carrying amount	\$ 218,483,798	\$ 87,812,722	\$ 306,296,520
Loss allowance	<u>(78,673)</u>	<u>(1,484)</u>	<u>(80,157)</u>
Amortized cost	218,405,125	<u>\$ 87,811,238</u>	306,216,363
Fair value adjustment	<u>1,890,974</u>		<u>1,890,974</u>
	<u>\$ 220,296,099</u>		<u>\$ 308,107,337</u>

### December 31, 2019

	<u>At FVTOCI</u>	<u>At Amortized Cost</u>	<u>Total</u>
Total carrying amount	\$ 202,709,173	\$ 99,750,758	\$ 302,459,931
Loss allowance	<u>(61,064)</u>	<u>(1,492)</u>	<u>(62,556)</u>
Amortized cost	202,648,109	<u>\$ 99,749,266</u>	302,397,375
Fair value adjustment	<u>1,393,221</u>		<u>(1,393,221)</u>
	<u>\$ 204,041,330</u>		<u>\$ 303,790,596</u>

**June 30, 2019**

	<u>At FVTOCI</u>	<u>At Amortized Cost</u>	<u>Total</u>
Total carrying amount	\$ 183,731,725	\$ 101,851,631	\$ 285,583,356
Loss allowance	<u>(72,368)</u>	<u>(1,559)</u>	<u>(73,927)</u>
Amortized cost	183,659,357	<u>\$ 101,850,072</u>	285,509,429
Fair value adjustment	<u>1,007,474</u>		<u>1,007,474</u>
	<u>\$ 184,666,831</u>		<u>\$ 286,516,903</u>

The Bank implements a policy of only investing in debt instruments with investment grade and have low credit risk for the purpose of impairment assessment. The Bank continues to track external rating information and monitor changes in credit risk of the investments of debt instruments and to review other information such as the bond yield curve and the debtor's material information to assess whether the credit risk of the debt instrument investments has increased significantly since the original recognition.

The Bank considers the historical default loss rate provided by the independent rating agencies, the debtor's current financial status and the industry's forward-looking forecast to measure the 12-month expected credit loss or full-lifetime expected credit loss of the debt instrument investments. The Bank's current credit risk rating mechanism and the total carrying amount of each credit rating investment in debt instruments are as follows:

**June 30, 2020**

<u>Credit Rating</u>	<u>Definitions</u>	<u>Expected Credit Loss Recognition Base</u>	<u>Expected Credit Loss Rate</u>	<u>June 30, 2020 Total Carrying Amount</u>
Stage 1	The debtor has a low credit risk and is fully capable of paying off contractual cash flows	12-month expected credit loss	0.000%~ 0.915%	\$ 305,819,321
Stage 2	Credit risk has increased significantly since the initial recognition	Expected credit loss during the period of existence (no credit impairment)	0.337%~ 7.906%	477,199

**December 31, 2019**

<u>Credit Rating</u>	<u>Definitions</u>	<u>Expected Credit Loss Recognition Base</u>	<u>Expected Credit Loss Rate</u>	<u>December 31, 2019 Total Carrying Amount</u>
Stage 1	The debtor has a low credit risk and is fully capable of paying off contractual cash flows	12-month expected credit loss	0.000%~0.088 %	\$ 302,289,307
Stage 2	Credit risk has increased significantly since the initial recognition	Expected credit loss during the period of existence (no credit impairment)	2.240 %~8.521%	170,624

**June 30, 2019**

<u>Credit Rating</u>	<u>Definitions</u>	<u>Expected Credit Loss Recognition Base</u>	<u>Expected Credit Loss Rate</u>	<u>June 30, 2019 Total Carrying Amount</u>
Stage 1	The debtor has a low credit risk and is fully capable of paying off contractual cash flows	12-month expected credit loss	0.000%~1.242 %	\$ 285,293,814
Stage 2	Credit risk has increased significantly since the initial recognition	Expected credit loss during the period of existence (no credit impairment)	0.458%~9.327%	289,542

Information on changes in allowance for loss under credit rating assessment of investments in debt instruments at FVTOCI and at amortized cost is summarized as follows:

## Investments in debt instruments at FVTOCI

	Credit Risk Rating		
	Stage 1 (12-Month ECLs)	Stage 2 (Lifetime ECLs - Unimpaired)	Total
Balance at January 1, 2020	\$ 53,599	\$ 7,465	\$ 61,064
Purchase of new debt instruments	14,151	7,598	21,749
Derecognition	(5,490)	(2,927)	(8,417)
Model/risk parameter changes	4,183	139	4,322
Exchange rate and other changes	(114)	69	(45)
Balance at June 30, 2020	<u>\$ 66,329</u>	<u>\$ 12,344</u>	<u>\$ 78,673</u>
Balance at January 1, 2019	\$ 56,217	\$ 9,018	\$ 65,235
Purchase of new debt instruments	9,799	9,728	19,527
Derecognition	(9,280)	(3,212)	(12,492)
Exchange rate and other changes	71	27	98
Balance at June 30, 2019	<u>\$ 56,807</u>	<u>\$ 15,561</u>	<u>\$ 72,368</u>

## Investments in debt instruments at amortized cost

	Credit Risk Rating		
	Stage 1 (12-Month ECLs)	Stage 2 (Lifetime ECLs - Unimpaired)	Total
Balance at January 1, 2020	\$ 1,492	\$ -	\$ 1,492
Derecognition	(79)	-	(79)
Model/risk parameter changes	83	-	83
Exchange rate and other changes	(13)	-	(13)
Balance at June 30, 2020	<u>\$ 1,484</u>	<u>\$ -</u>	<u>\$ 1,484</u>
Balance at January 1, 2019	\$ 1,688	\$ -	\$ 1,688
Purchase of new debt instruments	176	-	176
Derecognition	(244)	-	(244)
Exchange rate and other changes	(61)	-	(61)
Balance at June 30, 2019	<u>\$ 1,559</u>	<u>\$ -</u>	<u>\$ 1,559</u>

## 12. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Securities purchased under resale agreements as of June 30, 2020, December 31, 2019 and June 30, 2019 were \$1,168,783 thousand, \$1,899,574 thousand and \$3,379,281 thousand, respectively. The aforementioned securities will be bought back one after another before July 20, 2020, January 15, 2020 and September 12, 2019 at \$1,170,036 thousand, \$1,902,974 thousand and \$3,382,162 thousand, respectively.

### 13. RECEIVABLES, NET

	June 30, 2020	December 31, 2019	June 30, 2019
Accounts receivable due from sales of securities	\$ 2,713,380	\$ 3,534	\$ 788,347
Accrued interest	2,160,591	2,650,753	2,594,035
Credit cards receivable	2,135,751	2,498,727	2,445,958
Acceptances	1,958,059	1,559,350	2,590,286
Accounts receivable – factoring	1,224,425	835,039	831,750
Advances by guarantees	609	258,086	258,480
Others	828,261	423,357	510,720
	11,021,076	8,228,846	10,019,576
Less: allowance for credit losses	(297,295)	(295,863)	(406,488)
	<u>\$ 10,723,781</u>	<u>\$ 7,932,983</u>	<u>\$ 9,613,088</u>

The changes in total carrying amount and the allowance of receivables and other financial assets for the six months ended in June 30, 2020 and 2019 (including non-performing receivables in loans and purchase of remittance, refer to Note 16) are as follows:

#### For the Six Months Ended June 30, 2020

	12-Month ECLs	Lifetime ECLs (Collectively)	Lifetime ECLs (Non-Purchased or Originated Credit Impairment on Financial Assets)	Total
<b>Receivables and other financial assets</b>				
Beginning on January 1, 2020	\$ 7,829,971	\$ 68,740	\$ 332,482	\$ 8,231,193
Changes due to financial assets recognized at the beginning of the period:				
Transfer to lifetime ECLs	(278,788)	198,562	(310)	(80,536)
Transfer to ECLs on financial assets	(13,521)	(21,637)	36,920	1,762
Transfer to 12-month ECLs	2,921,540	(26,378)	(601)	2,894,561
Financial assets derecognized in the current period	(1,307,648)	(5,953)	(49,513)	(1,363,114)
Purchased or originated financial assets	1,369,253	30,625	1,373	1,401,251
Write-offs	-	-	(22,289)	(22,289)
Exchange rate and other changes	(36,243)	(3,146)	-	(39,389)
Balance on June 30, 2020	\$ 10,484,564	\$ 240,813	\$ 298,062	\$ 11,023,439

	12-Month Expected Credit Loss	Lifetime ECLs (Collectively)	Lifetime ECLs (Non-Purchased or Original Credit Impairment on Financial Assets)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment under the Regulatory Decree	Total
<b>Allowance</b>						
January 1, 2020	\$ 68,656	\$ 29,000	\$ 173,070	\$ 270,726	\$ 27,453	\$ 298,179
Changes due to financial assets recognized at the beginning of the period:						
Transfer to lifetime ECLs	(816)	55,331	(159)	54,356	-	54,356
Transfer to ECLs on financial assets	(238)	(14,211)	2,298	(12,151)	-	(12,151)
Transfer to 12-month ECLs	18,890	(15,112)	(322)	3,456	-	3,456
Financial assets derecognized in the current period	(5,059)	(4,911)	(49,238)	(59,208)	-	(59,208)
Purchased or originated financial assets	13,968	25,836	472	40,276	-	40,276
The difference of impairment under the regulatory decree	-	-	-	-	(14,955)	(14,955)
Write-offs	-	-	(22,289)	(22,289)	-	(22,289)
Recoveries after write-off	-	-	21,438	21,438	-	21,438
Exchange rate and other changes	(2,642)	(6,802)	-	(9,444)	-	(9,444)
Balance on June 30, 2020	\$ 92,759	\$ 69,131	\$ 125,270	\$ 287,160	\$ 12,498	\$ 299,658

## For the Six Months Ended June 30, 2019

	12-Month ECLs	Lifetime ECLs (Collectively)	Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets)	Total
<b>Receivables and other financial assets</b>				
Beginning on January 1, 2019	\$ 8,358,096	\$ 246,377	\$ 549,876	\$ 9,154,349
Changes due to financial assets recognized at the beginning of the period:				
Transfer to lifetime ECLs	(34,221)	26,513	(366)	( 8,074)
Transfer to ECLs on financial assets	(9,409)	(608)	25,135	15,118
Transfer to 12-month ECLs	297,641	(255,885)	(21,957)	19,799
Financial assets derecognized in the current period	(1,219,493)	(27,743)	(2,010)	( 1,249,246)
Purchased or originated financial assets	1,128,700	9,278	2,444	1,140,422
Write-offs	(688)	(8,820)	(35,148)	( 44,656)
Exchange rate and other changes	901,018	93,869	-	994,887
Balance on June 30, 2019	\$ 9,421,644	\$ 82,981	\$ 517,974	\$ 10,022,599

	12-Month Expected Credit Loss	Lifetime ECLs (Collectively)	Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment under the Regulatory Decree	Total
<b>Allowance</b>						
January 1, 2019	\$ 27,948	\$ 47,499	\$ 334,242	\$ 409,689	\$ 30,863	\$ 440,552
Changes due to financial assets recognized at the beginning of the period:						
Transfer to lifetime ECLs	(424)	11,803	(146)	11,233	-	11,233
Transfer to ECLs on financial assets	(173)	(903)	30,786	29,710	-	29,710
Transfer to 12-month ECLs	8,205	(24,997)	(23,285)	(40,077)	-	(40,077)
Financial assets derecognized in the current period	(7,259)	(7,080)	(9,451)	(23,790)	-	(23,790)
Purchased or originated financial assets	8,629	7,393	1,757	17,779	-	17,779
The difference of impairment under the regulatory decree	-	-	-	-	509	509
Write-offs	(688)	(8,820)	(35,148)	(44,656)	-	(44,656)
Recoveries after write-off	-	-	16,169	16,169	-	16,169
Exchange rate and other changes	1,754	151	-	1,905	-	1,905
Balance on June 30, 2019	\$ 37,992	\$ 25,046	\$ 314,924	\$ 377,962	\$ 31,372	\$ 409,334

## 14. DISCOUNTS AND LOANS, NET

	June 30, 2020	December 31, 2019	June 30, 2019
Loans	\$ 753,932,956	\$ 725,936,642	\$ 720,581,767
Inward/outward documentary bills	3,995,611	4,680,791	6,421,164
Non-performing loans	<u>1,254,734</u>	<u>1,208,800</u>	<u>1,528,714</u>
	759,183,301	731,826,233	728,531,645
Discount and premium adjustments	602,136	626,285	650,692
Allowance for credit losses	<u>( 9,453,555)</u>	<u>( 9,557,516)</u>	<u>( 9,403,084)</u>
	<u>\$ 750,331,882</u>	<u>\$ 722,895,002</u>	<u>\$ 719,779,253</u>

The Bank discontinues accruing interest when loans are deemed non-performing. For the six months ended June 30, 2020 and 2019, the unrecognized interest revenue on the non-performing loans amounted to \$10,891 thousand and \$14,645 thousand, respectively.

For the six months ended June 30, 2020 and 2019, the Bank only had written off certain credits after completing the required legal procedures.

The changes in carrying amount and allowance for discounts and loans for the six months ended June 30, 2020 and 2019 are as follows:

### For the Six Months Ended June 30, 2020

	12-Month ECLs	Lifetime ECLs (Collectively)	Lifetime ECLs (Individually)	Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets)	Total
<b>Discounts and loans</b>					
Beginning on January 1, 2020	\$ 723,350,421	\$ 4,666,382	\$ 2,054,234	\$ 1,755,196	\$ 731,826,233
Changes due to financial assets recognized at the beginning of the period:					
Transfer to lifetime ECLs	(2,938,510)	3,525,077	(845,629)	(11,094)	(270,156)
Transfer to ECLs on financial assets	(344,829)	(341,705)	-	532,788	(153,746)
Transfer to 12-month ECLs	2,147,655	(1,075,857)	(1,093,905)	(26,144)	(48,251)
Financial assets derecognized in the current period	(79,027,350)	(882,573)	(114,700)	(424,181)	(80,448,804)
Purchased or originated financial assets	110,261,301	567,739	-	11,845	110,840,885
Write-offs	-	-	-	(292,498)	(292,498)
Exchange rate and other changes	(2,255,789)	(12,684)	-	(1,889)	(2,270,362)
Balance at June 30, 2020	\$ 751,192,899	\$ 6,446,379	\$ -	\$ 1,544,023	\$ 759,183,301

	12-Month ECLs	Lifetime ECLs (Collectively)	Lifetime ECLs (Individually)	Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment under the Regulatory Decree	Total
<b>Allowance</b>							
January 1, 2020	\$ 748,447	\$ 472,846	\$ 65,789	\$ 301,550	\$1,588,632	\$7,968,884	\$9,557,516
Changes due to financial assets recognized at the beginning of the period:							
Transfer to lifetime ECLs	(4,758)	795,494	(38,808)	(606)	751,322	-	751,322
Transfer to ECLs on financial assets	(383)	(84,362)	-	353,456	268,711	-	268,711
Transfer to 12-month ECLs	928,449	(95,987)	(22,613)	(4,820)	805,029	-	805,029
Financial assets derecognized in the current period	(88,902)	(68,174)	(4,368)	(15,310)	(176,754)	-	(176,754)
Purchased or originated financial assets	500,796	138,460	-	598	639,854	-	639,854
The difference of impairment under the regulatory decree	-	-	-	-	-	(2,176,533)	(2,176,533)
Write-offs	-	-	-	(292,498)	(292,498)	-	(292,498)
Recoveries after write-off	-	-	-	120,213	120,213	-	120,213
Exchange rate and other changes	(25,189)	(12,798)	-	(5,318)	(43,305)	-	(43,305)
Balance at June 30, 2020	\$2,058,460	\$1,145,479	\$ -	\$ 457,265	\$3,661,204	\$5,792,351	\$9,453,555

### For the Six Months Ended June 30, 2019

	12-Month ECLs	Lifetime ECLs (Collectively)	Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets)	Total
<b>Discounts and loans</b>				
Beginning on January 1, 2019	\$ 678,754,664	\$ 10,582,221	\$ 2,187,356	\$ 691,524,241
Changes due to financial assets recognized at the beginning of the period:				
Transfer to lifetime ECLs	(1,923,081)	1,561,923	(48)	(361,206)
Transfer to ECLs on financial assets	(446,734)	(533,123)	1,236,138	256,281
Transfer to 12-month ECLs	486,610	(4,467,757)	(332,357)	(4,313,504)
Financial assets derecognized in the current period	(71,420,280)	(1,391,009)	(808,236)	(73,619,525)
Purchased or originated financial assets	112,698,190	299,121	5,519	113,002,830
Write-offs	-	(118,173)	(362,057)	(480,230)
Exchange rate and other changes	2,504,404	17,163	1,191	2,522,758
Balance at June 30, 2019	\$ 720,653,773	\$ 5,950,366	\$ 1,927,506	\$ 728,531,645



	12-Month ECLs	Lifetime ECLs (Collectively)	Lifetime ECLs (Non-Purchase or Original Credit Impairment on Financial Assets)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment under the Regulatory Decree	Total
<b>Allowance</b>						
January 1, 2019	\$ 838,527	\$1,144,852	\$ 789,627	\$ 2,773,006	\$ 6,683,015	\$9,456,021
Changes due to financial assets recognized at the beginning of the period:						
Transfer to lifetime ECLs	(2,176)	53,109	(8)	50,925	-	50,925
Transfer to ECLs on financial assets	(551)	(77,059)	87,751	10,141	-	10,141
Transfer to 12-month ECLs	259,707	(405,421)	(180,678)	(326,392)	-	(326,392)
Financial assets derecognized in the current period	(122,684)	(117,503)	(262,335)	(502,522)	-	(502,522)
Purchased or originated financial assets	313,012	29,400	848	343,260	-	343,260
The difference of impairment under the regulatory decree	-	-	-	-	683,480	683,480
Write-offs	-	(118,173)	(362,057)	(480,230)	-	(480,230)
Recoveries after write-off	-	-	142,302	142,302	-	142,302
Exchange rate and other changes	22,674	2,871	554	26,099	-	26,099
Balance at June 30, 2019	\$1,308,509	\$ 512,076	\$ 216,004	\$ 2,036,589	\$ 7,366,495	\$9,403,084

The details of bad debt expense, commitment and guarantee liability provisions for the six months ended June 30, 2020 and 2019 are listed below:

Items	For the Six Months Ended June 30	
	2020	2019
Provisions for loans and discounts	\$ 111,629	\$ 258,892
Provisions for reserve of possible losses on guarantees	176,597	45,744
Provisions (reversal) for receivables	11,774	( 4,636)
Total	<u>\$ 300,000</u>	<u>\$ 300,000</u>

## 15. INVESTMENTS UNDER THE EQUITY METHOD

Equity Method	June 30, 2020		December 31, 2019		June 30, 2019	
	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
<b>Investment in subsidiaries</b>						
Domestic investments						
SCSB Asset Management Ltd.	\$ 1,528,201	100.00	\$ 1,597,190	100.00	\$ 1,610,650	100.00
China Travel Service (Taiwan)	393,647	99.99	381,184	99.99	358,099	99.99
SCSB Marketing Ltd.	<u>7,524</u>	100.00	<u>8,570</u>	100.00	<u>7,656</u>	100.00
	<u>1,929,372</u>		<u>1,986,944</u>		<u>1,976,405</u>	
Foreign investments						
Shancom Reconstruction Inc.	68,392,581	100.00	69,487,897	100.00	68,123,421	100.00
AMK Microfinance Institution Plc. (AMK)	3,161,175	84.89	3,140,613	84.89	2,551,980	80.01
Wresquee Limitada	335,759	100.00	336,979	100.00	344,454	100.00
Pafoong Insurance Company Ltd.	<u>312,413</u>	40.00	<u>308,872</u>	40.00	<u>310,267</u>	40.00
	<u>72,201,928</u>		<u>73,274,361</u>		<u>71,330,122</u>	
Total	<u>\$ 74,131,300</u>		<u>\$ 75,261,305</u>		<u>\$ 73,306,527</u>	

The Bank invested in Pafoong Insurance Company (Hong Kong) Ltd. by holding 40% shares directly and 60% indirectly through Shancom Reconstruction Inc. Therefore, Pafoong Insurance Company (Hong Kong) Ltd. was recorded as a subsidiary.

Among the foreign companies which the Bank invested in, the balance of Shancom Reconstruction Inc. Wresquee Limitada was calculated according to an unqualified opinion in the financial reports for the same periods audited and issued by foreign accountants. The carrying value of Kuo Hai Construction had decreased to zero due to operating losses over the years. The Bank recognized investments losses on Kuo

Hai Construction over the years because of the investee's continuous operating losses. The carrying value of Kuo Hai Construction was reduced to zero in 2002. The Bank's financial statements would not be significantly impacted even if the subsidiaries' financial statements have been audited by the accountants.

On November 10, 2018, the Bank's board approved to increase cash capital of AMK by US\$15,300 thousand, and the number of shares obtained through capital increase was 1,554 thousand shares. The case was approved by the FSC and Cambodian authorities on January 19, 2019 and July 16, 2019, respectively. Hence, the Bank's shareholding ratio increased to 84.89% on July 29, 2019. Because the subscription to capital increase was not according to the shareholding ratio, there was a discrepancy between the price and equity value of investment. Therefore, a change in the ownership interest of subsidiary credited under the capital reserve amounted to \$85,518 thousand (refer to Note 30).

#### 16. OTHER FINANCIAL ASSETS, NET

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Fixed deposit with original maturity of more than three months	\$ 2,709,590	\$ 5,284,203	\$ 6,096,195
Non-performing receivables	2,363	2,308	2,838
Purchase of remittance	<u>-</u>	<u>39</u>	<u>185</u>
	2,711,953	5,286,550	6,099,218
Allowance for non-performing credit card receivables	<u>(2,363)</u>	<u>(2,316)</u>	<u>( 2,846)</u>
	<u>\$ 2,709,590</u>	<u>\$ 5,284,234</u>	<u>\$ 6,096,372</u>

The amount of non-performing credit card receivables is made up of unsettled transactional for forward exchange contracts and credit card receivables.

The balances of receivables which were reported as non-performing amounted to \$2,363 thousand, \$2,308 thousand and \$2,838 thousand as of June 30, 2020, December 31, 2019 and June 30, 2019, respectively. The unrecognized interest revenue on the receivables amounted to \$57 thousand and \$36 thousand for the six months ended June 30, 2020 and 2019, respectively.

#### 17. PROPERTIES, NET

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Land	\$ 9,641,501	\$ 9,641,501	\$ 9,641,501
Buildings and improvements	1,827,465	1,862,037	2,055,408
Office equipment	258,014	266,508	183,690
Transportation equipment	10,693	11,520	13,226
Miscellaneous equipment	132,450	108,983	100,805
Construction-in-progress and prepayments	<u>114,137</u>	<u>77,668</u>	<u>64,650</u>
	<u>\$ 11,984,260</u>	<u>\$ 11,968,217</u>	<u>\$ 12,059,280</u>

Six Months Ended June 30, 2020					
Items	Balance at January 1, 2020	Additions	Disposals	Effects of Exchange Rate Changes, Net	Balance at June 30, 2020
<b>Cost</b>					
Land	\$ 9,641,501	\$ -	\$ -	\$ -	\$ 9,641,501
Buildings and improvements	4,243,658	-	-	-	4,243,658
Office equipment	1,054,174	26,161	(8,035)	(635)	1,071,665
Transportation equipment	56,282	915	(8,030)	-	49,167
Miscellaneous equipment	539,558	33,646	(13,140)	(188)	559,876
	<u>15,535,173</u>	<u>\$ 60,722</u>	<u>\$ (29,205)</u>	<u>\$ (823)</u>	<u>15,565,867</u>
<b>Accumulated depreciation</b>					
Buildings and improvements	2,381,621	\$ 34,572	\$ -	\$ -	2,416,193
Office equipment	787,666	33,671	(7,216)	(470)	813,651
Transportation equipment	44,762	1,610	(7,898)	-	38,474
Miscellaneous equipment	430,575	9,765	(12,784)	(130)	427,426
	<u>3,644,624</u>	<u>\$ 79,618</u>	<u>\$ (27,898)</u>	<u>\$ (600)</u>	<u>3,695,744</u>
Construction-in-progress and prepayments	77,668	\$ 36,469	\$ -	\$ -	114,137
Net amount	<u>\$11,968,217</u>				<u>\$11,984,260</u>
Six Months Ended June 30, 2019					
Items	Balance at January 1, 2019	Additions	Disposals	Effects of Exchange Rate Changes, Net	Balance at June 30, 2019
<b>Cost</b>					
Land	\$ 9,641,501	\$ -	\$ -	\$ -	\$ 9,641,501
Buildings and improvements	4,243,658	-	-	-	4,243,658
Office equipment	1,098,355	10,110	(3,970)	464	1,104,959
Transportation equipment	57,694	824	(2,190)	-	56,328
Miscellaneous equipment	549,602	3,059	(1,972)	135	550,824
	<u>15,590,810</u>	<u>\$ 13,993</u>	<u>\$ (8,132)</u>	<u>\$ 599</u>	<u>15,597,270</u>
<b>Accumulated depreciation</b>					
Buildings and improvements	2,143,286	\$ 44,964	\$ -	\$ -	2,188,250
Office equipment	899,827	24,339	(3,219)	322	921,269
Transportation equipment	43,393	1,767	(2,058)	-	43,102
Miscellaneous equipment	439,335	12,366	(1,777)	95	450,019
	<u>3,525,841</u>	<u>\$ 83,436</u>	<u>\$ (7,054)</u>	<u>\$ 417</u>	<u>3,602,640</u>
Construction-in-progress and prepayments	29,528	\$ 35,122	\$ -	\$ -	64,650
Net amount	<u>\$12,094,497</u>				<u>\$12,059,280</u>

The Bank did not recognize any impairment losses on the properties as of June 30, 2020, December 31, 2019 and June 30, 2019.

Depreciation expense of properties is computed using the straight-line method over the useful lives as below:

Buildings and improvements	
Branches offices	43-55 years
Air conditioning and machine rooms	9 years
Office equipment	3-8 years
Transportation equipment	5-10 years
Miscellaneous equipment	5-20 years

## 18. LEASE ARRANGEMENTS

### 18.1 Right-of-use assets

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Carrying amount of right-of-use assets			
Buildings and improvements	\$ 833,723	\$ 735,898	\$ 632,761
Office equipment	23,448	24,051	10,064
Transportation equipment	<u>30,232</u>	<u>28,302</u>	<u>22,732</u>
	<u>\$ 887,403</u>	<u>\$ 788,251</u>	<u>\$ 665,557</u>
	<b><u>For the Six Months Ended June 30, 2020</u></b>	<b><u>For the Six Months Ended June 30, 2019</u></b>	
Increase in right-of-use assets	<u>\$ 249,661</u>	<u>\$ 269,098</u>	
Depreciation expenses of right-of-use assets			
Buildings and improvements	\$ 135,157	\$ 100,327	
Office equipment	5,753	6,854	
Transportation equipment	<u>6,077</u>	<u>4,684</u>	
	<u>\$ 146,988</u>	<u>\$ 111,865</u>	

### 18.2 Lease liabilities

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Carrying amount of lease liabilities	<u>\$ 893,758</u>	<u>\$ 790,378</u>	<u>\$ 665,058</u>

The discount rate intervals for lease liabilities are as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Buildings and improvements	1.25%	1.25%	1.25%
Office equipment	1.25%	1.25%	1.25%
Transportation equipment	1.25%	1.25%	1.25%

### 18.3 Other lease information

	<b><u>For the Six Months Ended June 30, 2020</u></b>	<b><u>For the Six Months Ended June 30, 2019</u></b>
Short-term lease expenses	<u>\$ 7,314</u>	<u>\$ 16,110</u>
Leases of low value assets	<u>\$ 732</u>	<u>\$ 1,085</u>
Variable lease payments which are not included in lease liabilities measurements	<u>\$ 1,521</u>	<u>\$ 1,578</u>
Total cash outflow for leases	<u>\$ 157,959</u>	<u>\$ 134,537</u>

The Bank chose to apply recognition exemption to buildings, office equipments, transportation equipment that meet the standard of short-term lease and computer equipment rental which qualify as low value assets, and did not recognize those as related right-of-use assets and lease liabilities.

## 19. INTANGIBLE ASSETS, NET

For the Six Months Ended June 30, 2020					
	Balance at January 1, 2020	Additions	Disposals	Effects of Exchange Rate Changes, Net	Balance at June 30, 2020
Cost					
Computer software	\$ 295,593	\$ 51,567	\$ (113,252)	\$ (397)	\$ 233,511
Less: Accumulated amortization					
Computer software	195,261	\$ 31,741	\$ (82,603)	\$ (311)	144,088
Net amount	<u>\$ 100,332</u>				<u>\$ 89,423</u>
For the Six Months Ended June 30, 2019					
	Balance at January 1, 2019	Additions	Disposals	Effects of Exchange Rate Changes, Net	Balance at June 30, 2019
Cost					
Computer software	\$ 306,064	\$ 30,150	\$ (70,080)	\$ 296	\$ 266,430
Less: Accumulated amortization					
Computer software	193,687	\$ 38,091	\$ (70,007)	\$ 174	161,945
Net amount	<u>\$ 112,377</u>				<u>\$ 104,485</u>

Amortization expense is computed using the straight-line method over the useful lives as follows:

Computer software	3-5 years
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## 20. OTHER ASSETS, NET

	June 30, 2020	December 31, 2019	June 30, 2019
Prepaid expenses	\$ 2,189,691	\$ 1,866,721	\$ 1,430,158
Refundable deposits	746,948	563,223	616,971
Temporary payments and suspension	271,866	140,354	181,877
Deferred charges	265,337	240,133	140,271
Others	6,710	6,298	6,837
	<u>\$ 3,480,552</u>	<u>\$ 2,816,729</u>	<u>\$ 2,376,114</u>

## 21. DUE TO THE CENTRAL BANK AND BANKS

	June 30, 2020	December 31, 2019	June 30, 2019
Call loans from banks	\$ 12,532,850	\$ 22,570,871	\$ 29,900,109
Deposit transferred from Chunghwa Post Co., Ltd.	1,602,195	1,839,203	1,839,203
Overdraft on banks	612,882	750,052	4,336,992
Due to banks	576,824	583,641	555,367
	<u>\$ 15,324,751</u>	<u>\$ 25,743,767</u>	<u>\$ 36,631,671</u>

## 22. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements as of June 30, 2020, December 31, 2019 and June 30, 2019 were \$32,268,848 thousand, \$11,060,621 thousand and \$8,194,573 thousand, respectively. The aforementioned securities will be brought back by April 23, 2021, September 15, 2020 and April 30, 2020 at \$32,279,152 thousand, \$11,066,235 thousand and \$8,196,969 thousand, respectively.

**23. PAYABLES**

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Dividends payable (Note 30)	\$ 22,266,808	\$ 13,079,522	\$ 20,365,279
Accounts payable	2,450,166	1,627,783	3,879,812
Liabilities on bank acceptances	1,974,756	1,629,713	2,602,898
Accrued interest	1,778,811	1,834,819	2,027,018
Accrued expenses	840,512	1,157,055	790,871
Other accounts payable	284,011	227,634	112,611
Others	439,524	456,302	477,187
	<u>\$ 30,034,588</u>	<u>\$ 20,012,828</u>	<u>\$ 30,255,676</u>

**24. DEPOSITS AND REMITTANCES**

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Time deposits	\$ 415,740,628	\$ 414,019,156	\$ 401,871,987
Savings deposits	307,083,492	299,613,334	289,823,443
Demand deposits	261,682,371	238,610,948	220,102,261
Negotiable certificates of deposit	18,462,000	25,581,000	31,145,200
Checking deposits	8,407,107	10,060,583	9,030,525
Remittances	697,612	394,038	568,530
	<u>\$1,012,073,210</u>	<u>\$ 988,279,059</u>	<u>\$ 952,541,946</u>

**25. BANK DEBENTURES**

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
The subordinated bank debenture - 7-10 years maturity, third issued in 2012; maturity date is from November 2019 to November 2022.	\$ 4,000,000	\$ 4,000,000	\$ 5,000,000
The subordinated bank debenture - 7-10 years maturity, fourth issued in 2012; maturity date is from December 2019 to December 2022.	5,700,000	5,700,000	10,000,000
The subordinated bank debenture - 7-10 years maturity, first issued in 2014; maturity date is from March 2021 to March 2024	6,700,000	6,700,000	6,700,000
The subordinated bank debenture - 7 years maturity, second issued in 2014; maturity date is on November 2021	3,300,000	3,300,000	3,300,000
The subordinated bank debenture - 7 years maturity; first issued in 2015; maturity date is on June 2022	2,150,000	2,150,000	2,150,000
The subordinated bank debenture - 8.5 years maturity; second issued in 2015; maturity date is on June 2024	3,000,000	3,000,000	3,000,000
The subordinated bank debenture - 7-10 years maturity; first issued in 2017; maturity date is from June 2024 to 2027	5,000,000	5,000,000	5,000,000
The subordinated bank debenture - 7-10 years maturity; second issued in 2017; maturity date is from December 2024 to 2027	5,000,000	5,000,000	5,000,000
The subordinated bank debenture - 7-10 years maturity; first issued in 2018; maturity date is from June 2025 to 2028	5,000,000	5,000,000	5,000,000
The subordinated bank debenture; third issued in 2018; no maturity date	7,000,000	7,000,000	7,000,000
The bank debenture - 5 years maturity; first issued in 2019; maturity date is on September 2024	6,900,000	6,900,000	-
The bank debenture - 3 years maturity; first issued in 2019; maturity date is on September 2022	3,100,000	3,100,000	-

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
The bank debenture - 7 years maturity; first issued in 2020; maturity date is on March 2027	3,000,000	-	-
The bank debenture - 10 years maturity; first issued in 2020; maturity date is on March 2030	<u>7,000,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 66,850,000</u>	<u>\$ 56,850,000</u>	<u>\$ 52,150,000</u>

The third issuance of the 2012 bank debenture was classified into two types, Types A and B, in accordance with the issued terms. Their terms and methods of interest accrual were as follows: Type A, seven-year of subordinated bank debenture at a fixed annual interest rate of 1.43%; Type B, ten-year of subordinated bank debenture at a fixed annual interest rate of 1.55%. The interests were paid annually with the repayment of principals at maturity.

The fourth issuance of the 2012 bank debenture was classified into two types, Types A and B, in accordance with the issued terms. Their terms and methods of interest accrual were as follows: Type A, seven-year of subordinated bank debenture at a fixed annual interest rate of 1.43%; Type B, ten-year of subordinated bank debenture at a fixed annual interest rate of 1.55%. The interests were paid annually with the repayment of principals at maturity.

The first issuance of the 2014 bank debenture was classified into two types, Types A and B, in accordance with the issued terms. Their terms and methods of interest accrual were as follows: Type A, seven-year of subordinated bank debenture at a fixed annual interest rate of 1.70%; Type B, ten-year of subordinated bank debenture at a fixed annual interest rate of 1.85%. The interests were paid annually with the repayment of principals at maturity.

The second issuance of the 2014 subordinated bank debenture had a fixed interest rate of 1.83% with the interest paid annually and the repayment of principal at maturity.

The first issuance of the 2015 subordinated bank debenture had a fixed interest rate of 1.83% with the interest paid annually and the repayment of principal at maturity.

The second issuance of the 2015 subordinated bank debenture had a fixed interest rate of 1.83% with the interest paid annually and the repayment of principal at maturity.

The first issuance of the 2017 bank debenture was classified into two types, Types A and B, in accordance with the issued terms. Their terms and methods of interest accrual were as follows: Type A, seven-year of subordinated bank debenture at a fixed annual interest rate of 1.50%; Type B, ten-year of subordinated bank debenture at a fixed annual interest rate of 1.85%. The interests were paid annually with the repayment of principals at maturity.

The second issuance of the 2017 bank debenture was classified into two types in accordance with the issued terms and the methods of interest accrual: Types A and B. Their terms and methods of interest accrual were as follows: Type A, seven-year of subordinated bank debenture at a fixed annual interest rate of 1.30%; Type B, ten-year of subordinated bank debenture at a fixed annual interest rate of 1.55%. Their interests were paid annually with repayment of principals at maturity.

The first issuance of the 2018 bank debenture was classified into two types in accordance with the issued terms and the methods of interest accrual: Types A and B. Their terms were as follows: Type A, seven-year of subordinated bank debenture at a fixed annual interest rate of 1.25%; Type B, ten-year of subordinated bank debenture at a fixed annual interest rate of 1.45%. Their interests were paid annually with repayment of principals at maturity.

The third issuance of the 2018 subordinated bank debenture was at a fixed annual interest rate of 2.15% with the interest paid annually and the repayment of principal at maturity.

The first issuance of the 2019 bank debenture was classified into two types in accordance with the issued terms and the methods of interest accrual: Types A and B. Their terms were as follows: Type A, three-year bank debenture at a fixed annual interest rate of 0.65%; Type B, five-year bank debenture at a fixed annual interest rate of 0.69%. Their interests were paid annually with repayment of principals at maturity.

The first issuance of the 2020 bank debenture was classified into two types in accordance with the issued terms and the methods of interest accrual: Types A and B. Their terms were as follows: Type A, seven-year bank debenture at a fixed annual interest rate of 0.62%; Type B, ten-year bank debenture at a fixed annual interest rate of 0.64%. Their interests were paid annually with repayment of principals at maturity.

## 26. OTHER FINANCIAL LIABILITIES

	June 30, 2020	December 31, 2019	June 30, 2019
Principals of structured instruments	\$ 2,490,164	\$ 1,779,450	\$ 1,833,519
Appropriated loan funds	2,052,338	1,812,424	1,621,626
	<u>\$ 4,542,502</u>	<u>\$ 3,591,874</u>	<u>\$ 3,455,145</u>

## 27. PROVISIONS

	June 30, 2020	December 31, 2019	June 30, 2019
Reserve for guarantees liabilities	\$ 934,789	\$ 768,550	\$ 648,308
Reserve for employment benefits	595,711	655,711	637,144
Reserve for financing commitment	84,025	69,441	72,546
Others	6,298	6,347	6,447
	<u>\$ 1,620,823</u>	<u>\$ 1,500,049</u>	<u>\$ 1,364,445</u>

Changes in financing commitment and guarantee liability provisions of the Bank for the six months ended June 30, 2020 and 2019 were as follows:

### For the Six Months Ended June 30, 2020

	12-Month ECLs	Lifetime ECLs (Collectively)	Lifetime ECLs (Non-Purchased or Original Credit Impairment on Financial Assets)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment Under the Regulatory Decree	Total
<b>Commitment and guarantee liability provisions</b>						
January 1, 2020	\$ 154,445	\$ 53,270	\$ 1,675	\$ 209,390	\$ 628,601	\$ 837,991
Changes due to financial assets recognized at the beginning of the period:						
Transfer to duration expected credit losses	(149)	15,813	-	15,664	-	15,664
Transfer to 12-month ECLs	7	(1,702)	-	(1,695)	-	(1,695)
Financial assets derecognized in the current period	(77,135)	(51,562)	(68)	(128,765)	-	(128,765)
Purchased or originated financial assets	429,383	16,160	-	445,543	-	445,543
The difference of impairment under the regulatory decree	-	-	-	-	(154,150)	(154,150)
Exchange rate and other changes	3,618	608	-	4,226	-	4,226
June 30, 2020	\$ 510,169	\$ 32,587	\$ 1,607	\$ 544,363	\$ 474,451	\$ 1,018,814

### For the Six Months Ended June 30, 2019

	12-Month ECLs	Lifetime ECLs (Collectively)	Lifetime ECLs (Non-Purchased or Original Credit Impairment on Financial Assets)	Impairment Under the Guidelines of IFRS 9	The Difference of Impairment Under the Regulatory Decree	Total
<b>Commitment and guarantee liability provisions</b>						
January 1, 2019	\$ 102,373	\$ 115,497	\$ -	\$ 217,870	\$ 455,731	\$ 673,601
Changes due to financial assets recognized at the beginning of the period:						
Transfer to duration expected credit losses	(41)	4,721	-	4,680	-	4,680
Transfer to credit impairment financial assets	(5)	-	888	883	-	883
Transfer to 12-month ECLs	15,519	(35,514)	-	(19,995)	-	(19,995)
Financial assets derecognized in the current period	(75,131)	(30,772)	-	(105,903)	-	(105,903)
Purchased or originated financial assets	163,799	10,213	-	174,012	-	174,012
The difference of impairment under the regulatory decree	-	-	-	-	(7,933)	(7,933)
Exchange rate and other changes	988	521	-	1,509	-	1,509
June 30, 2019	\$ 207,502	\$ 64,666	\$ 888	\$ 273,056	\$ 447,798	\$ 720,854



## 28. OTHER LIABILITIES

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Guarantee deposits received	\$ 828,837	\$ 798,610	\$ 877,819
Temporary credit	282,609	15,241	33,068
Deferred revenue	147,276	152,466	149,452
Interest received in advance	133,870	170,160	144,670
Others	122,784	107,091	133,518
	<u>\$ 1,515,376</u>	<u>\$ 1,243,568</u>	<u>\$ 1,338,527</u>

## 29. PENSION PLAN

Employment benefit expenses in respect of the Bank's defined benefit retirement plans for the six months ended June 30, 2020 and 2019 were calculated using the respective year's actuarially determined pension cost discount rate as of December 31, 2019 and 2018. The employment benefit expenses for the periods ended June 30, 2020 and 2019 were as follows:

	<u>For the Six Months Ended June 30</u>	
	<u>2020</u>	<u>2019</u>
Defined benefit plan	\$ 95,333	\$ 92,993
Employee preferential interest deposits	15,000	5,500
	<u>\$ 110,333</u>	<u>\$ 98,493</u>

## 30. EQUITY

### 30.1 Share capital

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Ordinary shares			
Authorized shares (in thousands)	6,000,000	6,000,000	6,000,000
Authorized capital	\$ 60,000,000	\$ 60,000,000	\$ 60,000,000
Issued and paid shares (in thousands)	4,481,603	4,481,603	4,101,603
Issued capital	\$ 44,816,031	\$ 44,816,031	\$ 41,016,031

The issued ordinary shares have par value of \$10. Each shareholder is entitled with the right to vote and to receive dividends.

The board of directors approved to issue 380,000 thousand of new shares in additional capital on June 14, 2019. It was issued at a premium of \$36 per share and the paid-up share capital was \$44,816,031 thousand after the capital increase. The cash capital increase was approved by the SEC on August 7, 2019, and had been resolved by the board of directors. The base date for capital increase was on October 15, 2019. The total balance was \$13,675,000 thousand after the full payment of shares and deduction of relevant commission fees on October 7, 2019. The change of registration was completed on November 8, 2019.

## 30.2 Capital surplus

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Share premium	\$ 13,431,903	\$ 13,431,903	\$ 3,189,155
Treasury shares transaction	2,026,768	2,026,768	2,016,234
Dividends not yet collected	887,154	887,154	686,631
Recognition of changes in equity of subsidiaries	85,518	85,518	-
Proportionate share in investee's surplus from donated assets under the equity method	1,218	1,218	1,218
	<u>\$ 16,432,561</u>	<u>\$ 16,432,561</u>	<u>\$ 5,893,238</u>

The capital surplus from shares issued in excess of par (including additional paid-in capital from the issuance of ordinary shares, conversion of bonds and treasury share transactions) and donations may be capitalized from capital surplus into share capital, which is limited to a certain percentage of the Bank's paid-in capital. In addition, the capital surpluses generated by the issuance of employee stock options were \$2,971,968 thousand, \$2,971,968 thousand and \$2,609,220 thousand on June 30, 2020, December 31, 2019 and June 30, 2019 respectively, which are limited to offset losses.

The capital surplus from investments accounted for using the equity method and dividends not yet collected by shareholders are limited to offset losses.

Since the shares held by subsidiaries were classified as treasury shares, cash dividend distributed to subsidiaries was then recorded as capital surplus - treasury shares according to the shareholding ratio.

When the equity of the subsidiaries is not actually obtained or processed, the impact of the equity transaction recognized due to changes in the equity of the subsidiaries or the Bank's recognition of the adjustment to the capital reserve of its subsidiaries accounted for using the equity method.

## 30.3 Retained earnings and dividend policy

The Bank passed a resolution to amend the regulations on June 14, 2019, and authorized the board of directors to stipulate the surplus distribution or loss, which focused on special dividends and dividends distributed in cash and the report to the shareholders' meeting.

According to the Bank's revised earnings distribution policy, if there is surplus in the Bank's annual accounts, it should first complete the tax payment and then make up for the accumulated losses. According to the law, 30% of the statutory surplus reserve is required. However, when the statutory surplus reserve has reached the total paid-in capital of the Bank (not subject to the limit). It will appropriate or reverse the special surplus reserve from the balance and distribute the special dividend. The surplus balance and accumulated undistributed surplus in the previous year including the special surplus reserve will be an available surplus. The board of directors drafts a surplus allocation case and proposes for it to be recognized at the shareholder's meeting. The distribution of dividends or bonuses depends on the attendance of more than two-thirds of the board of directors and the resolution of more than half of the directors is required to distribute all or some of the dividends or bonuses in cash and the report to the shareholders' meeting.

According to the Bank's Articles of Incorporation, a legal reserve shall be appropriated at the amount equal to 30% of earnings after tax. The legal reserve shall be appropriated until it reaches the Bank's paid-in capital, the remaining profit together with undistributed retained earnings shall be as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders.

If the Bank has no deficit and the legal reserve has exceeded 25% of the Bank's paid-in capital, the excess may be corrected into capital (share capital) or distributed in cash. However, under the Banking Law, if legal reserve is less than its paid-in capital, the Bank is allowed to distribute cash earnings only up to 15% of its capital. For the basis of the employees' compensation and directors' remuneration

estimates, refer to employee benefits expense in Note 31 (7).

The Bank has made special reserves for the adoption of IFRS in accordance with Rule No. 1010012865 issued by the FSC on April 6, 2012 and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs.”

The appropriations of earnings for 2019 and 2018 were approved in the shareholders’ meetings on June 19, 2020 and June 14, 2019, respectively. The appropriations of earnings and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (In NT Dollars)</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Legal reserve	\$ 4,398,333	\$ 4,113,591		
Special reserve	-	68,560		
Cash dividends - ordinary shares	<u>9,187,286</u>	<u>8,203,206</u>	<u>\$ 2.05</u>	<u>\$ 2.00</u>
	<u>\$ 13,585,619</u>	<u>\$ 12,385,357</u>	<u>\$ 2.05</u>	<u>\$ 2.00</u>

Cash dividends from the appropriation of earnings for 2019 were neither paid nor recorded as dividends payable accordingly as of June 30, 2020. For the relevant information, refer to Note 23.

#### 30.4 Special reserve

The Bank has made a special reserve in the amount of \$1,256,859 thousand due to its transfer of cumulative translation adjustments reported in equity to retained earnings upon first-time IFRS adoption. There was no change in the balance of the special reserve for the six-month period ended June 30, 2020.

According to Rule No. 10510001510 issued by the FSC on May 25, 2016, public banks shall appropriate a special reserve for 0.5% to 1.0% of net profit when making appropriations of earnings from 2016 to 2018 to cope with staff transformation for financial technology development. Public banks may reverse the same amount of transfers or resettle the expenses starting from 2017. The Bank made a special reserve in the amounts of \$68,560 thousand from earnings of 2018 proposed by the Bank’s board of directors on June 14, 2019. The Bank made a special reserve in the amount of \$189,228 thousand according to the rule for the six months ended June 30, 2020.

#### 30.5 Treasury shares

On June 30, 2020, December 31, 2019 and June 30, 2019, Shancom Reconstruction Inc. and China Travel Service (Taiwan) held 11,370 thousand shares and 27 thousand shares of the Bank, respectively.

Under the Company Act, the Bank is not allowed to buy back more than 5% of its issued shares. In addition, the total cost of treasury shares may not exceed the sum of the retained earnings and realized capital surplus. The Bank is not allowed to exercise shareholders’ rights on these shares before they are resold. The shares held by its subsidiaries are treated as treasury shares, except for participating in the Bank’s cash addition and voting rights, the rest is the same as the general shareholder’s rights. In addition, the treasury stocks held by the Bank shall not be pledged, nor shall they have the rights of dividend distribution and voting rights under the Securities and Exchange Act.

### 31. DETAILS OF COMPREHENSIVE INCOME STATEMENT ITEMS

#### 31.1 Interest revenue, net

	For the Six Months Ended June 30	
	2020	2019
Interest revenue		
Discounts and loans	\$ 7,511,714	\$ 8,401,211
Securities investments	1,732,473	1,853,480
Due from banks	686,785	791,078
Credit and revolving	46,229	47,767
Others	54,617	67,220
	<u>10,031,818</u>	<u>11,160,756</u>
Interest expense		
Deposits	3,224,234	3,924,168
Bank debentures	506,871	513,877
Due to banks	201,147	255,540
Securities sold under repurchase agreements	32,855	40,411
Structured bond instruments	31,144	27,555
Leased liability	5,373	3,814
Others	5,825	14,136
	<u>4,007,449</u>	<u>4,779,501</u>
Interest revenue, net	<u>\$ 6,024,369</u>	<u>\$ 6,381,255</u>

#### 31.2 Service fee income, net

	For the Six Months Ended June 30	
	2020	2019
Service fee income		
Trust and custody services	\$ 607,558	\$ 478,007
Guarantees	288,489	219,310
Insurance Commission income	230,904	367,371
Loan service fees	207,020	236,970
Credit card related fees	152,501	172,526
Remittance related fees	81,791	84,966
Import and export services fees	53,888	71,652
Others	284,298	302,366
	<u>1,906,449</u>	<u>1,933,168</u>
Service charge		
Credit card service charge	111,814	115,575
Nominee and brokerage service charge	44,075	41,931
Interbank service charge	28,929	31,628
Custody service charge	22,206	22,197
Others	88,001	86,105
	<u>295,025</u>	<u>297,436</u>
Service fee income, net	<u>\$ 1,611,424</u>	<u>\$ 1,635,732</u>

### 31.3 Gain (loss) on financial assets and liabilities at FVTPL

	For the Six Months Ended June 30, 2020		
	Realized Gain (Loss)	Unrealized Gain (Loss)	Total
Financial assets mandatorily classified as at FVTPL	\$ 3,018,884	\$ 290,700	\$ 3,309,584
Held-for-trading financial liabilities	(2,929,576)	(32,339)	(2,961,915)
Financial liabilities designated as at FVTPL	-	(96,337)	(96,337)
	<u>\$ 89,308</u>	<u>\$ 162,024</u>	<u>\$ 251,332</u>

  

	For the Six Months Ended June 30, 2019		
	Realized Gain (Loss)	Unrealized Gain (Loss)	Total
Financial assets mandatorily classified as at FVTPL	\$ 1,733,205	\$ 261,916	\$ 1,995,121
Held-for-trading financial liabilities	(1,658,818)	177,491	(1,481,327)
Financial liabilities designated as at FVTPL	-	(179,995)	(179,995)
	<u>\$ 74,387</u>	<u>\$ 259,412</u>	<u>\$ 333,799</u>

### 31.4 Realized gain or loss on financial assets at FVTOCI

	For the Six Months Ended June 30	
	2020	2019
Disposal of debt instruments investment	\$ 400,203	\$ 100,777
Dividend revenue	9,063	5,243
	<u>\$ 409,266</u>	<u>\$ 106,020</u>

### 31.5 Share of profit of associates accounted for using the equity method

	For the Six Months Ended June 30	
	2020	2019
Shancom Reconstruction Inc.	\$ 2,852,428	\$ 3,566,132
AMK Microfinance Institution Plc.( AMK )	84,804	31,190
China Travel Service(Taiwan)	12,463	12,865
SCSB Asset Management Ltd.	9,403	42,612
Paofoong Insurance Company Ltd.	7,858	13,021
Wresqueue Limitada	5,010	6,504
SCSB Marketing Ltd.	954	914
	<u>\$ 2,972,920</u>	<u>\$ 3,673,238</u>

### 31.6 Other non-interest revenue

	For the Six Months Ended June 30	
	2020	2019
Leased revenue	\$ 22,188	\$ 15,958
Others	7,295	12,757
	<u>\$ 29,483</u>	<u>\$ 28,715</u>

### 31.7 Employment benefits expense

	<b>For the Six Months Ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Short-term employee benefits	\$ 1,913,911	\$ 1,774,596
Retirement benefits		
Defined contribution plan	40,803	37,664
Defined benefit plan	95,333	92,993
Other employee benefits	<u>186,541</u>	<u>170,144</u>
	<u>\$ 2,236,588</u>	<u>\$ 2,075,397</u>

The amendments stipulate the distribution of employees' compensation and remuneration of directors at the rates of no less than 0.1% and no higher than 0.6%, respectively, of net profit before income tax, employees' compensation and directors' remuneration. For the six months ended June 30, 2019 and 2020, the employees' compensation and the directors' remuneration which were estimated within the aforementioned ranges, respectively, were as follows:

	<b>For the Six months Ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Employees' compensation	<u>\$ 30,009</u>	<u>\$ 16,994</u>
Remuneration of directors	<u>\$ 28,998</u>	<u>\$ 27,498</u>

The employees' compensation and the remuneration of directors for 2019 and 2018 as approved in the board meetings on March 21, 2020 and March 23, 2019, respectively, were as follows:

	<b>For the Year Ended December 31</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Cash</b>	<b>Shares</b>	<b>Cash</b>	<b>Shares</b>
Employees' compensation	\$ 60,000	\$ -	\$ 38,000	\$ -
Remuneration of directors	58,000	-	58,000	-

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors resolved by the Bank's board in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

### 31.8 Depreciation and amortization

	<b>For the Six Months Ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Depreciation expense	\$ 226,606	\$ 195,301
Amortization expense	<u>77,256</u>	<u>79,332</u>
	<u>\$ 303,862</u>	<u>\$ 274,633</u>

### 31.9 Other business and administration expense

	<b>For the Six Months Ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Tax expenditures	\$ 457,721	\$ 477,401
Postage expense	99,507	100,812

Insurance expense	92,466	88,229
Repairs and maintenance expense	75,058	70,639
Donation	46,004	60,000
Advertising expense	24,922	62,634
Other	<u>278,824</u>	<u>319,713</u>
	<u>\$ 1,074,502</u>	<u>\$ 1,179,428</u>

## 32. INCOME TAX

### 32.1 Income tax expense recognized in profit or loss

The major components of tax expenses were as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Current tax		
In respect of the current year	\$ 900,617	\$ 886,129
In respect of prior periods	<u>(138,795)</u>	<u>13,641</u>
	<u>761,822</u>	<u>899,770</u>
Deferred tax		
In respect of the current year	(68,841)	123,330
Adjustments from previous year	<u>(29,114)</u>	<u>(28,911)</u>
	<u>(97,955)</u>	<u>94,419</u>
Income tax expense recognized in profit or loss	<u>\$ 663,867</u>	<u>\$ 994,189</u>

In July 2019, Taiwan announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. Therefore, when computing the tax on unappropriated earnings, the Bank has deducted the amount of unappropriated earnings that was reinvested in capital expenditure.

### 32.2 Income tax expense recognized in other comprehensive income

	<b>For the Six Months Ended June 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Deferred income tax expense</b>		
Arising on income and expenses recognized in other comprehensive income		
Translation adjustments for foreign operations	\$ 229,568	\$ (134,939)
Unrealized gain or loss on financial assets measured at FVTOCI	<u>(9,130)</u>	<u>(358,743)</u>
Deferred income tax expense recognized in other comprehensive income	<u>\$ 220,438</u>	<u>\$ (493,682)</u>

### 31.3 Income tax assessments

Except 2015, the Bank's income tax returns through 2016 had been assessed by the tax authorities.

### 33. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Six Months Ended June 30	
	2020	2019
Basic earnings per share	\$ 1.52	\$ 1.85
Diluted earnings per share	\$ 1.51	\$ 1.85

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

#### Net Profit for the Period

	For the Six Months Ended June 30	
	2020	2019
Earnings used in the computation of basic and diluted earnings per share	\$ 6,772,455	\$ 7,584,277

#### Weighted Average Number of Ordinary Shares Outstanding (In Thousands of Shares)

	For the Six Months Ended June 30	
	2020	2019
Weighted average number of ordinary shares in computation of basic earnings per share	4,470,206	4,090,206
Effect of potentially dilutive ordinary shares:		
Employees' compensation	1,363	1,587
Weighted average number of ordinary shares used in the computation of diluted earnings per share	4,471,569	4,091,793

Since the Bank offered to settle compensation paid to employees in cash or shares, the Bank assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

### 34. SHARE-BASED PAYMENT ARRANGEMENTS

#### Employee share option plan of the Bank

The board approved the issuance of new shares on June 14, 2019 and resolved to allocate 15% of the new shares for subscription by its employees according to the Company Law. According to IFRS 2 "share-based payment", the employee's share options should be measured at the fair value, and the related compensation cost was \$362,748 thousand. The relevant information of employee share options is as follows:



<b>Employee Share Option</b>	<b>2019</b>
	<b>Unit (thousand share)</b>
Options granted	57,000
Options exercised	55,507
Options expired	1,493
Weighted-average fair value of options granted (NT\$/per share)	\$ 6.36

Options granted were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

	<b>Employee share option</b>
Acquisition date share price (NT\$/per share)	42.29
Exercise price (NT\$/per share)	36
Expected volatility	25%
Option life (in days)	33
Dividend yield	-
Risk-free interest rate	0.45%

The expected volatility is based on the historical stock price volatility calculated by peers.

### 35. RELATED-PARTY TRANSACTIONS

Besides the information disclosed in other notes, the significant transactions and account balances with related parties are summarized as follows:

#### 35.1 The Bank's related parties

<b>Related Party</b>	<b>Relationship with the Bank</b>
China Travel Service (Taiwan)	Subsidiary
SCSB Asset Management Ltd.	Subsidiary
SCSB Marketing Ltd.	Subsidiary
Shancom Reconstruction Inc.	Subsidiary
Wresqueue Limitada	Subsidiary
CTS Travel International Ltd.	Indirect subsidiary
SCSB Leasing (China) Co., Ltd.	Indirect subsidiary
Krinein Company (Krinein)	Indirect subsidiary
Empresa Inversiones Generales, S.A. (Empresa)	Indirect subsidiary
Shanghai Commercial Bank, HK (SCB)	Indirect subsidiary
The SCSB Cultural & Educational Foundation	Fund donated by the Bank which exceed 1/3 of total fund
The SCSB Charity Foundation	Fund donated by the Bank which exceed 1/3 of total fund
Silks Place Taroko	Investment under equity method held by subsidiary
Hung Ta Investment Corporation	The chairman and the Bank's chairman are related by marriage
Hung Shen Investment Corporation	The chairman and the Bank's chairman are related by marriage
GTM Corporation	The director of the Bank is the director of the related party
Chi-Li Investment Co., Ltd.	The director of the Bank is the director of the related party
Goldsun Co., Ltd.	The director of the Bank is the director of the related party
Qin Mao Consultants Ltd.	The chairman and the Bank's director are related by marriage

Lian Yi Investment Co., Ltd.

The director and the Bank's director are related by marriage

Other related parties

The relatives of the Bank's directors and managers

## 35.2 Significant transactions between parties

### 35.2.1 Due from foreign banks

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Shanghai Commercial Bank (HK)	<u>\$ 342,918</u>	<u>\$ 125,513</u>	<u>\$ 163,757</u>

The interest income arising from the above transactions were \$68 thousand and \$49 thousand for the six months ended June 30, 2020 and 2019, respectively.

### 35.2.2 Due to banks

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Shanghai Commercial Bank (HK)	<u>\$ 17,862</u>	<u>\$ 18,012</u>	<u>\$ 115</u>

### 35.2.3 Guarantees

	<u>Maximum Balance</u>	<u>Ending Balance</u>	<u>Reserve for Possible Losses on Guarantees</u>	<u>Interest Rate (%)</u>	<u>Collateral</u>
June 30, 2020					
China Travel Service (Taiwan)	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ -</u>	1.00	Real estate
December 31, 2019					
China Travel Service (Taiwan)	<u>\$ 7,000</u>	<u>\$ 4,000</u>	<u>\$ -</u>	1.00	Real estate
June 30, 2019					
China Travel Service (Taiwan)	<u>\$ 7,000</u>	<u>\$ 4,000</u>	<u>\$ -</u>	1.00	Real estate

### 35.2.4 Deposits

	<u>June 30, 2020</u>			<u>For the Six Months Ended June 30, 2020</u>
	<u>Maximum Balance</u>	<u>Ending Balance</u>	<u>Interest Rate (%)</u>	<u>Interest Expense</u>
Empresa	\$ 2,512,066	\$ 800,447	0.35-2.10	\$ 6,360
Krinein	802,689	460,365	0.35-2.10	3,471
Employees	359,135	188,884	0.00-9.97	1,700
SCSB Asset Management Ltd.	315,211	254,965	0.05-1.03	1,157
The SCSB Cultural & Educational Foundation	314,721	308,222	0.01-1.07	865
Directors and related management	302,172	229,170	0.00-4.90	648
Shancom Reconstruction Inc.	175,298	175,298	0.10-2.10	1,283
Others	<u>175,313</u>	<u>156,206</u>	<u>0.00-1.90</u>	<u>511</u>
	<u>\$ 4,956,605</u>	<u>\$ 2,573,557</u>		<u>\$ 15,995</u>

	<b>December 31, 2019</b>			<b>For the Year Ended December 31, 2019</b>
	<b>Maximum Balance</b>	<b>Ending Balance</b>	<b>Interest Rate (%)</b>	<b>Interest Expense</b>
Empresa Krinein	\$ 2,522,014	\$ 807,393	1.05-2.85	\$ 21,678
Directors and related management	803,450	464,360	1.05-2.85	11,902
Employees	632,652	223,171	0.00-4.90	1,603
The SCSB Cultural & Educational Foundation	620,966	135,489	0.00-9.97	4,224
SCSB Asset Management Ltd.	338,369	314,721	0.01-1.07	1,914
Shancom Reconstruction Inc.	304,975	303,663	0.08-1.03	2,540
Others	176,819	176,819	0.33-2.85	4,417
	<u>179,510</u>	<u>169,119</u>	0.00-2.30	<u>990</u>
	<u>\$ 5,578,755</u>	<u>\$ 2,594,735</u>		<u>\$ 49,268</u>

	<b>June 30, 2019</b>			<b>For the Six Months Ended June 30, 2019</b>
	<b>Maximum Balance</b>	<b>Ending Balance</b>	<b>Interest Rate (%)</b>	<b>Interest Expense</b>
Empresa Krinein	\$ 2,611,233	\$ 825,374	1.05-2.85	\$ 12,747
Directors and related management	831,873	474,702	1.05-2.85	6,745
Employees	476,063	225,076	0.00-4.90	868
The SCSB Cultural & Educational Foundation	450,770	205,728	0.00-9.96	2,238
SCSB Asset Management Ltd.	315,002	304,427	0.01-1.07	949
Shancom Reconstruction Inc.	305,003	304,529	0.08-1.03	1,261
Others	180,757	180,757	0.48-2.85	2,450
	<u>177,311</u>	<u>158,878</u>	0.00-2.30	<u>479</u>
	<u>\$ 5,348,012</u>	<u>\$ 2,679,471</u>		<u>\$ 27,737</u>

#### 35.2.5 Interest receivable (accounted for as receivables)

	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Directors and related management	<u>\$ 95</u>	<u>\$ 138</u>	<u>\$ 45</u>

### 35.2.6 Interest payable (accounted for as payables)

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Empresa	\$ 1,733	\$ 3,721	\$ 4,736
Krinein	997	2,140	2,724
Shancom Reconstruction Inc.	380	815	1,037
Others	<u>332</u>	<u>413</u>	<u>871</u>
	<u>\$ 3,442</u>	<u>\$ 7,089</u>	<u>\$ 9,368</u>

### 35.2.7 Guarantee deposits received (accounted for as other liabilities)

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
The SCSB Cultural & Educational Foundation	\$ 318	\$ 529	\$ 211
China Travel Service (Taiwan)	180	180	180
Others	<u>67</u>	<u>67</u>	<u>67</u>
	<u>\$ 565</u>	<u>\$ 776</u>	<u>\$ 458</u>

### 35.2.8 Rental income (accounted for other revenue, net)

	<b>For the Six Months Ended June 30</b>	
	<u>2020</u>	<u>2019</u>
The SCSB Cultural & Educational Foundation	\$ 636	\$ 421
China Travel Service (Taiwan)	369	369
Others	<u>124</u>	<u>127</u>
	<u>\$ 1,129</u>	<u>\$ 917</u>

For the rental contracts with related parties, the rental is determined in proportion to similar rentals in the area, based on a reference of the rentals in the neighborhood, and is received on a monthly basis.

### 35.2.9 Administrative and operating expense (accounted for as other general administrative expenses)

	<b>For the Six Months Ended June 30</b>	
	<u>2020</u>	<u>2019</u>
SCSB Marketing	\$ 39,485	\$ 39,127
China Travel Service (Taiwan)	<u>864</u>	<u>409</u>
	<u>\$ 40,349</u>	<u>\$ 39,536</u>

### 35.2.10 Loans

June 30, 2020									For the Six Months Ended June 30, 2020
Category	Name	Maximum Balance	Ending Balance	Performance		Collateral	Interest Rate (%)	Difference of Terms of the Transactions with Unrelated Parties	
				Normal Loans	Non-performing Loans				
Others	Directors and related management (4)	<u>\$ 432,621</u>	<u>\$ 430,474</u>	<u>\$ 430,474</u>	-	Real estate	1.33-2.26	None	<u>\$ 3,485</u>

December 31, 2019									For the Year Ended December 31, 2019
Category	Name	Maximum Balance	Ending Balance	Performance		Collateral	Interest Rate (%)	Difference of Terms of the Transactions with Unrelated Parties	Interest Income
				Normal Loans	Non- performing Loans				
Loans for personal house mortgages	Directors and related management (1)	\$ 9,112	\$ 658	\$ 658	-	Real estate	2.09	None	\$ 103
Others	Directors and related management (6)	<u>455,217</u>	<u>439,374</u>	<u>439,374</u>	-	Real estate	1.58-2.66	None	<u>4,249</u>
		<u>\$ 464,329</u>	<u>\$ 440,032</u>	<u>\$ 440,032</u>					<u>\$ 4,352</u>
June 30, 2019									For the Six Months Ended June 30, 2019
Category	Name	Maximum Balance	Ending Balance	Performance		Collateral	Interest Rate (%)	Difference of Terms of the Transactions with Unrelated Parties	Interest Income
				Normal Loans	Non- performing Loans				
Loans for personal house mortgages	Directors and related management (1)	\$ 12,950	\$ 4,584	\$ 4,584	-	Real estate	2.09	None	\$ 72
Others	Directors and related management (5)	<u>445,979</u>	<u>431,532</u>	<u>431,532</u>	-	Real estate/	1.68-2.66	None	<u>466</u>
		<u>\$ 458,929</u>	<u>\$ 436,116</u>	<u>\$ 436,116</u>					<u>\$ 538</u>

Employee deposits and loans have interest rates that are better than ordinary rates but within regulated limits, while other related party transactions have similar terms as non-related party transactions.

Under the provisions of Articles 32 and 33 of the Banking Act, the Bank shall not make unsecured loans to related party, except for consumer loans under certain limits and government loans. Secured loans to a related party should be fully guaranteed, and the relevant terms should not be superior to other similar credit clients.

### 35.3 Compensation of directors, supervisors and management personnel

The compensation of key management personnel for the period ended June 30, 2020 and 2019 was as follows:

	For the Six Months Ended June 30	
	2020	2019
Remuneration of directors and post-employment benefits	\$ 53,466	\$ 45,736
Salaries and other short-term employment benefits	50,164	47,135
Retirement benefits	7,518	6,891
Bonuses of employees	<u>1,779</u>	<u>938</u>
	<u>\$ 112,927</u>	<u>\$ 100,700</u>

## 36. PLEDGED ASSETS

Under the Central Bank's clearing system of Real-Time Gross Settlement (RTGS), on June 30, 2020, December 31, 2019 and June 30, 2019, the assets listed below had been provided as collateral for day-term overdrafts with the pledged amount adjustable at any time.

	June 30, 2020	December 31, 2019	June 30, 2019	Guarantee Purpose
Financial assets at amortized cost	\$ 11,100,000	\$ 15,000,000	\$ 15,000,000	Day-term overdraft with the pledge

On June 30, 2020, December 31, 2019 and June 30, 2019, the assets listed below were provided as refundable deposits for operating guarantees and for executing legal proceedings against defaulting borrowers as required by the court.

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>	<u>Guarantee Purpose</u>
Financial assets at FVTOCI	\$ 340,544	\$ 317,093	\$ 318,231	Operating guarantee

### 37. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

37.1 In addition to those disclosed in other notes, significant commitments and contingencies of the Bank as of June 30, 2020, December 31, 2019 and June 30, 2019 were as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Receivables under custody	\$ 22,629,355	\$ 23,250,172	\$ 23,591,453
Consigned travelers' checks	144,538	162,850	185,226
Guarantee notes payable	162,454,204	147,607,429	131,147,681
Assets under trust	186,898,093	166,653,678	173,892,454
Securities in custody	17,072,631	17,301,568	17,510,774
Government bonds in brokerage accounts	36,912,200	64,090,200	44,830,200
Short-term bills in brokerage accounts	721,200	808,800	728,000

### 38. FINANCIAL INSTRUMENTS

38.1 Fair value information - financial instruments not measured at fair value

38.1.1 Fair value of financial instruments that are not measured at fair value

Except as detailed in the following table, the Bank's management considers that the carrying amounts of financial instruments not measured at fair values are approximates of their fair values or the fair values could not otherwise be reliably measured:

	<u>June 30, 2020</u>		<u>December 31, 2019</u>		<u>June 30, 2019</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<b>Financial assets</b>						
Financial assets measured at amortized cost	\$87,811,238	\$88,079,661	\$99,749,266	\$99,894,739	\$101,850,072	\$101,944,449
<b>Financial liabilities</b>						
Bank debentures	66,850,000	67,082,845	56,850,000	57,203,997	52,150,000	52,446,307

38.1.2 Fair value level

	<u>June 30, 2020</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets</b>				
Debt in investment instrument measured at amortized cost	\$88,079,661	\$3,012,204	\$85,067,457	\$ -
<b>Financial liabilities</b>				
Bank debentures	67,082,845	-	67,082,845	-

	<b>December 31, 2019</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>

**Financial assets**

Debt in investment instrument measured at amortized cost	\$99,894,739	\$2,976,568	\$96,918,171	\$ -
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**Financial liabilities**

Bank debentures	57,203,997	-	57,203,997	-
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	<b>June 30, 2019</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>

**Financial assets**

Debt in investment instrument measured at amortized cost	\$101,994,449	\$5,123,496	\$96,820,953	\$ -
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**Financial liabilities**

Bank debentures	52,446,307	-	52,446,307	-
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38.1.3 The evaluation method and assumptions used in measuring fair value

The fair value of financial assets and liabilities are determined as follows:

- The fair value of financial assets with standard clauses and terms is quoted market price.
- The fair value of financial instruments other than the above is determined by the discounted cash flow analysis or other generally accepted pricing models.

38.2 Fair value information - financial instruments measured at fair value

38.2.1 Fair value level

Information of the financial instruments measured at fair value categorized by level is as follows:

<b>Financial Instruments Measured at Fair Value</b>	<b>June 30, 2020</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Non-derivative instruments</b>				
<b>Assets</b>				
Financial assets measured at FVTPL				
Financial assets mandatorily classified as at FVTPL				
Shares	\$ 863,164	\$ 863,164	\$ -	\$ -
Bonds	756,709	143,121	50,336	563,252
Beneficiary certificates	482,596	482,596	-	-
Financial assets measured at FVTOCI				
Equity instruments	6,045,227	4,470,057	-	1,575,170
Debt instruments	220,296,099	56,636,493	163,659,606	-
	<u>\$ 228,443,795</u>	<u>\$ 62,595,431</u>	<u>\$ 163,709,942</u>	<u>\$ 2,138,422</u>
<b>Liabilities</b>				
Financial liabilities measured at FVTPL	<u>\$ 2,353,865</u>	<u>\$ -</u>	<u>\$ 2,353,865</u>	<u>\$ -</u>

Financial Instruments Measured at Fair Value	June 30, 2020			
	Total	Level 1	Level 2	Level 3
<b>Derivative instruments</b>				
Assets				
Financial assets measured at FVTPL	\$ 831,806	\$ 49,483	\$ 363,302	\$ 419,021
Liabilities				
Financial liabilities measured at FVTPL	\$ 364,302	\$ 24,264	\$ 288,992	\$ 51,046
Financial Instruments Measured at Fair Value	December 31, 2019			
	Total	Level 1	Level 2	Level 3
<b>Non-derivative instruments</b>				
Assets				
Financial assets measured at FVTPL				
Financial assets mandatorily classified as at FVTPL				
Shares	\$ 880,449	\$ 880,449	\$ -	\$ -
Bonds	763,749	136,428	49,843	577,478
Beneficiary certificates	863,054	863,054	-	-
Financial assets measured at FVTOCI				
Equity instruments	3,924,394	2,358,474	-	1,565,920
Debt instruments	204,041,330	58,063,422	145,977,908	-
	<u>\$ 210,472,976</u>	<u>\$ 62,301,827</u>	<u>\$ 146,027,751</u>	<u>\$ 2,143,398</u>
Liabilities				
Financial liabilities measured at FVTPL	\$ 2,394,829	\$ -	\$ 2,394,829	\$ -
<b>Derivative instruments</b>				
Assets				
Financial assets measured at FVTPL	\$ 663,982	\$ 39,010	\$ 349,876	\$ 275,096
Liabilities				
Financial liabilities measured at FVTPL	\$ 315,654	\$ 15,613	\$ 242,276	\$ 57,765
Financial Instruments Measured at Fair Value	June 30, 2019			
	Total	Level 1	Level 2	Level 3
<b>Non-derivative instruments</b>				
Assets				
Financial assets measured at FVTPL				
Financial assets mandatorily classified as at FVTPL				
Shares	\$ 641,481	\$ 641,481	\$ -	\$ -
Bonds	747,460	186,593	-	560,867
Beneficiary certificates	679,300	679,300	-	-
Financial assets measured at FVTOCI				
Equity instruments	4,686,874	3,198,612	-	1,488,262
Debt instruments	184,666,831	58,511,624	126,155,207	-
	<u>\$ 191,421,946</u>	<u>\$ 63,217,610</u>	<u>\$ 126,155,207</u>	<u>\$ 2,049,129</u>
Liabilities				
Financial liabilities measured at FVTPL	\$ 2,454,880	\$ -	\$ 2,454,880	\$ -
<b>Derivative instruments</b>				
Assets				
Financial assets measured at FVTPL	\$ 715,019	\$ 36,872	\$ 319,063	\$ 359,084
Liabilities				
Financial liabilities measured at FVTPL	\$ 311,914	\$ 17,240	\$ 239,995	\$ 54,679



There are no transfers of financial instruments between Level 1 and Level 2 fair value measurement for the six months ended June 30, 2020 and 2019.

### 38.2.2 Reconciliation of Level 3 fair value measurement

#### For the six months ended June 30, 2020

Items	Beginning Balance	Amount of Valuation Gain or Loss		Addition		Reduction		Ending Balance
		Included in Profit or Loss	Included in Other Comprehensive Income	Buy or Issue	Transferred In	Sell Out, Disposal or Settlement	Transferred Out from Third Level	
<b>Assets</b>								
Financial assets measured at FVTPL								
Financial assets mandatorily measured at FVTPL	\$ 852,574	\$ 129,699	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 982,273
Financial assets measured at FVTOCI	1,565,920		(24,430)	33,680	-	-	-	1,575,170
<b>Liabilities</b>								
Financial liabilities measured at FVTPL								
Held-for-trading financial liabilities	57,765	(6,719)	-	-	-	-	-	51,046

#### For the six months ended June 30, 2019

Items	Beginning Balance	Amount of Valuation Gain or Loss		Addition		Reduction		Ending Balance
		Included in Profit or Loss	Included in Other Comprehensive Income	Buy or Issue	Transferred In	Sell Out, Disposal or Settlement	Transferred Out from Third Level	
<b>Assets</b>								
Financial assets measured at FVTPL								
Financial assets mandatorily measured at FVTPL	\$ 1,128,224	\$ 255,650	\$ -	\$ -	\$ -	\$ (463,923)	\$ -	\$ 919,951
Financial assets measured at FVTOCI	2,271,307	-	(9,840)	-	-	(618,564)	(154,641)	1,488,262
<b>Liabilities</b>								
Financial liabilities measured at FVTPL								
Held-for-trading financial liabilities	37,829	16,850	-	-	-	-	-	54,679

### 38.2.3 Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Bonds	Valuation was based on observable market prices or assessed by cash-flow method through observable elements.
Derivatives	Valuation was based on widely-adapted pricing techniques. The inputs were assessed by observable elements in the market.
Others	Valuation was based on observable market prices or assessed by cash-flow method through observable elements.

### 38.2.4 Valuation techniques and inputs applied for Level 3 fair value measurement

Fair value evaluation for instruments categorized as Level 3 included but was not limited to instruments classified as measured at fair value through profit or loss, equity securities investments, derivatives, and held-to-maturity financial assets.

Most financial instruments with fair value measurements categorized as Level 3 only possess single, unobservable inputs. Non-active market debt instruments possess unobservable inputs. The non-active market equity instruments are independent and, thus, are irrelevant to each other. The table of quantified information of significant unobservable inputs is as follows:

	Fair Value June 30, 2020	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted- Average)	Notes
<b>Non-derivative financial assets</b>					
Financial assets at fair value through profit or loss - Bonds	\$ 563,252	Counterparty quote and check with other quotations	Discount lack of market liquidity	0%-10%	The higher of the discount lack of liquidity, and the lower the fair value.
Financial assets at fair value through other comprehensive income - Shares	1,575,170	1. Market approach	1. Market liquidity reduction	1. 10%-19%	1. The higher of the multiplier, and the higher of the fair value.
		2. Net asset value method	2. Market liquidity reduction	2. 10%-19%	2. The higher the liquidity reduction, and the lower of the fair value.
<b>Derivative financial asset</b>					
Financial assets at fair value through profit or loss Interest rate exchange	419,021	Discounted cash flow method	Discount rate	0%-10%	The higher of the discount rate, and the lower of the fair value.
<b>Derivative financial liabilities</b>					
Financial liabilities at fair value through profit or loss - Sell options	51,046	Black-Scholes Model	Volatility	0%-15%	The higher of the volatility, and the higher of the fair value.

### 38.2.5 Sensitivity analysis of alternative assumptions of Level 3 fair value measurement

The Bank reasonably measured the fair values of its financial instruments; however, using different valuation models, evaluation methods and underlying assumptions may lead to different results. For financial instruments classified as Level 3 fair value measurements, if the parameters were to go up 1%, the influence on net income or other comprehensive income would be as follows:

**June 30, 2020**

	Changes in Fair Value Reflected in Profit or Loss		Changes in Fair Value Reflect in Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss	\$ -	\$(14,541)	\$ -	\$ -
Financial assets at fair value through other comprehensive income	-	-	15,752	-

**December 31, 2019**

	Changes in Fair Value Reflected in Profit or Loss		Changes in Fair Value Reflect in Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss	\$ -	\$(18,092)	\$ -	\$ -
Financial assets at fair value through other comprehensive income	-	-	-	(15,120)

**June 30, 2019**

	Changes in Fair Value Reflected in Profit or Loss		Changes in Fair Value Reflect in Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss	\$ -	\$ (4,652)	\$ -	\$ -
Financial assets at fair value through other comprehensive income	-	-	14,883	-

For financial instruments classified as having Level 3 fair value measurements, if the parameters were to go down 1%, the influence of net income or other comprehensive income would be as follows:

**June 30, 2020**

	Changes in Fair Value Reflected in Profit or Loss		Changes in Fair Value Reflect in Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss	\$ 14,541	\$ -	\$ -	\$ -
Financial assets at fair value through other comprehensive income	-	-	-	(15,752)

**December 31, 2019**

	Changes in Fair Value Reflected in Profit or Loss		Changes in Fair Value Reflect in Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss	\$ 18,092	\$ -	\$ -	\$ -
Financial assets at fair value through other comprehensive income	-	-	15,120	-

**June 30, 2019**

	Changes in Fair Value Reflected in Profit or Loss		Changes in Fair Value Reflect in Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss	\$ 4,652	\$ -	\$ -	\$ -
Financial assets at fair value through other comprehensive income	-	-	-	(14,883)

### 38.3 Financial risk management

#### 38.3.1 Risk management

The Bank's objective in risk management is to establish a risk control mechanism weighing the entire risk of the Bank, restrictions from laws and regulations, to diversify, transfer and avoid risk, and to pursue the maximum benefits of the Bank's customers, shareholders, and employees. The Bank's major risks include credit risk, market risk (interest rate, exchange rate and equity securities), operational risk, liquidity risk and so on.

The Bank established written risk management policies and procedures that are considered and approved by the board of directors to identify, measure, monitor, and control the credit risk, market risk, and liquidity risk.

The Bank's risk management department performs the Bank's risk management activities pursuant to the policies approved by the board of directors. Risk management department works with other business departments in order to identify, evaluate, and avoid any financial risks. The board of directors formulates the written policies for risk management; the policy included specific exposures such as currency risk, interest rate risk, credit risk, operational risk, derivative and non-derivative financial instruments. In addition, the department of internal audit is responsible for independent review of risk management and control environment.

#### 38.3.2 Credit risk

Credit risk is the risk of counterparties' failure to fulfill their contractual obligations causing the Bank's financial losses. Both in-balance-sheet and off-balance-sheet items are exposed to credit risks. For the Bank's credit exposures, in-balance-sheet items mainly consisted of discounts and loans, credit card business, due from and call loans to banks, debt investments, and derivative instruments. Off-balance sheet items mainly consisted of financial guarantee, acceptances, letters of credit, loan commitments, and other services which also generate credit exposure.

To ensure that the credit risk is controlled within a tolerable range, the Bank established an internal standard for credit risk. In that standard, all transactions are analyzed whether in the banking book or in the trading book, and either in-balance-sheet or off-balance-sheet, to identify the inherent and potential risks. The Bank examines and confirms credit risk in accordance with the rules before launching new products and business. Furthermore, the Bank also establishes a risk management system for complicated credit business such as factoring, credit derivative financial instruments and so on.

The Bank's foreign operation units adopt policies and standards same with above to assess their asset quality and provision for contingent loss, and also include policies that comply with the regulations of the local financial supervisory commission.

##### (1) Procedures of credit risk management

Each major business applies procedures and methods for credit risk management as follows:

##### A. Credit business (including loan commitments and guarantees)

##### a. The credit risk has increased significantly after original recognition

The Bank assesses the change in the risk of default over the expected duration of each type of credit asset on each reporting date in order to determine whether the credit risk has increased significantly since original recognition. For this assessment, the Bank's considerations (including forward-looking information) show that the credit risk has increased significantly since original recognition and can be corroborated. The main

considerations include:

- i. Changes in internal and external credit ratings (e.g. external TCRI ratings are above the high risk level).
  - ii. Information of overdue status (e.g. if the payment is overdue for more than 30 days).
  - iii. Unfavorable changes in current or projected operating, financial or economic conditions that are expected to result in significant changes in the ability of the debtor to perform its debt obligations.
  - iv. Significant changes in actual or expected results of the debtor's operations.
  - v. The credit risk of other financial instruments of the same debtor has increased significantly.
- b. The definition of default and credit impairment on financial assets

The Bank's definition of default on financial assets is the same as the judgment of credit impairment on financial assets. If one or more of the following conditions are met, the Bank determines that the financial assets have defaulted and become credit impaired:

- i. Changes in internal and external credit ratings (e.g. external TCRI ratings are above the high risk level).
- ii. Information of overdue status (e.g. if the payment is overdue for more than 90 days).
- iii. The debtor has become bankrupt or may file for bankruptcy or financial restructuring.
- iv. The debtor has died or been dissolved.
- v. Contracts of other debt instruments of the debtor have defaulted.
- vi. The active market of the financial assets disappeared due to financial difficulties.
- vii. The debtor's creditor gives the borrower a concession that would not have been considered due to economic or contractual reasons related to the debtor's financial difficulties.
- viii. There is a purchase or initiation of financial assets at a significant discount reflecting that credit losses have occurred.

The aforementioned default and credit impairment definitions apply to all financial assets held by the Bank and are consistent with the definitions used for the internal credit risk management purposes of the financial assets and are applied to the relevant impairment assessment model.

- c. Measurement of expected credit loss

For the objective of assessing expected credit loss, credit assets are classified according to the credit risk characteristics (such as the purpose of the borrowing, the nature of the industry, the type of collateral and the state of the borrowing) into two categories: corporate finance and personal finance. Further to this, the credit risk characteristics are divided according to each category.

The 12-month expected credit loss amounts of the Bank's financial instruments whose credit risk has not significantly increased since original recognition are used to measure the allowance loss of the financial instruments; for financial instruments whose credit risk has increased significantly or which have had credit impairment since original recognition, such financial instruments are measured at the amount of full-lifetime expected credit losses.

The estimation method and significant assumptions used to assess expected credit losses have not changed significantly since June 30, 2020.

d. Forward-looking information considerations

When measuring the expected credit losses, the Bank uses forward-looking economic factors that affect credit risk and takes such forward-looking information regarding expected credit losses into consideration. Based on professional economic judgment, the Bank uses the statistical analysis results of GDP growth rate to provide forecast information of economic factors on a quarterly basis and re-evaluates such data on each financial reporting date.

B. Due from and call loans to bank

The Bank assesses the credit position of counterparties and consults a credit rating agency for credit rating information and sets limits to the credit facilities.

C. Debt investments and derivative financial instruments

For the credit risk management of debt investments, the Bank identifies credit risk by using information from external institutions about credit ratings, quality of debts, region, and the risk of counterparties.

Most of the Bank's counterparties in derivative transactions are assessed at higher than investment grade, and the Bank controls the investments according to counterparties' facilities (including call loans); counterparties that do not have credit ratings or are not assessed at investment grade are reviewed case by case. Counterparties which are non-financial or non-banking clients are assessed according to the general procedures for the approval of credit facilities and control of credit exposure situations of the counterparties.

(2) Policies of credit risk hedging or mitigation

A. Collateral

The Bank applies series of policies to decrease credit risks in its lending business. Among those policies is to request collateral from creditors. To secure the creditor's rights, the Bank has established procedures for pledges, valuations, management, and disposals of collateral. The contracts between the Bank and the borrowers clearly state the protocols, including but not limited to the security of credit, procedures for collateral and for offsets. Collateral for business other than loan borrowings vary by the nature of the related financial instruments. Only asset-backed securities and other similar financial instruments are secured by a pool of financial assets.

B. Limitation of credit risk and credit concentration management

The credit policies of the Bank regulate the credit limitations, as applied to a single counterparty or group, to avoid excessive credit concentration. The Bank further implements concentration policies, which monitor and manage the credit limitation and concentration in

one single counterparty, different enterprises, related parties, industries, and countries. The policies are based on individual criteria in different categories including but not limited to industries, enterprises, and share-pledge related loans.

### C. Other mechanisms for credit risk management

To further decrease credit risks, the contracts also proclaim that the Bank may decrease the balances, shorten the maturity period, demand immediate payback, or use borrowers' assets in the Bank to offset their liabilities.

In most circumstances, the Bank applies gross settlement with counterparties. However, to further decrease credit risks, the Bank applies net settlement or even terminates transactions with certain counterparties when default may occur.

The table below analyzes the collateral held as security and other credit enhancements, and their financial effects in respect of the financial assets recognized in the Bank's balance sheets:

#### June 30, 2020

	Maximum Exposure to Credit Risk Mitigated by				Total
	Carrying Amount	Collateral	Master Netting Arrangement	Other Credit Enhancements	
Financial instruments with credit impairment under IFRS 9					
Receivables	\$ 298,062	\$ -	\$ -	\$ -	\$ -
Discounts and loans	1,544,023	1,020,172	-	182,922	1,203,094

#### December 31, 2019

	Maximum Exposure to Credit Risk Mitigated by				Total
	Carrying Amount	Collateral	Master Netting Arrangement	Other Credit Enhancements	
Financial instruments with credit impairment under IFRS 9					
Receivables	\$ 332,482	\$ -	\$ -	\$ -	\$ -
Discounts and loans	1,755,196	1,102,131	-	230,790	1,332,921

#### June 30, 2019

	Maximum Exposure to Credit Risk Mitigated by				Total
	Carrying Amount	Collateral	Master Netting Arrangement	Other Credit Enhancements	
Financial instruments with credit impairment under IFRS 9					
Receivables	\$ 517,974	\$ -	\$ -	\$ -	\$ -
Discounts and loans	1,927,506	1,435,263	-	139,410	1,574,673



(3) Credit risk exposures

The maximum exposure of the Bank's assets in the balance sheets is equivalent to the book value, while the pledged assets and other credit instruments are not considered. The off-balance sheet items related to the maximum credit exposure (without considering collateral or other credit enhancements and irrevocable maximum exposure) are as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Developed and non-cancelable loan commitments	\$ 19,714,594	\$ 16,718,592	\$ 14,113,002
Non-cancelable credit card commitments	645,041	708,400	690,712
Issued but unused letters of credit	9,203,294	7,420,287	9,672,092
Other guarantees	88,592,326	73,025,100	61,639,948

The Bank assessed that it could continually control and minimize credit risk exposure of off-balance sheet items because it adopts stricter procedures and regularly audits credit accounts.

The total carrying amounts of the financial assets with the largest credit risk exposure are as follows:

	<b>June 30, 2020</b>			
	<b>12-Month Expected Credit Loss</b>	<b>Full-Lifetime Expected Credit Loss - Unimpaired</b>	<b>Full-Lifetime Expected Credit Loss - Impaired</b>	<b>Total</b>
Discounts and loans				
Consumer banking				
Residential mortgage loans	\$ 239,325,977	\$ 1,910,306	\$ 434,393	\$ 241,670,676
Small scale credit loans	2,515,725	12,041	12,918	2,540,684
Others	29,114,433	88,628	48,721	29,251,782
Corporate banking				
Secured	290,757,334	2,408,315	679,801	293,845,450
Unsecured	189,479,430	2,027,089	368,190	191,874,709
Total	\$ 751,192,899	\$ 6,446,379	\$ 1,544,023	\$ 759,183,301
Accounts receivable (including non-performing credit card receivables)				
Credit cards	\$ 1,893,191	\$ 50,763	\$ 66,293	\$ 2,010,247
Others	8,591,373	190,050	231,769	9,013,192
Total	\$ 10,484,564	\$ 240,813	\$ 298,062	\$ 11,023,439
Debt instruments measured at fair value through other comprehensive income	\$ 218,006,599	\$ 477,199	\$ -	\$ 218,483,798
Investments in debt instruments at amortized cost	\$ 87,812,722	\$ -	\$ -	\$ 87,812,722

	<b>December 31, 2019</b>			
	<b>12-Month Expected Credit Loss</b>	<b>Full-Lifetime Expected Credit Loss - Unimpaired</b>	<b>Full-Lifetime Expected Credit Loss - Impaired</b>	<b>Total</b>
Discounts and loans				
Consumer banking				
Residential mortgage loans	\$ 228,195,072	\$ 2,195,754	\$ 636,164	\$ 231,026,990
Small scale credit loans	2,455,291	13,814	13,198	2,482,303
Others	27,362,502	109,007	123,532	27,595,041
Corporate banking				
Secured	275,333,269	3,085,948	504,460	278,923,677
Unsecured	190,004,287	1,316,093	477,842	191,798,222
<b>Total</b>	<b>\$ 723,350,421</b>	<b>\$ 6,720,616</b>	<b>\$ 1,755,196</b>	<b>\$ 731,826,233</b>
Accounts receivable (including non-performing credit card receivables)				
Credit cards	\$ 2,331,854	\$ 58,603	\$ 69,727	\$ 2,460,184
Others	5,498,117	10,137	262,755	5,771,009
<b>Total</b>	<b>\$ 7,829,971</b>	<b>\$ 68,740</b>	<b>\$ 332,482</b>	<b>\$ 8,231,193</b>
Debt instruments measured at fair value through other comprehensive income	\$ 202,538,549	\$ 170,624	\$ -	\$ 202,709,173
Investments in debt instruments at amortized cost	\$ 99,750,758	\$ -	\$ -	\$ 99,750,758

	<b>June 30, 2019</b>			
	<b>12-Month Expected Credit Loss</b>	<b>Full-Lifetime Expected Credit Loss - Unimpaired</b>	<b>Full-Lifetime Expected Credit Loss - Impaired</b>	<b>Total</b>
Discounts and loans				
Consumer banking				
Residential mortgage loans	\$ 216,649,882	\$ 1,968,863	\$ 850,807	\$ 219,469,552
Small scale credit loans	1,586,089	17,575	14,191	1,617,855
Others	25,721,526	129,199	110,281	25,961,006
Corporate banking				
Secured	276,706,490	2,638,424	598,509	279,943,423
Unsecured	199,989,786	1,196,305	353,718	201,539,809
<b>Total</b>	<b>\$ 720,653,773</b>	<b>\$ 5,950,366</b>	<b>\$ 1,927,506</b>	<b>\$ 728,531,645</b>
Accounts receivable (including non-performing credit card receivables)				
Credit cards	\$ 2,218,856	\$ 72,079	\$ 68,358	\$ 2,359,293
Others	7,202,788	10,902	449,616	7,663,306
<b>Total</b>	<b>\$ 9,421,644</b>	<b>\$ 82,981</b>	<b>\$ 517,974</b>	<b>\$ 10,022,599</b>
Debt instruments measured at fair value through other comprehensive income	\$ 183,442,183	\$ 289,542	\$ -	\$ 183,731,725
Investments in debt instruments at amortized cost	\$ 101,851,631	\$ -	\$ -	\$ 101,851,631

(4) Information on concentration of credit risk

Concentration of credit risk exists if transaction counterparties are significantly concentrated on same individuals or groups engaged in activities with similar economic characteristics, which may lead their ability to fulfill contractual obligations being affected by similar changes in economic or other conditions.

Concentration of credit risk can be on assets, liabilities or off-balance sheet items and can arise in the course of the enforcement and implementation of transactions (regardless of products or service) or in the combination of exposures across categories, including credit, due from and call loans to banks, marketable securities, receivables and derivatives, etc. The Bank maintained a diversified loan portfolio to mitigate the credit risk concentration to same customers; total transaction of same customers in discounts and loans and the balance of non-accrual loans are not material. The Bank's most significant concentrations of credit risk of discounts and loans and non-accrual loans by business, region, and collateral were summarized as follows:

A. Industry

Industry	June 30, 2020		December 31, 2019		June 30, 2019	
	Amount	% to Total	Amount	% to Total	Amount	% to Total
Private sector	\$ 423,119,682	56	\$ 413,440,767	56	\$ 425,558,731	58
Consumer	315,107,012	41	300,344,318	41	283,424,368	39
Financial institution	15,310,372	2	12,896,814	2	15,461,179	2
Others	<u>5,646,235</u>	<u>1</u>	<u>5,144,334</u>	<u>1</u>	<u>4,087,367</u>	<u>1</u>
	<u>\$ 759,183,301</u>	<u>100</u>	<u>\$ 731,826,233</u>	<u>100</u>	<u>\$ 728,531,645</u>	<u>100</u>

B. Region

Region	June 30, 2020		December 31, 2019		June 30, 2019	
	Amount	% to Total	Amount	% to Total	Amount	% to Total
Taiwan	\$ 637,249,558	84	\$ 621,495,097	85	\$ 613,015,554	84
Asia area (Except Taiwan)	101,645,917	13	90,823,896	12	97,786,391	14
Others	<u>20,287,826</u>	<u>3</u>	<u>19,507,240</u>	<u>3</u>	<u>17,729,700</u>	<u>2</u>
	<u>\$ 759,183,301</u>	<u>100</u>	<u>\$ 731,826,233</u>	<u>100</u>	<u>\$ 728,531,645</u>	<u>100</u>

C. Collateral

Collateral	June 30, 2020		December 31, 2019		June 30, 2019	
	Amount	% to Total	Amount	% to Total	Amount	% to Total
Unsecured	\$ 155,048,299	20	\$ 156,624,332	21	\$ 163,843,311	22
Secured						
Properties	481,670,825	63	465,664,943	64	450,491,105	62
Guarantees	68,367,748	9	56,868,421	8	65,361,536	9
Financial collateral	28,075,083	4	28,664,699	4	25,795,434	4
Movable properties	5,026,357	1	4,805,825	1	5,498,412	1
Other collateral	<u>20,994,989</u>	<u>3</u>	<u>19,198,013</u>	<u>2</u>	<u>17,541,847</u>	<u>2</u>
	<u>\$ 759,183,301</u>	<u>100</u>	<u>\$ 731,826,233</u>	<u>100</u>	<u>\$ 728,531,645</u>	<u>100</u>

(5) Information on credit risk quality

Part of the financial assets held by the Bank, including cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets measured at fair value through profit or loss, investments in bills and bonds with resale agreements, guarantee deposits paid, security businesses, clearing and settlement funds, etc. are assessed with very low credit risk because the counterparties have good credit ratings.

### 38.3.3 Market risk

#### (1) The sources and definition of market risk

Market risk is the risk resulting from changes in fair value and future cash flows of on- and off-balance-sheet financial instruments caused by changes in market prices, interest rates, foreign exchange rate, including equity securities price and commodity price. Changes in above risk elements can cause risks to shift the net profit of the Bank or its investment structures.

The Bank's financial instruments are exposed to price, interest rate and foreign exchange rate risks. Major market price risk positions of equity securities include domestic listed shares and funds. Major interest risks include bonds and interest rate derivative instruments such as fixed and floating interest rate swap and bond options whereas the major foreign exchange risks include foreign currency positions held by the Bank.

#### (2) Market risk management policies

The Bank monitors its market risk positions and tolerable loss according to the risk management objectives and limits approved by the board of directors.

The Bank also builds a market risk information system, which enables the Bank to effectively monitor the management of facilities, assessment of gains and losses, analysis of sensitivity factors of the Bank's financial instrument positions, etc. The results of the monitoring, assessment and analysis are reported in risk control meetings and serve as references for the decision making of management.

The Bank splits market risk exposure into trading and held for fixed income portfolios which are controlled by both the Bank's operation and risk management sections. Routine control reports are reviewed by the Bank's board of directors and relevant committees.

#### (3) Market risk management process

##### A. Recognition and measurement

The Bank's operation and risk management sections both identify market risk factors of exposure positions, which are used to measure market risks. Market risk factors include interest rates, foreign exchange rates and market price of equity securities, and exposures, gains and losses and sensitivity (PVO1, Delta, Beta) etc. Measurement of investment portfolio is affected by interest rate risk, foreign exchange risk and price of equity securities.

##### B. Monitoring and reporting

The Bank's risk management department regularly reviews market risk management objective, positions and control of gains and losses, sensitivity analysis and pressure test and reports to the board of directors. Therefore, the board of directors could well understand market risk control. The Bank has established explicit notification process, the limit and stop-loss regulation for various transactions. Stop-loss order must be taken when the limit is reached, otherwise the trading department's reasons and plans must be approved by the top management, and the department should report to relevant committee regularly.

#### (4) Interest rate risk management

##### A. Definition of interest rate risk

Interest rate risk represents risks of variation of fair value of trader and loss in earnings resulting from interest rate variation. Major relevant products include interest rate-related financial securities and derivatives instrument.

##### B. Purpose of interest risk management

Interest rate risk management enhances the Bank's ability to measure, control and avoid negative influence of interest rate variation on earnings and economic values of balance sheet items. In addition, it enhances capital efficiency and strengthens operation.

##### C. Procedures of interest risk management

The Bank carefully chooses investment target through conducting research about issuer's credit, financial status, country risks and interest rate trend. The Bank also establishes trading amount limit and stop-loss limit including limit for trading department, trading personnel and trading commodity, etc. according to trading book operation policies and market status which are approved by top management and the board of directors.

The Bank identifies re-pricing risk of interest rate and yield curve risk and measures possible effects on the Bank's earnings and economic values of changes in interest rate. On a monthly basis, the Bank reports the analysis and monitoring of limit on interest rate risk position and various interest rate management objectives to the strategy management committee and the board of directors.

Report to the strategy management committee is required when certain risk management objective has exceeded limit in order to resolve response action.

##### D. Measurement methods

The Bank measures risks of price reset periods gap from difference in maturity date and price reset date of assets, liabilities, and off-balance sheet items. The Bank also established interest rate sensitivity monitoring index for major periods in order to maintain long-term profitability and business growth. Such interest rate indexes and results of pressure test are reviewed by management personnel periodically. In addition, the Bank regularly uses the DV01 to measure portfolio affected by interest rate.

#### (5) Foreign exchange rate risk management

##### A. Definition of foreign exchange rate risk

Foreign exchange risk means losses resulting from transferring currencies at different times. The Bank's foreign exchange rate risk results mainly from spot and forward foreign exchange business. The Bank's foreign exchange rate risk is relatively insignificant due to the fact that customers' positions are basically settled immediately on transaction date.

##### B. Policies, procedures and measurement method for foreign exchange rate risk management

In order to control foreign exchange rate risk within tolerable range, the Bank has established trading limit, stop-loss limit and maximum loss for trading department and trading personnel and the risk is controlled within the tolerable range.

The Bank undertakes pressure test on a seasonal basis and uses 3% fluctuation in major

foreign exchange rate (USD) as the sensitivity threshold and reports test results to the assets and liabilities management committee.

(6) Equity securities price risk management

A. Definition of equity securities price risk

The market risk of equity securities held by the Bank includes individual and general risk from price fluctuation of both individual equity security and the entire equity security market.

B. Purpose of equity security price risk management

The main purpose of equity security price risk management is to prevent financial status from deteriorating and to avoid decrease in earnings due to violent fluctuation in equity security prices, and to enhance capital efficiency and strengthen operation.

C. Procedures of equity security price risk management

The Bank regularly uses  $\beta$  value to measure the degree of influence on investment portfolio system risk. Stop-loss point is set according to the policy approved by the assets and liabilities management committee. Stop-loss action must be taken when limit is reached, otherwise the investment department must submit request to top management personnel for approval.

D. Measurement method

The Bank's control of security price risk is based on risk values.

(7) Market valuation technique

The Bank assesses its exposures to market risk and the anticipated loss under market pressures by using assumptions on several market position changes. Limits of various financial instruments are set by the board of directors and monitored by the assets and liabilities management committee. The Bank also performs sensitivity analysis based on major risk factors of various financial products in order to monitor the changes in various market risk factors of financial products.

A. Sensitivity analysis

a. Interest rate risk

The Bank has assessed the possible impact on income if global yield curve move between -1 to +1 base points simultaneously on June 30, 2020, December 31, 2019 and June 30, 2019.

b. Foreign exchange rate risk

The Bank assesses the possible impact on income when exchange rates of NTD against various currencies fluctuate between -1% and +1% while other factors remain unchanged.

c. Equity securities price risk

The Bank has assessed the possible impact on income when equity security prices on June 30, 2020, December 31, 2019 and June 30, 2019 rise or fall by 1% while other

factors remain unchanged.

The analysis assumed that the trends of equity instruments are consistent with historical data.

B. Sensitivity analysis is summarized as follows:

<b>June 30, 2020</b>			
<b>Major Risk</b>	<b>Variation Range</b>	<b>Amount</b>	
		<b>Equity</b>	<b>Profit or Loss</b>
Foreign exchange risk	Foreign currency appreciated 1% against the NTD	\$ 678,033	\$ 22,664
	Foreign currency depreciated 1% against the NTD	(678,033)	(22,664)
Interest rate risk	Interest rate curve edged up 1bp	(47,023)	(294)
	Interest rate curve edged down 1bp	47,032	294
Equity price risk	Equity price increased 1%	36,475	6,192
	Equity price decreased 1%	(36,475)	(6,192)

<b>December 31, 2019</b>			
<b>Major Risk</b>	<b>Variation Range</b>	<b>Amount</b>	
		<b>Equity</b>	<b>Profit or Loss</b>
Foreign exchange rate risk	Foreign currency appreciated 1% against the NTD	\$ 698,096	\$ 20,353
	Foreign currency depreciated 1% against the NTD	(698,096)	(20,353)
Interest rate risk	Interest rate curve edged up 1bp	(45,853)	(266)
	Interest rate curve edged down 1bp	45,853	266
Equity price risk	Equity price increased 1%	14,964	7,561
	Equity price decreased 1%	(14,964)	(7,561)

<b>June 30, 2019</b>			
<b>Major Risk</b>	<b>Variation Range</b>	<b>Amount</b>	
		<b>Equity</b>	<b>Profit or Loss</b>
Foreign exchange rate risk	Foreign currency appreciated 1% against the NTD	\$ 680,047	\$ 15,747
	Foreign currency depreciated 1% against the NTD	(680,047)	(15,747)
Interest rate risk	Interest rate curve edged up 1bp	(43,986)	(10)
	Interest rate curve edged down 1bp	43,986	10
Equity price risk	Equity price increased 1%	24,774	4,681
	Equity price decreased 1%	(24,774)	(4,681)

#### 38.3.4 Liquidity risk

##### (1) The sources and definition of liquidity risk

Liquidity risk is the possibility that the Bank is unable to liquidate assets or obtain financing to fulfill matured financial liabilities which may result in financial loss. Liquidity risk may be

present when, for example, deposits are withdrawn in advance of the original date of settlement, the market becomes worse and borrowing from other banks becomes difficult, the clients' credit deteriorates leading to the occurrence of defaults, liquidation of financial instruments becomes difficult, early redemption of interest-sensitive instruments happens, etc. The aforementioned factors may reduce cash balance to be used in the areas of loans, trading, and investment. In some extreme circumstances, the lack of liquidity may lead to the decrease in the overall assets and liabilities, and the need to liquidate the Bank's assets and the possibility of being unable to fulfill loan commitments. Liquidity risks include inherent risks that may be affected by some specific industry events or overall market condition. These events include but are not limited to credit, merger and acquisitions, systemic breakdown and natural disasters.

(2) The management policies are as follows:

The Bank's management procedures are monitored by the independent department of risk management and the procedures are as follows:

- A. Regular financing and monitoring of cash flows to ensure the fulfillment of the requirements in the future.
- B. Maintaining appropriate position of high liquidity assets which are easily realizable.
- C. Monitoring of liquidity ratios of the balance sheet accounts according to the internal management purposes and external monitoring rules.
- D. Managing the maturity date of debt instruments.

The procedures for monitoring and reporting liquidity risk are applied and measured based on the estimated cash flows (the time gap is based on how the Bank manages the liquidity risk) of 1 day, 10 days, and 1 month. Estimates of future cash flows are based on the maturity analysis of financial assets and liabilities. The risk management department also monitors the use of loan commitment, discount facilities, guarantee letters, and other types of contingent liabilities, and furthermore reports the related information to the risk management committee and the board of directors regularly.

The Bank holds certain position of highly liquid interest-bearing assets to fulfill its obligation and for future needs. To manage the liquidity risk, the Bank holds the following assets: cash and cash equivalents, due from the Central Bank and banks, and financial assets measured at fair value through profit or loss, etc.

(3) Maturity analysis

The Bank analyzed cash outflows of non-derivative financial liabilities according to the remaining terms from date of the balance sheets to maturity date of the contract. The disclosure of cash outflows of non-derivative financial liabilities is based on the cash flows of contracts so that the items could not correspond with all items in the balance sheets.

June 30, 2020	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Due to the Central Bank and other banks	\$ 10,828,492	\$ 2,588,942	\$ 1,053,967	\$ 853,350	\$ -	\$ 15,324,751
Financial liabilities measured at FVTPL	-	-	-	-	2,575,207	2,575,207
Securities sold under repurchase agreements	24,312,424	7,689,934	218,407	48,083	-	32,268,848
Payables	28,716,985	353,875	530,867	234,394	198,467	30,034,588
Deposits and remittances	557,851,032	186,889,276	130,285,907	127,920,030	9,126,965	1,012,073,210
Bank debentures	-	-	-	1,600,000	65,250,000	66,850,000
Other financial liabilities	2,546,796	25,925	87,164	189,989	1,692,628	4,542,502
Lease liabilities	127	35,564	250	111,282	746,535	893,758



December 31, 2019	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Due to the Central Bank and other banks	\$ 20,272,619	\$ 3,962,065	\$ 503,323	\$ 1,005,760	\$ -	\$ 25,743,767
Financial liabilities measured at FVTPL	-	-	-	-	2,462,289	2,462,289
Securities sold under repurchase agreements	5,541,237	5,374,546	132,573	12,265	-	11,060,621
Payables	18,763,752	443,011	382,968	274,156	148,941	20,012,828
Deposits and remittances	539,389,567	163,799,130	116,266,644	159,749,665	9,074,053	988,279,059
Bank debentures	-	-	-	-	56,850,000	56,850,000
Other financial liabilities	1,838,332	38,052	80,716	163,552	1,471,222	3,591,874
Lease liabilities	-	46,918	1,006	12,786	729,668	790,378

June 30, 2019	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Due to the Central Bank and banks	\$ 28,824,332	\$ 4,643,869	\$ 2,135,420	\$ 1,028,050	\$ -	\$ 36,631,671
Financial liabilities measured at FVTPL	-	-	-	-	2,505,586	2,505,586
Securities sold under repurchase agreements	7,534,171	411,834	240,427	8,141	-	8,194,573
Payables	28,866,920	407,304	620,873	263,753	96,826	30,255,676
Deposits and remittances	505,358,455	189,539,563	122,205,092	126,865,122	8,573,714	952,541,946
Bank debentures	-	-	1,000,000	4,300,000	46,850,000	52,150,000
Other financial liabilities	1,954,135	36,606	102,057	205,330	1,157,017	3,455,145
Lease liabilities	-	58,102	4,142	29,028	573,786	665,058

The Bank evaluated the contractual maturity date to comprehend all derivative financial instruments on the balance sheets. Because the maturity analysis of derivative financial liabilities is based on the contractual cash flows, the amounts would not correspond with related items on the balance sheets. Maturity analysis of derivative financial liabilities is as follows:

#### A. Derivative financial liabilities in net settlement

June 30, 2020	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial liabilities measured at FVTPL						
Foreign exchange derivatives	\$ 25,707	\$ 12,308	\$ 6,194	\$ 17,513	\$ -	\$ 61,722
Rate derivatives	-	-	17,807	-	33,239	51,046
Equity securities derivatives	97	-	-	-	-	97

December 31, 2019	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial liabilities measured at FVTPL						
Foreign exchange derivatives	\$ 16,948	\$ 26,011	\$ 4,522	\$ 8,509	\$ 284	\$ 56,274
Rate derivatives	-	-	-	77	57,688	57,765
Equity securities derivatives	34	-	-	-	-	34

June 30, 2019	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial liabilities measured at FVTPL						
Foreign exchange derivatives	\$ 23,019	\$ 41,003	\$ 14,962	\$ 15,181	\$ -	\$ 94,165
Rate derivatives	-	-	-	-	54,679	54,679
Equity securities derivatives	78	-	-	-	-	78

#### B. Derivative financial liabilities in total settlement

June 30, 2020	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial liabilities measured at fair value through profit or loss						
Foreign exchange derivatives						
Cash inflow	\$15,331,384	\$16,419,652	\$ 3,161,502	\$ 4,150,640	\$ 16,144	\$39,079,322
Cash outflow	15,600,918	16,696,350	3,219,877	4,197,994	16,176	39,731,315

December 31, 2019	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial liabilities measured at fair value through profit or loss						
Foreign exchange derivatives						
Cash inflow	\$12,975,591	\$10,112,857	\$ 7,564,685	\$ 9,727,650	\$ -	\$40,380,783
Cash outflow	13,200,551	10,230,099	7,813,439	10,027,844	-	41,271,933

June 30, 2019	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial liabilities measured at fair value through profit or loss						
Foreign exchange derivatives						
Cash inflow	\$11,307,224	\$11,399,919	\$6,014,166	\$6,209,527	\$ -	\$34,930,836
Cash outflow	11,431,901	11,500,963	6,073,336	6,310,462	-	35,316,662

The analysis of cash outflows of off-balance sheet items is illustrated according to the remaining terms from date of the balance sheets to maturity date of the contract. For

financial guarantee contracts, the largest amount is categorized under the shortest time of being asked to fulfill the guarantees. The disclosure of cash outflows of off-balance-sheet items is based on the cash flows of contracts so that part items could not correspond with all items in the balance sheets.

<b>June 30, 2020</b>	<b>0-30 days</b>	<b>31-90 days</b>	<b>91-180 days</b>	<b>181 days-1 year</b>	<b>Over 1 year</b>	<b>Total</b>
Developed and non-cancelable loan commitments	\$ 141,867	\$ 71,868	\$ 1,424,521	\$ 1,176,496	\$ 16,899,842	\$ 19,714,594
Non-cancelable credit card commitments	65,343	130,750	196,092	252,856	-	645,041
Issued but unused letters of credit	2,718,946	4,281,605	1,665,768	370,950	166,025	9,203,294
Other guarantees	27,269,131	28,136,101	5,667,726	15,175,654	12,343,714	88,592,326

<b>December 31, 2019</b>	<b>0-30 days</b>	<b>31-90 days</b>	<b>91-180 days</b>	<b>181 days-1 year</b>	<b>Over 1 year</b>	<b>Total</b>
Developed and non-cancelable loan commitments	\$ 372,019	\$ 94,178	\$ 233,892	\$ 1,506,408	\$ 14,512,095	\$ 16,718,592
Non-cancelable credit card commitments	71,761	143,593	215,353	277,693	-	708,400
Issued but unused letters of credit	1,758,934	4,461,724	825,402	248,895	125,332	7,420,287
Other guarantees	14,942,882	20,523,977	5,568,862	16,415,093	15,574,286	73,025,100

<b>June 30, 2019</b>	<b>0-30 days</b>	<b>31-90 days</b>	<b>91-180 days</b>	<b>181 days-1 year</b>	<b>Over 1 year</b>	<b>Total</b>
Developed and non-cancelable loan commitments	\$ 414,747	\$ 141,873	\$ 887,220	\$ 1,655,118	\$ 11,014,044	\$ 14,113,002
Non-cancelable credit card commitments	69,969	140,007	209,977	270,759	-	690,712
Issued but unused letters of credit	3,550,250	5,093,393	814,364	59,763	154,322	9,672,092
Other guarantees	13,413,336	14,661,292	5,161,353	13,803,795	14,600,172	61,639,948

#### 38.4 Transfer of financial assets

In the daily transactions of the Bank, most of the transferred financial assets not eligible for full derecognition are repurchase notes and bonds. The cash flows of the transactions have been transferred to outsiders and the liabilities for repurchasing the transferred financial assets in a fixed amount have been recognized; the Bank may repurchase the transferred financial assets in the future. The Bank is not eligible to conduct, sell, or pledge the transferred financial assets during the effective period prior to derecognition. However, the Bank is still exposed to the interest risks and credit risks. As a result, the transferred financial assets are not derecognized. The following tables show the transferred financial assets that do not qualified for derecognition and related financial liabilities.

##### June 30, 2020

<b>Type of Financial Assets</b>	<b>The Book Value of Financial Assets Transferred</b>	<b>The Book Value of Related Financial Liabilities</b>	<b>The Fair Value of Financial Assets Transferred</b>	<b>The Fair Value of Related Financial Liabilities</b>	<b>Net Amount</b>
Financial assets measured at FVTOCI - purchased call options	\$ 31,684,669	\$ 32,268,848	\$ 31,684,669	\$ 32,268,848	\$ (584,179)

##### December 31, 2019

<b>Type of Financial Assets</b>	<b>The Book Value of Financial Assets Transferred</b>	<b>The Book Value of Related Financial Liabilities</b>	<b>The Fair Value of Financial Assets Transferred</b>	<b>The Fair Value of Related Financial Liabilities</b>	<b>Net Amount</b>
Financial assets measured at FVTOCI - purchased call options	\$ 10,189,672	\$ 11,060,621	\$ 10,189,672	\$ 11,060,621	\$ (870,949)

##### June 30, 2019

<b>Type of Financial Assets</b>	<b>The Book Value of Financial Assets Transferred</b>	<b>The Book Value of Related Financial Liabilities</b>	<b>The Fair Value of Financial Assets Transferred</b>	<b>The Fair Value of Related Financial Liabilities</b>	<b>Net Amount</b>
Financial assets measured at FVTOCI - purchased call options	\$ 7,745,161	\$ 8,194,573	\$ 7,745,161	\$ 8,194,573	\$ (449,412)

### 39. AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average amount and average interest rate of interest-earning assets and interest-bearing liabilities that were affected by interest rate fluctuations are as follows:

Average balances were calculated by the daily average balances of interest-earning assets and interest-bearing liabilities.

	For the Six Months Ended June 30, 2020	
	Average Balance	Average Rate (%)
<b>Interest-earning assets</b>		
Cash and cash equivalents - due from other banks	\$16,276,396	0.30
Due from the Central Bank and call loans to banks	120,227,600	1.07
Financial assets measured at FVTPL	87,028	0.50
Securities purchased under resale agreements	1,663,565	1.52
Credit card revolving balances	665,946	12.57
Discounts and loans (excluding non-performing loans)	736,971,732	2.02
Financial assets measured at FVTOCI debt instrument investment	214,930,789	1.36
Financial assets measured at amortized cost	94,357,113	0.57
Other financial assets due from other banks (time deposits of more than three months)	2,709,590	1.55
<b>Interest-bearing liabilities</b>		
Due to the Central Bank and banks	28,381,156	1.42
Financial liabilities measured at FVTPL	2,096,804	5.12
Securities sold under repurchase agreements	18,145,316	0.36
Negotiable certificates of deposits	18,074,108	0.57
Demand deposits	240,364,453	0.15
Savings deposits	155,097,672	0.28
Time deposits	424,026,686	1.02
Time savings	148,748,709	0.97
Bank debentures	62,118,817	1.46
Structured deposit instruments principal	2,210,188	2.82
Lease liabilities	884,347	1.22

(Continued)

	<b>For the Six Months Ended June 30, 2019</b>	
	<b>Average Balance</b>	<b>Average Rate (%)</b>
<b>Interest-earning assets</b>		
Cash and cash equivalents - due from other banks	\$ 13,776,415	0.76
Due from the Central Bank and call loans to banks	103,090,699	1.29
Financial assets measured at FVTPL	41,734	0.71
Securities purchased under resale agreements	1,202,761	2.45
Credit card revolving balances	665,680	12.59
Discounts and loans (excluding non-performing loans)	690,534,103	2.38
Financial assets measured at FVTOCI debt instrument investment	185,962,293	1.65
Financial assets measured at amortized cost	102,173,935	0.63
Other financial assets due from other banks (time deposits of more than three months)	5,644,625	2.61

#### **Interest-bearing liabilities**

Due to the Central Bank and banks	\$25,109,237	2.04
Financial liabilities measured at FVTPL	2,164,941	4.88
Securities sold under repurchase agreements	18,133,057	0.45
Negotiable certificates of deposits	28,084,647	0.64
Demand deposits	215,138,642	0.27
Savings deposits	143,285,366	0.31
Time deposits	403,673,392	1.33
Time savings	141,239,574	1.03
Bank debentures	55,129,570	1.67
Structured deposit instruments principal	2,196,700	2.51
Lease liabilities	639,169	1.19

## **40. CAPITAL MANAGEMENT**

All the Bank's risks were included in the scope of assessment of capital adequacy according to "Regulations Governing the Capital Adequacy". The business objectives and project budget are approved by the board of directors, and furthermore the Bank considered the development strategy, capital adequacy, debt ratio, and dividend policy in its assessments. The contents are included in stress test, estimate of capital adequacy ratio to ensure achieving the objective of capital adequacy and strengthening of the capital structure.

According to the Banking Law and related regulations, the Bank should maintain a capital adequacy ratio of at least 10.5% for a stable financial position. If the capital adequacy ratio falls below the required capital adequacy ratio, the Central Regulator would restrict the distribution of earnings.

The following table which lists the equity capital, risk-weighted assets, and risk exposure as of June 30, 2020, December 31, 2019 and June 30, 2019 was prepared according to the "Regulations Governing the Capital Adequacy and Capital Category of Banks" that was modified by the Financial Supervisory Commission of the ROC (Ref. No. 10200362920) on January 9, 2014.

The Bank conformed to the regulation on capital management as of June 30, 2020, December 31, 2019 and June 30, 2019.

	June 30, 2020	December 31, 2019	June 30, 2019
Analysis items			
Eligible capital			
Ordinary equity	\$ 119,061,510	\$ 121,709,348	\$ 109,250,174
Other Tier I capital		-	
Tier II capital	4,260,724	6,517,421	4,127,178
Eligible capital	<u>\$123,322,234</u>	<u>\$ 128,226,769</u>	<u>\$ 113,377,352</u>
Risk-weighted assets			
Credit risk			
Standardized approach	\$ 862,696,656	\$ 806,146,845	\$ 793,397,760
Credit valuation adjustment	53,544	51,599	47,923
Internal rating based approach	N/A	N/A	N/A
Synthetic securitization	851,450	869,704	459,833
Operational risk			
Basic indicator approach	42,785,341	42,785,341	39,612,469
Standardized approach/alternative standardized approach	N/A	N/A	N/A
Advanced measurement approach	N/A	N/A	N/A
Market risk			
Standardized approach	42,109,829	31,019,219	26,351,104
Internal models approach	N/A	N/A	N/A
Total risk-weighted assets	<u>\$ 948,496,820</u>	<u>\$ 880,872,708</u>	<u>\$ 859,869,089</u>
Capital adequacy ratio	13.00%	14.56%	13.19%
Ratio of ordinary equity to risk-weighted assets	12.55%	13.82%	12.71%
Ratio of Tier I capital to risk-weighted assets	12.55%	13.82%	12.71%
Leverage ratio	8.42%	9.04%	8.45%

Note 1: Eligible capital and risk-weighted assets are calculated under the “Regulations Governing the Capital Adequacy Ratio of Banks” and “Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks”.

Note 2: Formulas used were as follows:

- (1) Eligible capital = Ordinary equity + Other Tier I capital + Tier II capital.
- (2) Total risk-weighted assets = Risk-weighted assets for credit risk + Capital requirements for operational risk and market risk × 12.5.
- (3) Capital adequacy ratio = Eligible capital ÷ Total risk-weighted assets.
- (4) Ratio of ordinary equity to risk-weighted assets = Ordinary equity ÷ Total risk-weighted assets.
- (5) Ratio of Tier I capital to risk-weighted assets = (Ordinary equity + Other Tier I capital) ÷ Total risk-weighted assets.
- (6) Leverage ratio = Net value of tier I capital ÷ Net value of exposure measurement

**41. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

41.1 Assets quality: as stated in Table 1

41.2 Concentration of credit risks

Top 10 credit extensions of the Bank were as follows:

<b>Ranking (Note 1)</b>	<b>June 30, 2020</b>		
	<b>Categorized by Sector (Note 2)</b>	<b>Credit Amount (Note 3)</b>	<b>Credit Amount Stockholders' equity (%)</b>
1	A Group (other holding companies)	5,679,633	3.79
2	B Group (real estate selling and leasing)	5,164,261	3.45
3	C Group (electricity supply industry)	5,075,875	3.39
4	D Group (metallic furniture manufacturing g)	5,042,209	3.37
5	E Group (general management agency)	4,796,138	3.20
6	F Group (general management agency)	4,416,750	2.95
7	G Group (wiring and cable system manufacturing)	4,266,922	2.85
8	H Group (computer manufacturing)	4,241,063	2.83
9	I Group (computer manufacturing)	4,165,117	2.78
10	J Group (financial leasing industry)	3,995,723	2.67

<b>Ranking (Note 1)</b>	<b>December 31, 2019</b>		
	<b>Categorized by Sector (Note 2)</b>	<b>Credit Amount (Note 3)</b>	<b>Credit Amount Stockholders' equity (%)</b>
1	A Group (other holding companies)	5,795,975	3.77
2	E Group (general management agency)	5,687,749	3.70
3	B Group (real estate selling and leasing)	5,241,956	3.41
4	D Group (metallic furniture manufacturing)	4,787,639	3.12
5	K Group (other computer peripheral manufacturing)	4,580,967	2.98
6	G Group (wiring and cable system manufacturing)	4,301,785	2.80
7	C Group (electricity supply industry)	4,256,911	2.77
8	L Group (computer manufacturing)	4,132,898	2.69
9	M Group (apparel manufacturing)	3,837,200	2.50
10	I Group (computer manufacturing)	3,488,604	2.27

Ranking (Note 1)	June 30, 2019		
	Categorized by Sector (Note 2)	Credit Amount (Note 3)	Credit Amount / Stockholders' equity (%)
1	I Group (computer manufacturing)	5,922,186	4.43
2	E Group (general management agency)	5,701,828	4.26
3	H Group (computer manufacturing)	5,360,937	4.01
4	B Group (real estate selling and leasing)	5,354,095	4.00
5	D Group (metallic furniture manufacturing)	5,177,653	3.87
6	N Group (chemical material and wholesale of chemical products)	4,313,707	3.22
7	G Group (wiring and cable system manufacturing)	4,225,125	3.16
8	K Group (other computer peripheral manufacturing)	3,974,177	2.97
9	A Group (other holding companies)	3,892,773	2.91
10	L Group (computer manufacturing)	3,841,556	2.87

Note 1: The top 10 credit extensions ranking is made by total credit balance, which excluded government-owned or state-run enterprises. If the borrower is an affiliate of the group enterprise, the credit balance of the borrower is then aggregated to the group enterprise's credit balance. The borrower is marked by specific codes as well as its major industry. The major industry of a borrower is determined by its maximum exposures by industries. The classification of industry should be in line with the Standard Industrial Classification System of the Republic of China published by the Directorate General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: "Group Enterprise" conforms to the definition of Article 6 in "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: Credit balance includes each item of loan (including import bill negotiated, export bill negotiated, discounts, overdrafts, short-term loans, short-term secured loans, marginal receivables, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans and non-performing loans), exchange bills negotiated, accounts receivable - without recourse factoring, acceptances receivable and grantees issued.

#### 41.3 Interest rate sensitivity information

##### Interest Rate Sensitivity Analysis June 30, 2020

(In Thousands of NT\$)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate sensitive assets	\$ 734,306,810	\$ 33,740,299	\$ 20,303,181	\$ 73,524,806	\$ 861,875,096
Interest rate sensitive liabilities	309,680,420	342,181,917	66,497,428	71,162,923	789,522,688
Interest rate sensitivity gap	424,626,390	(308,441,618)	(46,194,247)	2,361,883	72,352,408
Net equity					149,838,784
Ratio of interest rate sensitive assets to liabilities					109.16%
Ratio of interest rate sensitivity gap to net equity					48.29%

**Interest Rate Sensitivity Analysis**  
**December 31, 2019**

(In Thousands of NT\$)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate sensitive assets	\$ 687,309,301	\$ 32,066,793	\$ 31,370,220	\$ 73,501,921	\$ 824,248,235
Interest rate sensitive liabilities	291,360,189	295,081,793	99,945,037	62,128,290	748,515,309
Interest rate sensitivity gap	395,949,112	(263,015,000)	(68,574,817)	11,373,631	75,732,926
Net equity					153,567,619
Ratio of interest rate sensitive assets to liabilities					110.12%
Ratio of interest rate sensitivity gap to net equity					49.32%

**Interest Rate Sensitivity Analysis**  
**June 30, 2019**

(In Thousands of NT\$)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate sensitive assets	\$ 683,678,774	\$ 14,913,473	\$ 16,869,852	\$ 73,759,966	\$ 789,222,065
Interest rate sensitive liabilities	315,582,958	299,134,119	60,669,004	51,621,051	727,007,132
Interest rate sensitivity gap	368,095,816	(284,220,646)	(43,799,152)	22,138,915	62,214,933
Net equity					133,777,916
Ratio of interest rate sensitive assets to liabilities					108.56%
Ratio of interest rate sensitivity gap to net equity					46.51%

- Note 1: The tables above refer only to the financial assets/liabilities denominated in NT dollars held by the whole bank, excluded contingent assets and liabilities.
- Note 2: Interest rate-sensitive assets/liabilities refer to financial assets/liabilities which returns are driven by interest rate fluctuations.
- Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.
- Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities. (The interest rate-sensitive assets and liabilities are in the New Taiwan dollars).

**Interest Rate Sensitivity Analysis**  
**June 30, 2020**

(In Thousands of US\$)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate sensitive assets	\$ 6,134,757	\$ 130,114	\$ 348,847	\$ 1,646,707	\$ 8,260,425
Interest rate sensitive liabilities	3,064,518	4,944,527	722,659	70,123	8,801,827
Interest rate sensitivity gap	3,070,239	(4,814,413)	(373,812)	1,576,584	(541,402)
Net equity					5,088,768
Ratio of interest rate sensitive assets to liabilities					93.85%
Ratio of interest rate sensitivity gap to net equity					(10.64)%



**Interest Rate Sensitivity Analysis**  
**December 31, 2019**

(In Thousands of US\$)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate sensitive assets	\$ 6,260,487	\$ 154,851	\$ 49,483	\$ 1,681,030	\$ 8,145,851
Interest rate sensitive liabilities	2,776,374	4,782,537	562,709	71,417	8,193,037
Interest rate sensitivity gap	3,484,113	(4,627,686)	( 513,226)	1,609,613	(47,186)
Net equity					5,120,286
Ratio of interest rate sensitive assets to liabilities					99.42%
Ratio of interest rate sensitivity gap to net equity					(0.92)%

**Interest Rate Sensitivity Analysis**  
**June 30, 2019**

(In Thousands of NT\$)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate sensitive assets	\$ 5,823,377	\$ 192,769	\$ 199,476	\$ 1,615,701	\$ 7,831,323
Interest rate sensitive liabilities	2,585,547	4,060,057	833,283	76,886	7,555,773
Interest rate sensitivity gap	3,237,830	(3,867,288)	( 633,807)	1,538,815	275,550
Net equity					4,308,051
Ratio of interest rate sensitive assets to liabilities					103.65%
Ratio of interest rate sensitivity gap to net equity					6.40%

Note 1: The tables above refer only to the financial assets/liabilities denominated in US dollars held by the whole bank, excluded contingent assets and liabilities.

Note 2: Interest rate-sensitive assets/liabilities refer to financial assets/liabilities which returns are driven by interest rate fluctuations.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities. (The interest rate-sensitive assets and liabilities are in the US dollars).

#### 41.4 Profitability

Items		June 30, 2020	June 30, 2019
Return on total assets	Before income tax	1.14	1.43
	After income tax	1.04	1.26
Return on equity	Before income tax	9.80	12.95
	After income tax	8.93	11.45
Profit margin		59.68	61.12

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

Note 2: Return on equity = Income before (after) income tax ÷ Average equity.

Note 3: Profit margin = Income after income tax ÷ Total net revenue.

Note 4: Income before (after) income tax represents income YTD.

Note 5: The profitability of each quarter is converted to annual benchmark figures expressed in the annual rates.

## 41.5 Maturity analysis of assets and liabilities

### (1) New Taiwan dollars (In Thousands)

	Total	June 30, 2020					
		by remaining period to maturity					
		0 to 10 Days	11 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Major cash inflow to maturity	\$ 912,944,905	\$ 96,390,892	\$ 74,062,295	\$ 74,398,789	\$ 92,558,118	\$ 126,596,458	\$ 448,938,353
Major cash outflow to maturity	1,167,918,948	50,519,402	83,800,102	201,922,849	179,812,933	216,684,758	435,178,904
Gap	(254,974,043)	45,871,490	(9,737,807)	(127,524,060)	(87,254,815)	(90,088,300)	13,759,449

	Total	December 31, 2019					
		by remaining period to maturity					
		0 to 10 Days	11 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Major cash inflow to maturity	\$ 864,593,333	\$ 64,164,490	\$ 71,590,924	\$ 65,777,419	\$ 99,121,656	\$ 134,535,084	\$ 429,403,760
Major cash outflow to maturity	1,125,068,878	58,668,766	77,439,435	173,526,407	150,366,056	248,118,721	416,949,493
Gap	(260,475,545)	5,495,724	(5,848,511)	(107,748,988)	(51,244,400)	(113,583,637)	12,454,267

	Total	June 30, 2019					
		by remaining period to maturity					
		0 to 10 Days	11 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Major cash inflow to maturity	\$ 826,979,728	\$ 81,820,843	\$ 61,244,831	\$ 70,523,949	\$ 68,473,431	\$ 121,399,478	\$ 423,517,196
Major cash outflow to maturity	1,067,682,861	41,881,393	89,602,857	192,928,445	162,680,028	202,642,633	377,947,505
Gap	(240,703,133)	39,939,450	(28,358,026)	(122,404,496)	(94,206,597)	(81,243,155)	45,569,691

Note: This table includes only financial assets/liabilities denominated in New Taiwan dollars held by the head office and domestic branches.

### (2) U.S. dollars (In Thousands)

	Total	June 30, 2020				
		by remaining period to maturity				
		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Major cash inflow to maturity	\$ 11,874,224	\$ 2,640,480	\$ 1,125,184	\$ 809,223	\$ 1,418,102	\$ 5,881,235
Major cash outflow to maturity	14,041,371	2,213,100	2,144,760	1,650,715	2,442,576	5,590,220
Gap	(2,167,147)	427,380	(1,019,576)	(841,492)	(1,024,474)	291,015

	Total	December 31, 2019				
		by remaining period to maturity				
		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Major cash inflow to maturity	\$ 11,196,541	\$ 2,436,204	\$ 1,353,452	\$ 778,197	\$ 720,527	\$ 5,908,161
Major cash outflow to maturity	13,239,786	2,094,989	1,834,008	1,905,563	2,123,955	5,281,271
Gap	(2,043,245)	341,215	(480,556)	(1,127,366)	(1,403,428)	626,890

	Total	June 30, 2019				
		by remaining period to maturity				
		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Major cash inflow to maturity	\$ 10,357,495	\$ 1,581,997	\$ 966,999	\$ 958,850	\$ 1,113,494	\$ 5,736,155
Major cash outflow to maturity	12,439,149	1,740,024	1,833,951	1,655,520	2,260,749	4,948,905
Gap	(2,081,654)	(158,027)	(866,952)	(696,670)	(1,147,255)	787,250

Note: This table includes only financial assets/liabilities denominated in US dollars held by the head office, domestic branches and OBU.

## 42. THE CONTENTS AND AMOUNTS OF TRUST ACTIVITIES BY PROCESSING TRUST ENTERPRISE ACT

The trust account balance sheets, income statements and the details of trust assets are as follows:

Balance Sheet of Trust Account							
Trust Assets	June 30, 2020	December 31, 2019	June 30, 2019	Trust Liabilities	June 30, 2020	December 31, 2019	June 30, 2019
Bank deposits	\$ 4,927,747	\$ 3,505,347	\$ 3,281,573	Accounts payable	\$ 91	\$ 166	\$ 147
Short-term investments	83,765,025	81,698,280	83,240,662	Depository of securities payable	70,765,013	58,253,237	64,474,400
Net asset value of collective investment trust funds	4,023,669	4,436,498	2,857,113	Trust capital	115,962,772	108,082,884	109,127,505
Accounts receivable	14,476	34,713	17,792	Accumulated (loss) gain and equity	173,694	311,533	291,668
Land	20,924,757	17,006,238	18,448,665				
Buildings and improvements, net	169,326	167,855	184,448				
Construction-in-progress	2,258,434	1,492,556	1,334,801				
Depository of securities	70,765,013	58,253,237	64,474,400				
Other assets - principle deferred expense	53,123	53,096	54,266				
Total trust assets	<u>\$ 186,901,570</u>	<u>\$ 166,647,820</u>	<u>\$ 173,893,720</u>	Total trust liabilities	<u>\$ 186,901,570</u>	<u>\$ 166,647,820</u>	<u>\$ 173,893,720</u>

### Trust Asset Lists

Items	June 30, 2020	December 31, 2019	June 30, 2019
Cash in banks	\$ 4,927,747	\$ 3,505,347	\$ 3,281,573
Short-term investments			
Fund	61,584,753	61,434,704	61,152,589
Bond	18,967,349	18,069,542	19,508,844
Ordinary shares	2,587,901	2,022,229	2,170,412
Structured instruments	519,897	153,715	408,817
Preferred stock	105,125	18,090	-
Net asset value of collective trust accounts	4,023,669	4,436,498	2,857,113
Receivables	14,476	34,713	17,792
Land	20,924,757	17,006,238	18,448,665
Buildings and improvements, net	169,326	167,855	184,448
Construction-in-progress	2,258,434	1,492,556	1,334,801
Depository of securities	70,765,013	58,253,237	64,474,400
Other assets	53,123	53,096	54,266
Total	<u>\$ 186,901,570</u>	<u>\$ 166,647,820</u>	<u>\$ 173,893,720</u>

## Income Statements of Trust Account

	For the Six Months Ended June 30	
	2020	2019
Trust income		
Interest revenue	\$ 7,821	\$ 6,603
Donation income	23	15
Realized capital gains	6,108	2,886
Unrealized capital gains	210,846	291,083
Other revenue	<u>56,816</u>	<u>205</u>
	<u>281,614</u>	<u>300,792</u>
Trust expenses		
Tax expenditures	4,841	23,688
Management fees	1,913	1,433
Service fees	1,455	674
Realized investment losses	106	10
Unrealized capital losses	127,049	1,920
Donation expenses	920	117
Other expenses	<u>11</u>	<u>11</u>
	<u>136,295</u>	<u>27,853</u>
Income before income tax	145,319	272,939
Income tax expense	<u>-</u>	<u>-</u>
Net income	<u>\$145,319</u>	<u>\$272,939</u>

## 43. EXCHANGE RATE INFORMATION OF FOREIGN FINANCIAL ASSETS AND LIABILITIES

	June 30, 2020			December 31, 2019			(In Thousands of Foreign Currencies)		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<b>Finance assets</b>									
Monetary items									
Cash and cash equivalents									
USD	\$ 908,046	29.4450	\$ 26,737,414	\$ 118,768	29.9920	\$ 3,562,090	\$ 124,077	31.0530	\$ 3,852,963
JPY	14,435,993	0.2734	3,946,800	17,987,571	0.2760	4,964,570	16,480,281	0.2884	4,752,913
CNY	872,498	4.1686	3,637,095	158,602	4.2961	681,370	211,777	4.5157	956,321
Due from the Central Bank and call loans to banks									
USD	1,484,714	29.4450	43,717,404	1,890,314	29.9920	56,694,297	958,014	31.0530	29,749,209
CNY	722,960	4.1686	3,013,731	2,107,600	4.2961	9,054,460	2,042,600	4.5157	9,223,769
VND	760,000,000	0.0013	988,000	160,000,000	0.0013	208,000	130,000,000	0.0013	169,000
Receivables									
USD	208,358	29.4450	6,135,101	214,875	29.9920	6,444,531	95,038	31.0530	2,951,215
EUR	17,463	33.1183	578,345	-	-	-	32,599	35.2979	1,150,676
ZAR	287,105	1.7061	489,830	-	-	-	958,936	2.1909	2,100,933
Discounts and loans									
USD	4,557,397	29.4450	134,192,555	4,226,711	29.9920	126,767,516	4,915,480	31.0530	152,640,400
HKD	4,876,154	3.7991	18,524,997	5,201,584	3.8517	20,034,941	4,654,897	3.9743	18,499,957
EUR	496,694	33.1183	16,449,661	431,144	33.6420	14,504,546	350,124	35.2979	12,358,642
Financial assets at FVTOCI									
USD	1,882,899	29.4450	55,441,961	1,830,569	29.9920	54,902,425	1,764,766	31.0530	54,801,279
CNY	1,452,600	4.1686	6,055,308	1,460,003	4.2961	6,272,319	1,483,931	4.5157	6,700,987
AUD	85,345	20.2552	1,728,680	88,397	21.0109	1,857,301	114,467	21.7402	2,488,535
Financial assets measured at amortized cost									
USD	52,357	29.4450	1,541,652	56,239	29.9920	1,686,720	52,580	31.0530	1,632,767
SGD	67,072	21.1371	1,417,708	56,555	22.2534	1,258,541	56,300	22.9394	1,291,488
Financial assets at FVTPL									
USD	54,363	29.4450	1,600,719	47,896	29.9920	1,436,497	49,027	31.0530	1,522,435
EUR	47	33.1183	1,557	1,534	33.6420	51,607	1,832	35.2979	64,666
HKD	234	3.7991	889	2,083	3.8517	8,023	867	3.9743	3,446
Other financial assets									
CNY	650,000	4.1686	2,709,590	1,230,000	4.2961	5,284,203	1,350,000	4.5157	6,096,195
<b>Non-monetary items</b>									
Equity investments under the equity method									
USD	2,441,485	29.4450	71,889,526	2,432,832	29.9920	72,965,489	2,303,943	31.0530	71,544,342
HKD	82,233	3.7991	312,411	80,191	3.8517	308,872	78,068	3.9743	310,266

(Continued)

	June 30, 2020			December 31, 2019			June 30, 2019		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Monetary items									
Payables									
USD	\$ 122,166	29.4450	\$ 3,597,178	\$ 86,823	29.9920	\$ 2,603,995	\$ 120,028	31.0530	\$ 3,727,229
CNY	43,385	4.1686	180,855	7,048	4.2961	30,279	73,630	4.5157	332,491
JPY	609,023	0.2734	166,507	871,532	0.2760	240,543	1,603,204	0.2884	462,364
Central Bank and interbank deposits									
HKD	1,606,177	3.7991	6,102,027	1,940,678	3.8517	7,474,909	2,471,000	3.9743	9,820,495
USD	168,304	29.4450	4,955,711	319,814	29.9920	9,591,861	389,977	31.0530	12,109,956
VND	1,247,000,000	0.0013	1,621,100	650,000,000	0.0013	845,000	400,000,000	0.0013	520,000
Deposits and remittances									
USD	8,583,236	29.4450	252,733,384	7,829,498	29.9920	234,822,304	7,164,101	31.0530	222,466,828
CNY	5,445,583	4.1686	22,700,457	5,251,337	4.2961	22,560,269	5,044,173	4.5157	22,777,972
EUR	430,542	33.1183	14,258,819	563,349	33.6420	18,952,187	377,316	35.2979	13,318,462
Financial liabilities at FVTPL									
USD	87,909	29.4450	2,588,481	86,643	29.9920	2,598,597	85,607	31.0530	2,658,354
HKD	312	3.7991	1,185	1,551	3.8517	5,974	3,103	3.9743	12,332
EUR	35	33.1183	1,159	304	33.6420	10,227	582	35.2979	20,543

(Concluded)

## 44. Others

### 44.1 Influence of the global spread of the COVID-19

Owing to the global outbreak of coronavirus pandemic, most countries eased monetary policy sharply to cushion themselves from economic recession. The impacts on the banking industry include reduction of interest rates, increase in credit risk and high volatility of market value. The Bank's business strategies always follows the stable and practical core values. Despite facing the global economic turmoil, the Bank still maintained a steady growth of capital. The interim financial statements have been properly disclosed and were not significantly impacted by the pandemic.

### 44.2 The merger of SCSB Life Insurance Agency and SCSB Property Insurance Agency

The Bank merged SCSB Life Insurance Agency and SCSB Property Insurance Agency on May 6, 2019. Since the SCSB Life Insurance Agency and SCSB Property Insurance Agency are all 100% owned by the Bank, according to the IFRS question and answer set published by the Accounting Research and Development Foundation, the "Issues for the treatment of corporate mergers under the joint control of IFRS 3", as the IFRS 3 "Business Combinations" does not clearly stipulate the business combinations under common control, the relevant interpretation letter issued by Taiwan should still be applied.

The merger of SCSB Life Insurance Agency and SCSB Property Insurance Agency was organized by the Bank. According to the relevant interpretation letter issued by the Accounting Research and Development Foundation, when the Bank merged with SCSB Life Insurance Agency and SCSB Property Insurance Agency, it should account for the book value of all assets and liabilities, and prepared the consolidated balance sheets accordingly. When preparing comparative financial statements, it should be considered that the previous comparative financial statements have been consolidated and recompiled from the outset. The Bank's consolidated net assets of SCSB Life Insurance Agency and SCSB Property Insurance Agency amounted to the total of \$169,729 thousand.

## 45. ADDITIONAL DISCLOSURES

Information of significant transaction items 45.1 and other business investment 45.2 is as follows:

- 45.1.1 Financing provided: The Bank - not applicable; investees - Table 2.
- 45.1.2 Endorsement/guarantee provided: The Bank - not applicable; investees - not applicable or none.
- 45.1.3 Marketable securities held: The Bank - not applicable; investees - Table 3.

- 45.1.4 Marketable securities (for investees) or investee investment (for the Bank) acquired and disposed of, at costs or prices of at least NT\$300 million or 10% of the issued capital: The Bank - not applicable; investees - Table 4.
- 45.1.5 Acquisition of individual real estate at costs of at least \$300 million or 10% of the issued capital: None.
- 45.1.6 Disposal of individual real estate at prices of at least \$300 million or 10% of the issued capital: None.
- 45.1.7 Allowance for service fees to related-parties amounting to more than \$5 million: None.
- 45.1.8 Receivables from related parties amounting to at least \$300 million or 10% of the issued capital: None.
- 45.1.9 Sale of non-performing loans: None.
- 45.1.10 Application for approval of securitization product types and information according to Financial Asset Securitization Clause of the Real State Securitization Act: None.
- 45.1.11 Other significant transactions which may have effects on decision making of financial statement users: None.
- 45.1.12 Names, locations, and other information of investees on which the Bank exercises significant influence: The Bank - not applicable; investees - Table 5.
- 45.1.13 Derivative financial transactions: Note 8 on which the Bank exercises significant influence has no such transaction.
- 45.3 Investments in mainland China:
  - 45.3.1 Name of the investees in mainland China, main businesses and products, paid-in capital, method of investment, information on inflow or outflow of capital, percentage of ownership, investment income or loss, ending balance of investment, dividends remitted by the investee, and the limit of investment in mainland China: Table 5.
  - 45.3.2 Significant direct or indirect transactions with the investees, prices and terms of payment, unrealized gain or loss: Not applicable.
- 45.4 Major shareholders: Shareholders' name, amount of shares and shareholding ratio of at least 5%: None.

## 46. SEGMENT INFORMATION

According to the Article 23 of "Regulations Governing the Preparation of Financial Reports by Public Banks", the Bank does not prepare the segment information of IFRS 8.

TABLE 1

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

OVERDUE LOANS AND RECEIVABLES  
JUNE 30, 2020, DECEMBER 31, 2019 AND JUNE 30, 2019  
(In Thousands of New Taiwan Dollars, %)

Period			June 30, 2020					December 31, 2019					June 30, 2019				
Business			Non-performing Loans(Note 1)	Loans	Ratio of Non-performing Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Non-performing Loans (Note 1)	Loans	Ratio of Non-performing Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Non-performing Loans (Note 1)	Loans	Ratio of Non-performing Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate banking	Secured		\$ 636,056	\$ 259,408,742	0.25	\$ 3,112,760	489.38	\$ 455,306	\$ 246,367,842	0.18	\$ 2,915,704	640.38	\$ 565,639	\$ 250,641,574	0.23	\$ 2,981,903	526.90
	Unsecured		164,205	185,793,223	0.09	1,991,833	1,213.02	265,613	186,202,136	0.14	2,125,721	800.31	191,816	195,224,394	0.10	2,080,413	1,084.59
Consumer banking	Housing mortgages (Note 4)		290,403	157,996,703	0.18	2,605,308	897.14	430,312	152,264,743	0.28	2,709,031	629.55	575,606	145,274,584	0.40	2,677,833	465.22
	Cash cards		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Small scale credit loans (Note 5)		3,714	673,513	0.55	9,763	262.87	3,948	639,369	0.62	10,314	261.25	4,325	703,868	0.61	11,311	261.53
	Others (Note 6)	Secured	219,800	147,327,004	0.15	1,652,506	751.82	333,080	138,868,971	0.24	1,719,370	516.20	385,484	129,424,077	0.30	1,575,370	408.67
		Unsecured	1,893	7,984,116	0.02	81,385	4,299.26	2,562	7,483,172	0.03	77,376	3,020.14	3,245	7,263,148	0.04	76,254	2,349.89
Total			1,316,071	759,183,301	0.17	9,453,555	718.32	1,490,821	731,826,233	0.20	9,557,516	641.09	1,726,412	728,531,645	0.24	9,403,084	544.66
			Non-performing Receivables (Note1)	Accounts Receivable	Ratio of Non-performing Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Non-performing Receivables (Note 1)	Accounts Receivable	Ratio of Non-performing Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Non-performing Receivables (Note 1)	Accounts Receivable	Ratio of Non-performing Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Credit cards			4,427	2,123,594	0.21	84,328	1,904.86	11,013	2,479,588	0.44	90,633	822.96	11,457	2,463,249	0.47	89,886	784.55
Accounts receivable factored without recourse (Note 7)			-	1,224,425	-	12,224	-	-	835,039	-	8,350	-	-	831,750	-	8,317	-

Note 1: Non-performing loans represent the amounts of non-performing loans reported to the authorities and disclosed to the public, as required by the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrued Loans.” Non-performing credit card receivables represent the amounts of non-performing receivables reported to the authorities and disclosed to the public, as required by the Banking Bureau’s letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of non-performing loans: Non-performing loans ÷ Outstanding loan balance.  
Ratio of non-performing credit cards receivables: Non-performing credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses on loans ÷ Non-performing loans.  
Coverage ratio of credit card receivables: Allowance for possible losses on credit card receivables ÷ Non-performing credit card receivables.

Note 4: Housing mortgage is fully secured by house, which is purchased (owned) by the borrower, the spouse or the minor children of the borrower and the rights on mortgage are pledged to the financial institution, for the purpose of purchasing or decorating house.

Note 5: Small scale credit loans, as categorized in accordance with the Banking Bureau’s letter dated December 19, 2005 (Ref. No. 09440010950), are unsecured loans with small amounts exclusive of credit cards and cash cards.

Note 6: Other loans of consumer banking refer to secured or unsecured loans exclusive of housing mortgage, cash card, small scale credit loans and credit card.

Note 7: As required by the Banking Bureau’s letter dated July 19, 2005 (Ref. No. 0945000494), factoring without recourse is disclosed as non-performing receivables in three months after the factors or insurance companies reject indemnification.

**TABLE 1-1****THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.****OVERDUE LOANS AND RECEIVABLE  
JUNE 30, 2020, DECEMBER 31, 2019 AND JUNE 30, 2019  
(In Thousands of New Taiwan Dollars)**

	June 30, 2020		December 31, 2019		June 30, 2019	
	Excluded NPL	Excluded Overdue Receivables	Excluded NPL	Excluded Overdue Receivables	Excluded NPL	Excluded Overdue Receivables
As a result of debt consultation and loan agreements (Note1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
As a result of consumer debt clearance (Note 2)	-	34,397	-	35,020	-	35,384

Note 1: The disclosure of excluded NPLs and excluded overdue receivables resulting from debt consultation and loan agreements is based on the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: The disclosure of excluded NPLs and excluded overdue receivables resulting from consumer debt clearance is based on the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).



TABLE 2

## THE SHANGHAI COMMERCIAL &amp; SAVINGS BANK, LTD.

## LOANS AND OTHER INFORMATION

JUNE 30, 2020

(In Thousands of New Taiwan Dollars)

No (Note 1)	Lender	Borrower	Corresponding Account	Related Parties	The Highest Period Balance	Ending Balance	Actual Amount	Interest Rate Range	Capital Loan (Note 2)	Business Dealing Amount	Reasons of Short-term Financing	Allowance	Collateral		Individual Fund Loan and Limit (Note 3)	Total Loan Limit (Note 3)
													Name	Value		
1	SCSB Leasing (China) Co., Ltd.	A Co., Ltd.	Entrusted loan receivables	N/A	\$ 79,203	\$ 54,192	\$ 54,192	6%~11%	1	\$ 54,192	-	\$ 1,084	Real estate	\$ 179,000	\$ 367,304	\$ 918,260
1	SCSB Leasing (China) Co., Ltd.	B Co., Ltd.	Entrusted loan receivables	N/A	93,794	83,372	83,372	6%~11%	1	83,372	-	1,667	Real estate	251,367	367,304	918,260
1	SCSB Leasing (China) Co., Ltd.	C Co., Ltd.	Entrusted loan receivables	N/A	145,901	141,732	141,732	6%~11%	2	-	Operation turnovers	2,835	Real estate	202,177	183,652	367,304

Note 1: The numbers refer to the following:

- (1) Issuer is 0.
- (2) Investees are numbered sequentially starting from 1.

Note 2: The nature of capital loans corresponds to the following values:

- (1) 1 for business dealing.
- (2) 2 for reasons of short-term financing facility.

Note 3: The amounts and calculation of the loan limit are as follows:

## 1. Individual fund loans and limits

- (1) For an enterprise or organization that has no business relationship with the lender but has short-term financing facility , the loan amount to the single enterprise or organization shall not exceed 40% of the net value as presented in the latest financial statements of the lender as audited by the accountant.
- (2) For an enterprise or organization that has no business dealings with the lender but has short-term financing facility , the loan amount to the single enterprise or organization shall not exceed 20% of the net value as presented in the latest financial statements of the lender as audited by the accountant.

## 2. Capital loans and total loan limits

- (1) For an enterprise or organization that has no business dealings with the lender but has short-term financing facility , the total accumulated loan balance of the single enterprise or organization shall not exceed twice the net value as presented in the latest financial statements of the lender as audited by the accountant.
- (2) For an enterprise or organization that has no business dealings with the lender but has short-term financing facility, the total accumulated loan balance of the single enterprise or organization shall not exceed 40% of the net value as presented in the latest financial statements of the lender as audited by the accountant.

The total accumulated loan balance of the above two parties shall not exceed twice the net value as presented in the latest financial statements of the lender as audited by the accountant.

**TABLE 3****THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.****MARKETABLE SECURITIES HELD****JUNE 30, 2020****(In Thousands of New Taiwan Dollars)**

Holding Company Name	Name	Security Issuer's Relationship with Holding Company	Financial Statement Account	June 30, 2019				Note
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
Shancom Reconstruction Inc.	Empresa Inversiones Generales, S.A.	Indirect subsidiary	Investment in subsidiaries	1	\$ 1,709,416	100.00	\$ 1,709,416	
	Krinein Company	Indirect subsidiary	Investment in subsidiaries	2	500,475	100.00	500,475	
	Safehaven Investment Corporation	Indirect subsidiary	Investment in subsidiaries	1	47,671	100.00	47,671	
Wresqueue Limitada	Prosperity Realty Inc.	Indirect subsidiary	Investment in subsidiaries	4	22,098	100.00	22,098	
China Travel Service (Taiwan)	Silks Place Taroko	-	Equity investments under the equity method	20,372	265,308	45.00	265,308	
	CTS Travel International Ltd.	Indirect subsidiary	Investment in subsidiaries	600	7,009	100.00	7,009	
	Joy Tour Service Co., Ltd.	-	Financial assets measured at FVTOCI	100	1,000	10.00	1,000	
	Shanghai Commercial & Savings Bank, Ltd.	The Bank	Financial assets measured at FVTOCI	27	1,267	-	1,267	
SCSB Asset Management Ltd.	SCSB Leasing (China) Co., Ltd.	Indirect subsidiary	Investment in subsidiaries	NA	936,244	100.00	936,244	
Krinein Company	Shanghai Commercial Bank (HK)	Indirect subsidiary	Investment in subsidiaries	1,920	11,097,806	9.60	11,097,806	
Empresa Inversiones Generales, S.A.	Shanghai Commercial Bank (HK)	Indirect subsidiary	Investment in subsidiaries	9,600	55,489,028	48.00	55,489,028	

**TABLE 4****THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.**

**RELATED INFORMATION OF INVESTEEES  
FOR THE SIX MONTHS ENDED JUNE 30, 2020  
(In Thousands of New Taiwan Dollars) (In Thousands of Shares)**

Investee Company	Location	Main Businesses and Products	Percentage of Ownership (%)	Carrying Amount	Investment Income (Loss) Recognized	Consolidated Investment				Note
						Shares (In Thousands)	Shares (Pro forma)	Shares (In Thousands)	Percentage of Ownership (%)	
<b>Financial business</b>										
SCSB Asset Management Ltd.	Taiwan	Purchase and management of creditor's rights of financial institutions	100.00	\$ 1,528,201	\$ 9,403	160,000	-	160,000	100.00	
SCSB Marketing Ltd.	Taiwan	Marketing	100.00	7,524	954	500	-	500	100.00	
Paofoong Insurance Company Ltd.	Hong Kong	Insurance	40.00	312,413	7,858	500	-	500	100.00	
Shanghai Commercial Bank (HK)	Hong Kong	Banking and financial	57.60	66,586,834	2,837,867	11,520	-	11,520	57.60	
SCSB Leasing (China) Co., Ltd.	China	Leasing operation	100.00	936,244	18,290	NA	-	NA	100.00	
AMK Microfinance Institution Plc.	Cambodia	Microfinance business	84.89	3,161,175	84,804	5,405	-	5,405	84.89	
<b>Non-financial business</b>										
China Travel Service (Taiwan)	Taiwan	Travel services	99.99	393,647	12,463	38,943	-	38,943	99.99	
Kuo Hai Real Estate Management	Taiwan	Building material distribution	34.69	-	-	3,000	-	3,000	34.69	
Shancom Reconstruction Inc.	Liberia	Securities investment	100.00	68,392,581	2,852,428	5	-	5	100.00	
Wresqueue Limitada	Liberia	Securities investment	100.00	335,759	5,010	176	-	176	100.00	
Empresa Inversiones Generales, S.A.	Panama	Securities investment	100.00	1,709,416	1,751,476	1	-	1	100.00	
Krinein Company	Cayman Islands	Securities investment	100.00	500,475	352,581	2	-	2	100.00	
Safehaven Investment Corporation	Liberia	Securities investment	100.00	47,671	202	1	-	1	100.00	
Prosperity Realty Inc.	America	Real estate services	100.00	22,098	4,128	4	-	4	100.00	
Silks Place Taroko	Taiwan	Travel services	45.00	265,308	22,370	20,372	-	20,372	45.00	
CTS Travel International Ltd.	Taiwan	Travel services	100.00	7,009	2	600	-	600	100.00	

Note 1: Investees are categorized into financial business and non-financial business.

Note 2: The Bank, board chairman, president, vice president, managing directors, and the shares of investee companies invested in by related parties which comply with corporation law are considered.

**TABLE 5**

**THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.**

**INVESTMENT IN MAINLAND CHINA  
JUNE 30, 2020  
(In Thousands of New Taiwan Dollars or U.S. Dollars)**

1. Investee company name, main business and products, total amount of paid-in capital, investment type, investment outflows and inflows, % ownership, investment gain (loss), carrying amount as of June 30, 2020 and inward remittance of earnings:

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (Note 1)	Accumulated Outflow of Investment as of December 31, 2019	Investment Flows		Accumulated Outflow of Investment as of June 30, 2020	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of June 30, 2020 (Note 3)	Accumulated Inward Remittance of Earnings as of June 30, 2020
					Outflow	Inflow					
SCSB Leasing (China) Co., Ltd.	Leasing operation	NT\$ 883,350 US\$ 30,000	Note 1(c)	NT\$ 883,350 US\$ 30,000	NT\$ - US\$ -	NT\$ - US\$ -	NT\$ 883,350 US\$ 30,000	100	NT\$ 18,290 US\$ 611	NT\$ 936,244 US\$ 31,796	\$ -
Bank of Shanghai	Banking business approved by local government	NT\$ 59,221,337 US\$ 2,011,253	Note 4	NT\$ 3,319,718 US\$ 112,743	NT\$ - US\$ -	NT\$ - US\$ -	NT\$ 3,319,718 US\$ 112,743	3	NT\$ - US\$ -	NT\$ 14,736,617 US\$ 500,479	-
Shanghai Commercial Bank Ltd. - Shenzhen Branch	Banking business approved by local government	NT\$ 2,919,418 US\$ 99,148	Note 4	NT\$ 1,881,329 US\$ 63,893	NT\$ - US\$ -	NT\$ - US\$ -	NT\$ 1,881,329 US\$ 63,893	100	NT\$ 185,760 US\$ 6,202	NT\$ 2,777,681 US\$ 94,335	-
Shanghai Commercial Bank Ltd. - Shanghai Branch	Banking business approved by local government	NT\$ 3,204,082 US\$ 108,816	Note 4	NT\$ 1,905,592 US\$ 64,717	NT\$ - US\$ -	NT\$ - US\$ -	NT\$ 1,905,592 US\$ 64,717	100	NT\$ 66,170 US\$ 2,209	NT\$ 3,308,865 US\$ 112,374	-
The Shanghai Commercial & Savings Bank, Ltd. - Wuxi Branch (preparatory)	Banking business to be approved by the local government	NT\$ 2,525,901 US\$ 84,549	Note 1(a)	NT\$ - US\$ -	NT\$ 2,525,901 US\$ 84,549	NT\$ - US\$ -	NT\$ 2,525,901 US\$ 84,549	100	NT\$ - US\$ -	NT\$ 2,525,901 US\$ 84,549	-

2. Upper limit on investment in mainland China:

Accumulated Investment in Mainland China as of June 30, 2020 (Note 3)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 3)	Upper Limit on Investment Authorized by Investment Commission MOEA
\$10,479,534 (US\$335,902)	\$10,745,276 (US\$364,927)	\$119,757,073

Note 1: Routes of investment in mainland China are listed below:

- (a) Directly invest.
- (b) Invest indirectly via a third company.
- (c) Others.

Note 2: It should be specified from financial report audited by international accounting firm associated with accounting firm in the ROC.

Note 3: Calculated using the exchange rate on June 30, 2020.

Note 4: To invest via sub-subsidiary of the Bank, “Shanghai Commercial Bank (HK)”.