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ANNUAL REPORT 2018

COTA COMMERCIAL BANK



COTA Commercial Bank



COTA Commercial Bank

**ANNUAL REPORT
2018**






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2018

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A close-up photograph of two hands gently cupping a small green seedling with four leaves growing out of dark, rich soil. The hands are positioned to support the plant from below and the sides. The background is softly blurred, focusing attention on the plant and hands.

To Our Shareholders

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1 To Our Shareholders

1-1. Year 2018 Business Report

1-1-1. Financial Environment

According to the International Monetary Fund (IMF), the global economic growth rate was 3.6% in 2018, primarily affected by the global manufacturing and trade recovery in 2017, with the weakening of investors' confidence in the global economic outlook, the trade war, the weak economic growth in Europe, and the possible impact of the Brexit without agreement, the global economic growth rate is estimated 3.5% in 2019, meanwhile, is the lowest increase within three years. The global expansion of the economy has shown an unbalanced development and it has affected its growth momentum as the downside risks are realized one by one under the influence of the rising trade conflict between China and USA and the amplification of international financial market unpredictability. This shows that the USA economy is strong, but the growth of advanced economies such as Europe and Japan is not as expected, and the Chinese economy has further slowed down under the impact of the trade war.

In terms of the domestic financial market, according to the information of the General Office of the Executive Yuan, the economic growth rate of domestic was 2.60% in 2018. Due to the stable global warming and the application of emerging technologies, the market conditions of semiconductors and the demand for machinery are heating up, to promote domestic export momentum. In addition, the government actively removes investment barriers and implements industrial innovation plans. Due to trade disputes and slowing of China demand, the effect of the US tax reduction policy has diminished and the global financial situation has tightened in 2019.

Looking forward, the financial fragility is rising of some emerging market economies. The monetary policy of central banks will also affect directionally its financial stability in major economies. The development of relevant international economic and financial situations is still the focus of current financial markets. COTA will adopt a mobile business strategy and be cautious in responding to the ever-changing business environment

1-1-2. Organization Development

None

1-1-3. Business Plans and Strategies Performance

1-1-3-1. Main Achievements

- ATM cardless withdrawal service launched.
- Foreign exchange B2B banking launched.
- "AML/ Compliance Backlists Database Compliance Link System" upgraded.
- Mobile Internet Banking added the "Fingerprint Identification and Face Recognition Login" service.
- "Taiwan Pay QR Code scanning transfer, payment and consumption deduction" service launched.
- "Electronic Payment Tax Processing Platform" medical referral action app payment platform service and financial institution collection mode launched.

1-1-3-2. Budget Execution

As of Dec. 31, 2018, our deposits balance with sum of TWD149.6 billion (excluding deposits from banks) increased by TWD5.3 billion compared with previous year; our loans balance with sum of TWD116.7 billion was flat compared to the previous year. COTA would be committed to provide diversified products to satisfy the requirement of the customer, strengthen the Fintech services, expansion e-banking services, to develop new financial products, to achieve better structure of quality between deposits and loans and higher multi-source income.

Main business budget executions reported as follows:

- Final account of average deposits balance amounted to TWD146.2 billion, achieved 100.83% budgeting goal of TWD145 billion.
- Final account of average loans balance amounted to TWD116.3 billion, achieved 98.56% budgeting goal of TWD118 billion.
- Final account of trust assets balance amounted TWD5.18 billion, achieved 110.92% budgeting goal of TWD4.67 billion.

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

Our year 2018 solo earnings before income-tax figured as TWD899,537 thousand turned into EPS before income-tax as TWD1.11, consolidated earnings before income-tax figured as TWD899,537 thousand turned into EPS before income-tax as TWD1.11. While earning after income-tax figured as TWD753,611 thousand, turned into EPS after income-tax as TWD0.93. Our BIS ratio maintained at a level of 12.91% and net worth of per share stood at TWD13.41. Our non-performing loan coverage ratio to 295.71%. Overdue loan ratio decreased to 0.50%. Nevertheless, we would constant improve business effectiveness and risk control to boost operation capability and competitive edge.

1-1-3-4. Research and Development

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



1-2. Year 2019 Business Plans Outline

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

1-2-1. Business Operating Policy

- Strengthen the capital structure and intensify managerial strength, achieve the risk management and corporate governance, promote medium-term and long-term risk response ability.
- In line with the development of digital banking and financial technology, we will continue to develop and improve the electronic channel service system, expand the digitalization of various business transaction functions, and provide customers with more convenient financial services.
- In response to government policies and the advent of an aging society, we actively participate in advocating for the promotion of elderly and mentally handicapped people's trusts, fulfilling corporate social responsibility and enhancing customer experience.
- Continue to strengthen the business practices and professional ethics, legal compliance and risk control mechanisms of financial management personnel to implement the implementation of internal control and auditing systems, and promote the practice of internal control three lines of defense to eliminate possible shortcomings.
- Maintain risk-oriented banking management policies and continue to promote the long-term goal of sustainable growth and sustainable operation.
- In response to changes in the financial environment, we will strengthen the handling of various operational force test operations, review and correct improvements as appropriate, and promptly formulate response measures and amendments to internal regulations or operating procedures in response to changes in various regulations or business environments, and adjust operations in accordance with market and economic conditions. Strategy to strengthen the competitiveness of the Bank.
- Cooperate with the implementation of anti-money laundering and counter-terrorism financing matters, integrate the national risk identification, assessment, and control process system of the Bank, and strengthen blacklist control and inspection.
- Continue to strengthen the education and training of the staff, train the seed of the e-finance business to be familiar with the system operation, and strengthen the ability of the branch to market digital financial services.

1-2-2. Business Target

1-2-2-1. Main Operating Volume

Unit: TWD thousand: %

Main Business	Budget of Year 2019	Result of Year 2018	Increase volume	
			Amount	%
Average deposits	148,500,000	146,192,169	2,307,831	1.58
Average loans	117,700,000	116,268,971	1,431,028	1.23
Wealth management	5,318,800	5,181,439	137,361	2.65

1-2-2-2. Schemed Targets

- Continuously improve the function of e-banking, close up to the requirement of customers financial as a goal, improve customer willingness to use and the ration of penetration.
- Innovate consumer financial products based on market dynamics, and develop diversified and customized projects with low risk and competitive advantages as the mainstay to increase the added value of various products, expand product services and increase the scale of personal financial loans.
- Enhance the pre-existing risk control capabilities of the entire product to enhance asset quality and implement post-event management. Regularly review the operating conditions and asset quality of the consumer finance credit business, adjust the pricing and credit policies of the products at any time, and establish a management framework for the entire product line to ensure Respond to product performance.

- Integrate the Bank's national risk identification, assessment, and control process systems, and strengthen blacklist control and inspection to strengthen the Bank's policy of preventing money laundering and combating the financing of terrorism.
- Strengthen the development of wealth management business and provide weekly financial and economic observatories to integrate the latest trends in the global market to enhance the professional capabilities of sales staff.
- The financial investment strategy focuses on strengthening financial operations and stable liquidity, diversifying investment targets, and ensuring asset contribution to achieve profitable performance.
- Actively cultivate core deposit customer groups to obtain stable low-cost funding sources and optimize the debt structure to achieve both stock and incremental bilateral utility.

1-3. Long-term Development Strategy

- Base on sustain business strategy of strong capital and steady profitability to strengthen capital quality, COTA actively search for out for excess funds and allocate with the best of the assets to create income optimization the use of bank capital.
- Actively cooperate with financial policies and various regulations, strengthen management and capital structure, enhance operational efficiency, and develop towards the vision of quality financial institutions.
- Strictly monitor the limits of market risk to achieve a balance between risk and remuneration and optimization of capital allocation to maintain the safety and profitability of capital.
- Promote diversified trust commodities and provide customized services based on customer needs to implement the substantive purpose of the trust.
- Cooperate with the New Basel III (Basel III) to strengthen risk management functions, strictly control the over-discharge ratio, improve asset quality, and strengthen the monitoring and management of various credit risks.
- Cooperate with the government's policies to promote economic development and promote industrial upgrading, and provide enterprises with overall credit schemes and promotion strategies to meet the funding needs of various stages of industrial and commercial enterprises.
- Continuously strengthen the on-the-job training courses for business personnel, aiming at legal compliance, product positioning, marketing direction, development skills, service etiquette, and supplemented by the four purposes of integrity, innovation, cordiality, and service, thereby improving the overall business team's production capacity.
- In response to the increasing popularity of Internet and mobile devices, the launch of the mobile online banking revision program is aimed at customer demand, augmentation of functions and services, and enhances customer satisfaction and increased willingness to use.
- Plan the business to be mobile, electronic and paperless, and introduce a virtual and integrated service model to improve service efficiency.
- Continue to pay attention to the development of emerging financial technology applications, discuss the feasibility of introducing financial technology resources into the business, and improve service efficiency.
- Implement corporate social responsibility, actively help disadvantaged public welfare groups, and inject good energy into society.
- Cooperate with the implementation of the Personal Data Protection Law to continuously develop and build related software and hardware systems.

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

In response to the trend of international financial technology, and assisting financial industry to face the challenges brought by innovation and technology. The FSC actively construct an environment conducive to the innovation and development of financial technology. 「Financial Technology Development and Innovative Experimentation Act」 successfully completed the legislation and became the world's first financial supervision sandbox law. Under the prevalence of financial technology, the biggest competitive threats of traditional financial institutions come from financial technology startups, small pure online banks, especially payments, mobile wallets, P2P loans and other services. The FSC has also stated on many occasions that the policy is to open two pure online banking companies. The main purpose is to create a “Catfish Effect” and guide traditional banks to follow up on financial innovation and enhance the service and competitiveness of the financial industry.

In addition, promote the establishment of a corporate culture centered on “Treat Clients Fairly” in the financial services industry, implement the protection of financial consumer rights, and understand the implementation of the “Principle for Financial Service Industries to Treat Clients Fairly” in the financial services industry. The assessment mechanism for the fairness of the financial services industry has been implemented. The results of the assessment will serve as a reference for financial inspections and other supervision since the beginning of 2019.

Overviewed the banking laws and regulations environment, COTA has a greater impact on the compliance “Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions” (CRS), mainly to promote Taiwan's CRS regulations issued by the OECD, improve the transparency of account information, and accordingly exchange financial account information with other countries or areas, in order to facilitate Taiwan and national tax authorities to grasp the account information of overseas taxpayers. In addition to requiring financial institutions to conduct preliminary identification and document collection of the tax occupants of individual account holders, CRS must still understand the identity conditions of the information exchange countries and the reasonableness of the identity documents. It's certain to add the identification risks of financial institutions execution difficulties and commitments. Besides, according to the size of financial institutions, different business concepts and cost-effective considerations, there's different of the judgment procedures and standards for the rationality of documents collected by financial institutions. Therefore, it is particularly important to establish the set of evaluation criteria and logic as the basis for identity identification procedures.

In the future, we will continue to cooperate with the policies of the competent authority, to develop diversified financial products, to innovate financial services, to construct more comprehensive services network so as to grasp developing opportunity, enhance profitability and expand the scale of operation.

1-5. Corporate Rating

Category	Rating Agent	Rating		Outlook	Released Date
		Long-term	Short-term		
Local	Taiwan Rating Corporate	twBBB+	twA-2	Stable	Dec.26, 2018

Heading for new coming year, COTA will continuous commitment to balance asset quality and risk compensation, and extend and expand various business areas, meanwhile, adjust the profit structure, open up multiple sources of income, and meet the diversified financial needs of customers. All of our staffs will also adhere to the spirit of striving for breakthrough, enhance profitability, expand the scale of operations, and create maximum benefits for all shareholders.

At last, we would like to express sincere appreciations to our shareholders, directors, and the elites in all fields. We look forward to obtaining continued support and advice from all of you.

Chairman *Song-Yie Liao*



Corporate Profile 2

2 Corporate Profile

2-1. Bank Features

Bank Name	COTA Commercial Bank, Ltd.
Chairman	Song-Yie Liao
President	Jung-Hsien Chiu
Date of Business Registration	Jan. 01, 1999
Date of Inauguration	Jan. 01, 1999
Location of Head Office	No.32-1, Gongyuan Road, Taichung City 400, Taiwan, R.O.C.
Number of Employee	1,110
Paid-in Capital	TWD8,083,054,420
Capital Shares	Common Stock in 808,305,442 Shares



2-2. Historical Highlights

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

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

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

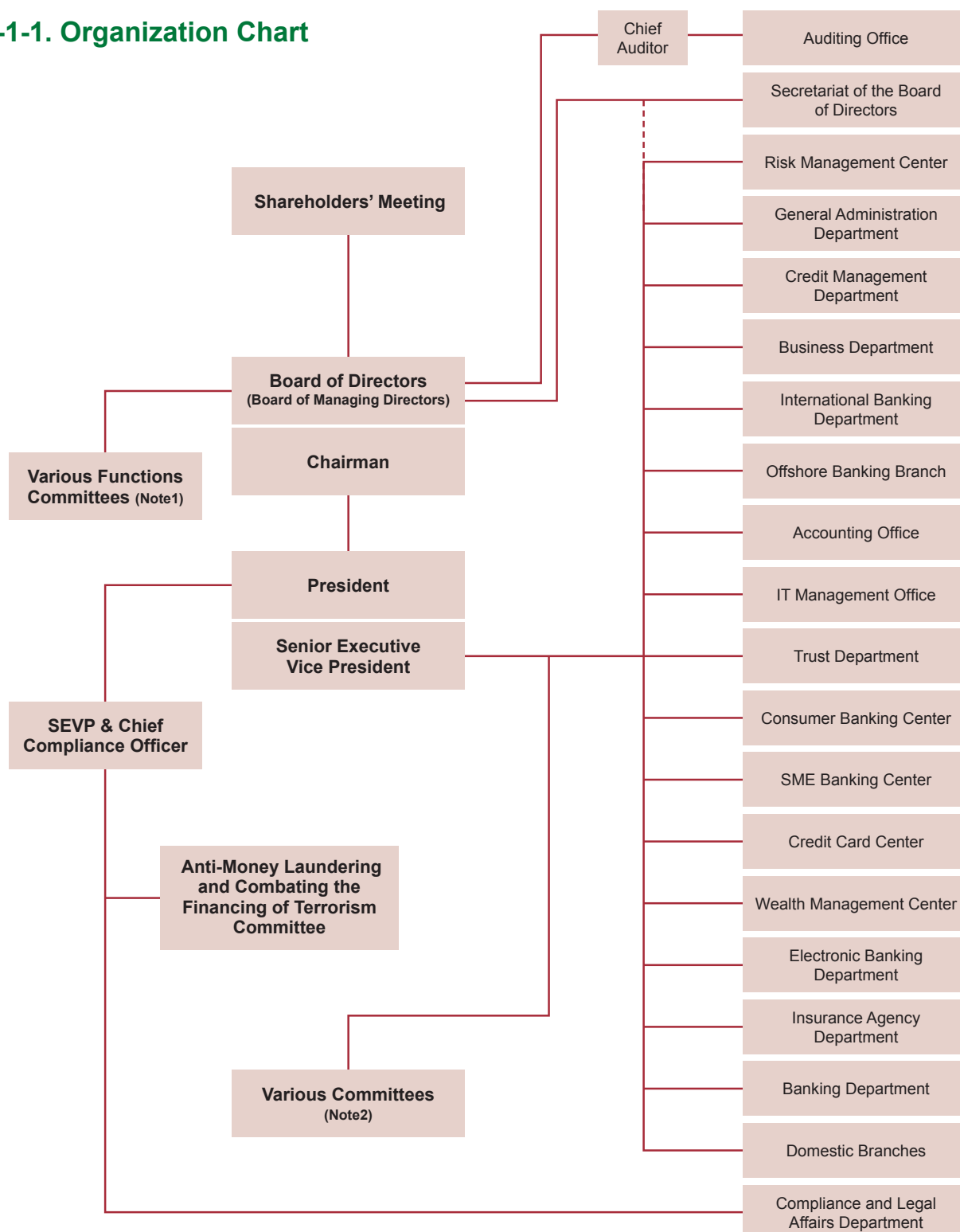


Corporate Governance 3

3 Corporate Governance

3-1. Organization

3-1-1. Organization Chart



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

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

3-1-2. Major Business of Each Division

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

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

3-1-2-2. General Administration Department

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

3-1-2-3. Credit Management Department

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

3-1-2-4. Business Department

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

3-1-2-5. International Banking Department

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

3-1-2-6. Offshore Banking Branch

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

3-1-2-7. Audit Office

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

3-1-2-8. Accounting Office

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

3-1-2-9. IT Management Office

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

3-1-2-10. Banking Department

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

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

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

3-1-2-12. Risk Management Center

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

3-1-2-13. Consumer Banking Center

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

3-1-2-14. SME Banking Center

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

3-1-2-15. Credit Card Center

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

3-1-2-16. Wealth Management Center

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

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

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

3-1-2-18. Electronic Banking Department

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

3-1-2-19. Insurance Agency Department

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

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

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

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

As of Dec. 31, 2018 Shares Held (%)

Title	Nationality and Registry	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
						No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Chairman	R.O.C	Song-Yie Liao	Jan.12, 2018 (Director Dec.23,2017)	3	May. 25, 2005	52,761,419	6.9191	55,927,104	6.9191	1,437,552	0.1778	-	-	Department of Economics, Hosei University of Tokyo, Japan Chairman of Chuan Cheng Hat Co., Ltd.	Director of Chuan Cheng Hat Co., Ltd. Director of CCH Plus Inc. Independent Director of Formosan Union Chemical Corp.
Managing Independent Director	R.O.C	Kun-Hsien Lin	Jan.12, 2018 (Director Dec.23,2017)	3	Dec. 29, 2014	3,201,584	0.4199	1,167,679	0.1445	-	-	-	-	College of Law, National Taiwan University Master's Program, Graduate Institute of Financial and Economic Law, Feng Chia University Director of Taichung BAR Association Member of Taiwan Bar Committee on the Discipline Chairman of Taichung NTU Alumni Association Member of Taichung City Building Regulations Subcommittee	Director of Kun Her Industrial Co., Ltd. Manager of Chan Hsin Law Firm Independent Director of Yung Shin Global Holding Co. Ltd. Independent Director of Yung Zip Chemical Ind. Co., Ltd. Independent Director of Yung Shin Pharmacy Ind. Co., Ltd. (Representative of a legal entity) Director of Dexian Industrial Co., Ltd.
Managing Director	R.O.C	Ying-Che Chang	Jan.12, 2018 (Director Dec.23,2017)	3	Jan. 1, 2002	2,659,060	0.3487	2,818,603	0.3487	35,932	0.0044	-	-	Department of International Business, Feng Chia University President of COTA Bank Chairman of COTA Bank Insurance Broker Co., Ltd. (Representative of a legal entity)	Director of COTA Culture and Education Foundation
Managing Director	R.O.C	Xian-De Lai	Jan.12, 2018 (Director Dec.23,2017)	3	May 25, 2005	3,688,102	0.4837	3,909,388	0.4837	143,115	0.0177	-	-	Department of Public Finance and Taxation, National Chung Hsing University President of Tung Yang Business Co., LTD.	Chairman of Tung Yang Business Co., Ltd. Chairman of Tung Yang Investment Co., Ltd. Managing Director of Taiwan Flour Mills Associate Director of Hsiuping University of Science and Technology
Managing Director	R.O.C	Chuan Cheng Hat Co., Ltd.	Jan.12, 2018 (Director Dec.23,2017)	3	Dec. 29, 2014	13,377,618	1.7543	14,180,275	1.7543	-	-	-	-	-	-
		Chuan Cheng Hat Co., Ltd. Assigned Representative: Min-Chang Lin				182,607	0.0239	233,774	0.0289	348,339	0.0431	-	-	Department of General Business, Shin Min Commercial & Industrial Vocational Senior High School Branch General Manager of COTA Bank	-
Independent Director	R.O.C	Po-Yao Chi	Dec.23, 2017	3	Jun. 20, 2008	2,719,908	0.3567	2,883,102	0.3567	613,988	0.0760	-	-	Department of Accounting, Soochow University Miaoli Factory Director of Cheng Loong Corporation	Director of Ko Loong Industry Co., Ltd.
Independent Director	R.O.C	Tsung-Ta Kuo	Dec.23, 2017	3	Dec.23, 2017	-	-	-	-	-	-	-	-	Graduate Institute of Accounting and Public Finance, Feng Chia University Tax auditor of the National Taxation Bureau of the Central District of the Ministry of Finance	Chief Accountant of Chien-Yao CPAs
Director	R.O.C	Chun-Chieh Wang	Dec.23, 2017	3	Dec.29, 2014	10,741,068	1.4086	11,385,532	1.4086	-	-	-	-	Mingdao High School	Chairman of Mingdao Private High School Director of Hon Dao senior citizen welfare foundation

Title	Nationality and Registry	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
						No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Director	R.O.C	Chien-Chung Lai	Dec.23, 2017	3	Dec.23, 2017	3,400,459	0.4459	3,444,486	0.4261	2,663,907	0.3296	-	-	Department of French, Chinese Culture University Overseas Chinese Affairs Committee of Overseas Community Affairs Council, R.O.C. President of The Council of Taiwan Chambers of Commerce In Vietnam Vice President of The Council of Asia Taiwanese Chambers Of Commerce President of Chiao Sang Footwears Inc. Supervisors of Lu Yueh Enterprise Co., Ltd.	Advisory Committee of Overseas Community Affairs Council, R.O.C. Consultant of World Taiwanese Chambers of Commerce Advisory Committee of Asia Taiwanese Chambers Of Commerce Consultant of Taiwan Association of Machinery Industry –Machinery for Shoe Consultant of Overseas Chinese Culture and Education Foundation Director of Overseas Taiwan Commercial Travel Agency Ltd Co.
Director	R.O.C	Chi-Peng Yang Representative: Chia De Development and Investment Co., Ltd.	Dec.23 2017	3	Dec.29, 2014	13,612,658	1.7851	11,055,031	1.3677	-	-	-	-	Associate's Degree Student of Tunghai University Executive Master of Business Administration Program	Branch General Manager of COTA Bank
		Chia De Development and Investment Co., Ltd.				985,426	0.1292	1,044,551	0.1292	-	-	-	-	-	-
Director	R.O.C	Kang-Wei Chang Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	1,024,310	0.1343	9,452	0.0012	-	-	-	-	Master of Science Degree National Tsing Hua University Department of Chemical Engineering	Chairman of Far Eastern Air Transport Corp. (Representative) Chairman of Huaqi Investment Co., Ltd. Chairman of Huajiu Investment Co., Ltd. Chairman of Huaba Investment Co., Ltd. Director of Hualiu Investment Co., Ltd. Chairman of HuaYi Leasing & Finance Co., Ltd. (Representative) Chairman of Huaer Investment Co., Ltd. Chairman of Fuli Investment Co., Ltd. Director of Huafu Entertainment Co., Ltd. (Representative) Director of Huacheng Development Co., Ltd. (Representative) Director of Huaxi Co., Ltd. (Representative) Director of Huafu Construction Co., Ltd. (Representative) Director of Huapeng Development Co., Ltd. (Representative) Director of Bode Development Co., Ltd. (Representative) Chairman of Fusan Co., Ltd. Director of Celebrity Tours Co., Ltd. (Representative) Director of Huafu International Entertainment Co., Ltd. Director of Jin Yu Hua Investment Co., Ltd. Chairman of Gangjun Investment Co., Ltd. Director of Hanyang Construction Co., Ltd. (Representative) Director of Minghan Construction & Development Co., Ltd. (Representative) Director of Huafu Construction & Development Co., Ltd. (Representative) Chairman of Huasan Investment Co., Ltd. Director of Huafu Parking Co., Ltd. Chairman of Far Eastern Air Transport Culture and Art Foundation

Title	Nationality and Registry	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
						No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Director	R.O.C	Chin-Chih Tseng Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	915,806	0.1201	2,045	0.0003	-	-	-	-	Master of Science Degree National Chiao Tung University Department of Chemistry Chief Operating Officer of Far Eastern Air Transport Corp. President of Leshi Co., Ltd.	Director of Far Eastern Air Transport Corp. (Representative) General Manager of Far Eastern Air Transport Corp. Director of Ande International Development Co., Ltd. (Representative) Supervisor of Huaqi Investment Co., Ltd. Supervisor of Huaju Investment Co., Ltd. Supervisor of Huaba Investment Co., Ltd. Supervisor of Hualiu Investment Co., Ltd. Chairman of Huafu Entertainment Co., Ltd. (Representative) Chairman of Huacheng Development Co., Ltd. (Representative) Chairman of Huaxi Co., Ltd. (Representative) Chairman of Huayu Chuangxing International Entertainment Co., Ltd. (Representative) Chairman of Huafu Construction Co., Ltd. (Representative) Chairman of Huapeng Development Co., Ltd. (Representative) Chairman of Celebrity Tours Co., Ltd. (Representative) Chairman of Yuanxing Tours Co., Ltd. (Representative) Chairman of Huafu International Entertainment Co., Ltd. Director of Tachia Yung Ho Machine Industry Director of Hanyang Construction Co., Ltd. (Representative) Chairman of Minghan Construction & Development Co., Ltd. (Representative) Chairman of Huafu Construction & Development Co., Ltd. (Representative) Chairman of Leqi Investment Co., Ltd. (Representative) Chairman of Yaojie Investment Co., Ltd. (Representative) Chairman of Yexiang Investment Co., Ltd. (Representative) Chairman of Yuanxiang Construction Co., Ltd. (Representative) Chairman of Zhanheng Investment Co., Ltd. Chairman of Huafu Parking Co., Ltd. Director of Far Eastern Air Transport Culture and Art Foundation
Director	R.O.C	Ching-Wen Cheng Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	1,297	0.0002	1,374	0.0002	-	-	-	-	Chinese Junior College of Industrial and Commercial Management Deputy Chairman of Far Eastern Air Transport Corp.	Director of Far Eastern Air Transport Corp. (Representative) Director of Han Feng Asset Management Co., Ltd. (Representative) Director of Huaqi Investment Co., Ltd. Director of Huaju Investment Co., Ltd. Director of Huaba Investment Co., Ltd. Director of Hualiu Investment Co., Ltd. Director of Huacheng Development Co., Ltd. (Representative) Director of Huaxi Co., Ltd. (Representative) Director of Huapeng Development Co., Ltd. (Representative) Director of Celebrity Tours Co., Ltd. (Representative) Director of Yuanxing Tours Co., Ltd. (Representative)

Title	Nationality and Registry	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
						No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Director	R.O.C	Ching-Wen Cheng Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	1,297	0.0002	1,374	0.0002	-	-	-	-	Chinese Junior College of Industrial and Commercial Management Deputy Chairman of Far Eastern Air Transport Corp.	Director of Jin Yu Hua Investment Co., Ltd. Director of Gangjun Investment Co., Ltd. Director of Huafu Construction & Development Co., Ltd. (Representative) Director of Yaojie Investment Co., Ltd. Chairman of Haojing Asset Management Co., Ltd. Director of Yuanxiang Construction Co., Ltd. (Representative) Director of Zhanheng Investment Co., Ltd. Director of Far Eastern Air Transport Culture and Art Foundation
Director	R.O.C	Hua-Chiang Chi (NOTE 1) Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	15	0.0000	15	0.0000	-	-	-	-	Shin Min High School Vice Chairman of Taiwan Fluorescent Lamp Co., Ltd	Director of TFC Construction Co., Ltd. (Representative)
Director	R.O.C	Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	919,421	0.1206	974,586	0.1206	-	-	-	-	-	-
Director	R.O.C	Chin-Yun Lu (NOTE 2) Representative: Huasan Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	-	-	-	-	-	-	-	-	Ming Chun Business College Deputy general manager of Sunland Travel INC	-
		Huasan Investment Co., Ltd.				2,052,756	0.2692	2,175,921	0.2692	-	-	-	-	-	-

NOTE 1: Director Chien-Chun Chang Representative of Jin Yu Hua Investment Co., Ltd. resigned on Jan. 11, 2018 and reassigned Hua-Chiang Chi as a new Representative

NOTE 2: Director Chi-Chang Liu Representative of Huasan Investment Co., Ltd. resigned on Sep. 30, 2018 and reassigned Chin-Yun Lu as a new Representative

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

As of Dec. 31, 2018

Institutional Shareholder	Major Shareholders of Institutional Shareholders
Chuan Cheng Hat Co., Ltd.	Song-Yie Liao(68.35%), Ching-Ling Liu(12.36%), Po-Chun Liao(9.46%)
Chia De Development and Investment Co., Ltd.	HOARDER RICH LIMITED(100%)
Jin Yu Hua Investment Co., Ltd.	Kang-Wei Chang(90.10%), Hui-Chuan Hsu(9.90%)
Huasan Investment Co., Ltd.	Kang-Wei Chang(90.00%), Hui-Chuan Hsu(10.00%)

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

As of Dec. 31, 2018

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

3-2-1-4.

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

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

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

1. Neither employees of Bank nor its affiliates.

2. Neither a director/supervisor of Bank nor its affiliates, unless the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares.

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

4. Not a spouse or relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.

5. Not directors, supervisors, or employees of a corporate shareholder that directly holds 5% or more of the total outstanding shares of the Bank or ranks among the top 5 corporate shareholders in the terms of share volume held.

6. Not directors, supervisors, or executive officer, or shareholder holding 5% or more shares of a specific company or institution and who also has financial or business dealings with the company.

7. Not a professional, or owner, partner, director, supervisor, or executive officer and the spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting or consulting services to the Bank or to any affiliates.

8. Not a spouse or relative within the second degree of kinship within directors.

9. Not any of the circumstances in the subparagraphs of Article 30 of the Company Act.

10. Not elected in the capacity of government agency, legal entity, or its representative thereof, as provided in the Article 27 of the Company Act.

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

As of Dec. 31, 2018, Shares Held (%)

Title	Name	Date of Inauguration	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Education & Key Past Positions	Other Positions Held Current
			No. of Shares	%	No. of Shares	%	No. of Shares	%		
President	Jung-Hsien Chiu	May. 01, 2017	1,430,773	0.177			-	-	Department of Industrial and Information Management, National Cheng Kung University, Master Senior Executive Vice President of COTA Bank	-
Chief Auditor	Chih-Sheng Hsiao	Jan. 01, 2014	1,129,025	0.140	337,249	0.042	-	-	Department of Public Finance and Taxation, Feng Chia University Senior Executive Vice President of COTA Bank	-
Senior Executive Vice President (Department General Manager)	Yun-Ching Wang	Jul. 01, 2016	534,110	0.066	270,998	0.034	-	-	Department of Finance, National Chung Hsing University, Master Executive Vice President of COTA Bank, General Manager of IT Management Office	-
Senior Executive Vice President	Huan-Mou Cheng	Jul. 01, 2016	292,656	0.036	147,674	0.018			Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Executive Vice President of COTA Bank, General Manager of Taichung Branch	-
Senior Executive Vice President	Kuang-Hsiung Huang	Sep. 17, 2018	407,702	0.050	367,398	0.045	-	-	Department of Economics, Feng Chia University Executive Vice President of COTA Bank, General Administration Department	
Executive Vice President (Branch General Manager)	Shih-Chien Chin	Sep. 04, 2017	877,834	0.109	211,410	0.026	-	-	Department of Applied Math., University of North Texas, USA, Master Executive Vice President of COTA Bank, General Manager of Credit Management Department	-
Executive Vice President	Wei-Bin Lin	Jul. 01, 2016	247,014	0.031	-	-	-	-	Graduate School of Management, University of California at Riverside, Master Department General Manager of COTA Bank, International Banking Department and Offshore Banking Branch	
Executive Vice President (Branch General Manager)	Wen-Lung Chen	Sep. 04, 2017	925,180	0.114	100,608	0.012	-	-	Department of Business Administration, Chaoyang University of Technology Branch General Manager of COTA Bank, Nanmen Branch	-
Executive Vice President (Branch General Manager)	His-Tung Chang	Jan. 09, 2016	832,385	0.103	4,189	0.001	-	-	Department of Electronics Engineering, Kuang-Hwa Vocational High School of Technology Branch General Manager of COTA Bank, Zanghua Branch	-
Executive Vice President (Branch General Manager)	Chien-Cheng Hsu	Apr. 08, 2015	787,805	0.097	128,221	0.016	-	-	Department of Business Administration, Tunghai University, Chief Secretary of COTA Bank, Secretariat of The Board of Directors	
Department General Manager	Shi-Zhao Lee	Sep. 17, 2018	196,657	0.024	136,097	0.017	-	-	Department of Business Administration, Chung Yuan University Branch General Manager of COTA Bank, Xinzhuang Branch	
Department General Manager	Chih-Peng Yang	Sep. 04, 2017	11,055,031	1.368	-	-	-	-	Department of Business Administration, National Open College of Continuing Education Affiliated to National Taichung Institute of Technology Branch General Manager of COTA Bank, Taichung Branch	
Department General Manager	Ming-Heng Chan	Sep. 01, 2013	264,922	0.033	48,434	0.006	-	-	Master Program in Senior Executive Master of Business Administration, Chaoyang University of Technology Deputy General Manager of COTA Bank, Business Department	-
Department General Manager	Chuan-Hung Yang	Feb. 07, 2015	176,704	0.022	-	-	-	-	Department and Graduate Institute of Finance, Chaoyang University of Technology Deputy General Manager of COTA Bank, Risk Management Center	-
Department General Manager	Hung-Tsang Chiang	Oct. 15, 2013	304,054	0.038	160,810	0.020	-	-	Department of Public and Management, Supplementary Junior College of the National Open University Department General Manager of COTA Bank, Consumer Banking Center	-

Title	Name	Date of Inauguration	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Education & Key Past Positions	Other Positions Held Current
			No. of Shares	%	No. of Shares	%	No. of Shares	%		
Department General Manager	Chun-Sheng Lin	Apr. 01, 2010	189,327	0.023	42,508	0.005	-	-	Department of Chemical Engineering, Chung Yuan Christian University Deputy General Manager of COTA Bank, Risk Management Center	-
Department General Manager	Chang-Chieh Lin	Oct. 15, 2013	296,017	0.037	-	-	-	-	Department of Economics, Tunghai University Department General Manager of COTA Bank, Business Department	-
Department General Manager	Chi-Nan Huang	Jul. 01, 2016	82,775	0.010	-	-	-	-	Department of Public Administration, National Chung Hsing University Deputy General Manager of COTA Bank, International Banking Department and Offshore Banking Branch	-
Department General Manager	Jun-Long Tsai	Jul. 01, 2016	189,375	0.023	250,245	0.031	-	-	Department of Business Administration, National Chung Cheng University, Master Deputy General Manager of COTA Bank, Business Department	-
Department General Manager	Yung-Hsieh Chen	Dec. 01, 2015	20,283	0.003	-	-	-	-	Department of Computer Science and Information Engineering (CSIE), National Taiwan University, Master Senior Engineer of ASUS	-
Department General Manager	Chen-Chuan Kuo	May. 01, 2017	-	-	-	-	-	-	Department of Risk Management & Insurance, Feng Chia University, Master Deputy General Manager of COTA Bank, Business Department	-
Branch General Manager	Jui-Sen Liao	Jan. 01, 2018	246,584	0.031	7,818	0.001	-	-	Department of Public Finance and Taxation, Institute of Industrial & Business Administration, Tamsui Oxford College Branch General Manager of COTA Bank, Chengong Branch	-
Branch General Manager	Chih-Hung Huang	Jan. 01, 2018	426,588	0.053	146,102	0.018	-	-	Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Department General Manager of COTA Bank, Credit Card Center	-
Branch General Manager	Cheng-Hsien Hsieh	Aug. 01, 2014	492,466	0.061	124,185	0.015	-	-	Department of Business, The National Open University Branch General Manager of COTA Bank, Dazhi Branch	-
Branch General Manager	Mei-Ling Shih	Jul. 01, 2016	326,217	0.040	28,005	0.003	-	-	Department of International Business, National Open College of Continuing Education Department General Manager of COTA Bank, Trust Department	-
Branch General Manager	Ling-Chen Ting	Jan. 01, 2018	701,322	0.087	-	0.000	-	-	Department of Banking and Insurance, National Taichung Institute of Technology Department General Manager of COTA Bank, Business Department	-
Branch General Manager	Mao-Sheng Huang	Aug. 01, 2014	306,925	0.038	69,411	0.009	-	-	Department of Finance, Chung Hua University Branch General Manager of COTA Bank, Xinzhu Branch	-
Branch General Manager	Chi-Shen Huang	Jan. 08, 2014	639,913	0.079	71,552	0.009	-	-	Department of Banking and Insurance, National Taichung Institute of Technology Branch General Manager of COTA Bank, Banciao Branch	-
Branch General Manager	Hung-Chi Tung	Jan. 01, 2012	453,594	0.056	321,318	0.040	-	-	Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Branch General Manager of COTA Bank, Fengxin Branch	-
Branch General Manager	Chang-Cheng Chen	Jan. 09, 2016	241,294	0.030	915	0.000	-	-	Department of Extension Business Vocational School, National Taichung Institute of Technology Branch General Manager of COTA Bank, Fengxin Branch	-
Branch General Manager	Chia-Wen Ke	Dec. 08, 2014	298,867	0.037	-	-	-	-	Department of Technology Management, Chung Hua University, Master Commissioner of COTA Bank, Credit Management Department	-
Branch General Manager	Tzu-Hsiu Liang	Apr. 01, 2016	192,890	0.024	66,941	0.008	-	-	Department of Business Administration, Feng Chia University, Master Project Manager of COTA Bank, Credit Management Department	-
Branch General Manager	His-Hsien Wang	Jan. 09, 2016	242,364	0.030	-	-	-	-	Department of Law, Soochow University Branch General Manager of COTA Bank, Taipei Branch	-
Branch General Manager	Cheng-Hao Wu	Jan. 08, 2014	140,336	0.017	-	-	-	-	Department of Business Administration, Fugen Catholic University Deputy General Manager of COTA Bank, Banciao Branch	-
Branch General Manager	Shu-Chen Shih	Jan. 09, 2016	521,865	0.065	-	-	-	-	Department of Social Science, The National Open University Branch General Manager of COTA Bank, Fengdong Branch	-

Title	Name	Date of Inauguration	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Education & Key Past Positions	Other Positions Held Current
			No. of Shares	%	No. of Shares	%	No. of Shares	%		
Branch General Manager	Shih-Tsung Liu	Jun. 24, 2013	394,842	0.049	348,161	0.043	-	-	Department of Business, The National Open University Branch General Manager of COTA Bank, Fengle Branch	-
Branch General Manager	Hong-Yi Chen	Jul. 01, 2016	262,205	0.032	357,919	0.044			Department of Applied Commerce, National Taichung Institute of Technology Deputy General Manager of COTA Bank, General Administration Department	-
Branch General Manager	Kuo-Mao Wu	Jan. 01, 2017	19,692	0.002	-	-	-	-	Department of International Business, Tatung College of Business Project Manager of COTA Bank, Ciaotou Branch	-
Branch General Manager	Pi-Lan Hsu	Sep. 17, 2018	-	-	-	-	-	-	Department of International Business and Marketing, China University of Science and Technology Deputy General Manager of COTA Bank, Xinzhuang Branch	-
Branch General Manager	Ming-Yung Yu	Aug. 01, 2014	227,918	0.028	28,333	0.004	-	-	Department of Business Administration, Taichung College of Business Project Manager of COTA Bank, Credit Management Department	-
Branch General Manager	Ping-Hung Chuang	Oct. 01, 2012	105,278	0.013	-	-	-	-	The National Kaohsiung First University of Science and Technology, Graduate Institute of Business Management Senior Manager of Jih Sun International Bank	-
Branch General Manager	Hsien-Hsun Chiang	Jun. 24, 2013	308,203	0.038	20,301	0.003			Department of Cooperative Economics, Tamkang University Branch General Manager of COTA Bank, Zhongshan Branch	-
Branch General Manager	Ming-Feng Wu	Oct. 01, 2014	44,160	0.005	-	-	-	-	Department of Business Administration, Soochow University Branch General Manager of Sunny Bank, Hsiaokang Branch	-
Branch General Manager	Tien-Long Yang	Jul. 01, 2014	217,524	0.027	47,656	0.006			Department of Finance, Chaoyang University of Technology Deputy General Manager of COTA Bank, Taichung Branch	-
Branch General Manager	Po-Hsun Chang	Oct. 01, 2015	48,124	0.006	-	-	-	-	Department of Finance, Chaoyang University of Technology, Master Project Manager of COTA Bank, Zhongshan Branch	-
Branch General Manager	Chung-Yi Hsu	Jan. 09, 2016	121,328	0.015	-	-	-	-	Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Branch General Manager of COTA Bank, Taoyuan Branch	-
Branch General Manager	Yung-Hung Tsao	Mar. 01, 2015	316,475	0.039	117,530	0.015	-	-	Department of Business Administration, Feng Chia University, Master Project Manager of COTA Bank, Nantun Branch	-

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

(1) Directors' Remuneration

As of Dec. 31, 2018, Unit: TWD thousand

Title	Name	Compensation								Sum of A, B, C and D / after-tax profit (%)		Compensations received by part-time employees								Sum of A, B, C, D, E, F AND G / after-tax profit (%)		Whether or not any compensation is received from other reinvested businesses than subsidiaries			
		Rewards		Pension and Superannuation		Earning Distribution		Professional Practice				Salary, Bonus and Special Disbursement		Pension and Superannuation		Employee Bonus Distribution							Employee Share Subscription Warrants		
		(A)		(B)		(C)		(D)				(E)		(F)		(G)							(H)		
		Bank	Con-Solida-tion	Bank	Con-Solida-tion	Bank	Con-Solida-tion	Bank	Con-Solida-tion	Bank	Con-Solida-tion	Bank	Con-Solida-tion	Bank	Con-Solida-tion	COTA		CON-SOLIDATION		COTA	CON-SOLIDATION				
Chairman	Song-Yie Liao																								
Managing (Independent) Director	Kun-Hsien Lin																								
Managing Director	Ying-Che Chang																								
Managing Director	Xian-De Lai																								
Managing Director	Chuan Cheng Hat Co., Ltd. Assigned Representative: Min-Chang Lin																								
Independent Director	Po-Yao Chi																								
Independent Director	Tsung-Ta Kuo																								
Director	Chien-Chung Lai																								
Director	Chun-Chieh Wang																								
Director	Chi-Peng Yang (Representing: Chia De Development and Investment Co., Ltd.)																								
Director	Kang-Wei Chang Representative: Jin Yu Hua Investment Co., Ltd.	14,400	14,400	-	-	19,555	19,555	1,572	1,572	4.71%	4.71%	2,140	2,140	-	-	133	-	133	-	-	-	-	5.02%	5.02%	NIL
Director	Chin-Chih Tseng Representative: Jin Yu Hua Investment Co., Ltd.																								
Director	Ching-Wen Cheng Representative: Jin Yu Hua Investment Co., Ltd.																								
Director	Hua-Chiang Chi Representative: Jin Yu Hua Investment Co., Ltd. (Jan. 12, 2018 reassign)																								
Director	Chi-Chang Liu Representative: Huasan Investment Co., Ltd (Sep. 30, 2018 dismissal)																								
Director	Chin-Yun Lu Representative: Huasan Investment Co., Ltd (Oct. 01, 2018 reassign)																								

Note: 1. Earnings after income tax amount to TWD753,611 thousand.

2. Director of Chih-Peng Yang is also General Manager of Credit Management Department.

Classification of Remuneration

Unit: TWD

Classification of Remuneration for Directors	Name of Directors			
	Aggregate amount of A, B, C and D		Aggregate amount of A, B, C, D, E, F and G	
	Bank	Consolidation	Bank	Consolidation
below 2,000,000	Min-Chang Lin Chi-Peng Yang Kang-Wei Chang Chin-Chih Tseng Ching-Wen Cheng Hua-Chiang Chi Chi-Chang Liu Chin-Yun Lu	Min-Chang Lin Chi-Peng Yang Kang-Wei Chang Chin-Chih Tseng Ching-Wen Cheng Hua-Chiang Chi Chi-Chang Liu Chin-Yun Lu	Min-Chang Lin Kang-Wei Chang Chin-Chih Tseng Ching-Wen Cheng Hua-Chiang Chi Chi-Chang Liu Chin-Yun Lu	Min-Chang Lin Kang-Wei Chang Chin-Chih Tseng Ching-Wen Cheng Hua-Chiang Chi Chi-Chang Liu Chin-Yun Lu
2,000,000 - 5,000,000	Song-Yie Liao Kun-Hsien Lin Ying-Che Chang Xian-De Lai Po-Yao Chi Tsung-Ta Kuo Chun-Chieh Wang Chien-Chung Lai Chuan Cheng Hat Co., Ltd. Chia De Development and Investment Co., Ltd. Huasan Investment Co., Ltd	Song-Yie Liao Kun-Hsien Lin Ying-Che Chang Xian-De Lai Po-Yao Chi Tsung-Ta Kuo Chun-Chieh Wang Chien-Chung Lai Chuan Cheng Hat Co., Ltd. Chia De Development and Investment Co., Ltd. Huasan Investment Co., Ltd	Song-Yie Liao Kun-Hsien Lin Ying-Che Chang Xian-De Lai Po-Yao Chi Tsung-Ta Kuo Chun-Chieh Wang Chien-Chung Lai Chi-Peng Yang Chuan Cheng Hat Co., Ltd. Chia De Development and Investment Co., Ltd. Huasan Investment Co., Ltd	Song-Yie Liao Kun-Hsien Lin Ying-Che Chang Xian-De Lai Po-Yao Chi Tsung-Ta Kuo Chun-Chieh Wang Chien-Chung Lai Chi-Peng Yang Chuan Cheng Hat Co., Ltd. Chia De Development and Investment Co., Ltd. Huasan Investment Co., Ltd
5,000,000 - 10,000,000	Jin Yu Hua Investment Co., Ltd.	Jin Yu Hua Investment Co., Ltd.	Jin Yu Hua Investment Co., Ltd.	Jin Yu Hua Investment Co., Ltd.
10,000,000 - 15,000,000	-	-	-	-
15,000,000 - 30,000,000	-	-	-	-
30,000,000 - 50,000,000	-	-	-	-
50,000,000 - 100,000,000	-	-	-	-
Above 100,000,000	-	-	-	-
TOTAL	20 (Persons)	20 (Persons)	20 (Persons)	20 (Persons)

(2) President and Senior Executive Vice President Remuneration

As of Dec. 31, 2018, Unit: TWD thousand

Title	Name	Supervisors' Remuneration										Sum of A, B ,C and D /after-tax profit (%) (Note8)		Whether or not any compensation is received from other reinvested businesses than subsidiaries (Note9)
		Rewards (A) (Note2)		Pension and Superannuation (B)		Earning Distribution (C) (Note3)		Professional Practice (D) (Note4)						
		Bank	Consolidation (Note5)	Bank	Consolidation (Note5)	Bank	Consolidation (Note5)	Bank		Consolidation (Note5)		Bank	Consolidation (Note5)	
President	Jung-Hsien Chiu	7,764	7,764	7,173	7,173	7,107	7,107	Cash	Stock	Cash	Stock	3.0497%	3.0497%	NIL
Senior Executive Vice President	Shih-Jung Chen													
Chief Auditor	Chih-Sheng Hsiao													
Senior Executive Vice President	Yun-Ching Wang							939	0	939	0			
Senior Executive Vice President	Huan-Mou Cheng													
Senior Executive Vice President	Kuang-Hsiung Huang													

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

Classification of Remuneration

Unit: TWD

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of Dec. 31, 2018; Unit: TWD thousand

	Title	Name	Stock dividends	Cash Dividends	Total Amount	Total Amount/Net Income (%)
Manager	President	Jung-Hsien Chiu	-	5,996	5,996	0.80%
	Chief Auditor	Chih-Sheng Hsiao				
	Senior Executive Vice President	Shih-Jung Chen				
	Senior Executive Vice President (Department General Manager)	Yun-Ching Wang				
	Senior Executive Vice President	Huan-Mou Cheng				
	Senior Executive Vice President	Kuang-Hsiung Huang				
	Executive Vice President (Branch General Manager)	Shih-Chien Chin				
	Executive Vice President	Wei-Bin Lin				
	Executive Vice President (Branch General Manager)	Wen-Lung Chen				
	Executive Vice President (Branch General Manager)	His-Tung Chang				
	Executive Vice President (Branch General Manager)	Chien-Cheng Hsu				
	Department General Manager	Shi-Zhao Lee				
	Department General Manager	Chih-Peng Yang				
	Department General Manager	Ming-Heng Chan				
	Department General Manager	Chuan-Hung Yang				
	Department General Manager	Hung-Tsang Chiang				
	Department General Manager	Chun-Sheng Lin				
	Department General Manager	Chang-Chieh Lin				
	Department General Manager	Chi-Nan Huang				
	Department General Manager	Jun-Long Tsai				
	Department General Manager	Yung-Hsieh Chen				
	Department General Manager	Chen-Chuan Kuo				
	Branch General Manager	Jui-Sen Liao				
	Branch General Manager	Chih-Hung Huang				
	Branch General Manager	Cheng-Hsien Hsieh				
	Branch General Manager	Mei-Ling Shih				
	Branch General Manager	Ling-Chen Ting				
	Branch General Manager	Mao-Sheng Huang				
	Branch General Manager	Chi-Shen Huang				
	Branch General Manager	Hung-Chi Tung				
	Branch General Manager	Chang-Cheng Chen				
	Branch General Manager	Chia-Wen Ke				
	Branch General Manager	Tzu-Hsiu Liang				
	Branch General Manager	His-Hsien Wang				
	Branch General Manager	Cheng-Hao Wu				
	Branch General Manager	Shu-Chen Shih				
	Branch General Manager	Shih-Tsung Liu				
	Branch General Manager	Hong-Yi Chen				
	Branch General Manager	Kuo-Mao Wu				
	Branch General Manager	Pi-Lan Hsu				
	Branch General Manager	Ming-Yung Yu				
	Branch General Manager	Ping-Hung Chuang				
	Branch General Manager	Hsien-Hsun Chiang				
	Branch General Manager	Ming-Feng Wu				
	Branch General Manager	Tien-Long Yang				
	Branch General Manager	Po-Hsun Chang				
	Branch General Manager	Chung-Yi Hsu				
	Branch General Manager	Yung-Hung Tsao				

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

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

Title	Name	Pre-retirement position		Date of Consultant	Employment purpose	Segregation of Duties	Remuneration	After-tax profit
		Institution and Title	Date of Retirement					

NIL

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

Item	Total Amount / Net Income After Tax		
	Year 2018	Year 2017	%
Director (Including independent director)	5.02%	6.04%	-1.02%

Remarks:

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

Item	Total Amount / Net Income After Tax		
	Year 2018	Year 2017	%
President and Senior Executive Vice President	3.0497%	3.1163%	-0.0666%

Remarks:

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



3-3. Operation of Corporate Governance

3-3-1. Operation of board of directors: 8 meetings were convened last year; and the records of attendance of directors and supervisors at the meetings are as below:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%)	Annotations
Chairman	Song-Yie Liao	8	0	100	
Managing Director	Xian-De Lai	8	0	100	
Managing (Independent) Director	Kun-Hsien Lin	8	0	100	
Managing Director	Ying-Che Chang	8	0	100	
Managing Director	Chuan Cheng Hat Co., Ltd. Representative: Min-Chang Lin	8	0	100	
Independent Director	Po-Yao Chi	8	0	100	
Independent Director	Tsung-Ta Kuo	7	1	87.5	
Director	Chun-Chieh Wang	8	0	80	
Director	ChiaDe Development and Investment Co., Ltd. Representative: Chi-Peng Yang	6	1	75	
Director	Chien-Chung Lai	8	0	100	
Director	Kang-Wei Chang Representing: Jin Yu Hua Investment Co., Ltd.	4	3	50	
Director	Chin-Chih Tseng Representing: Jin Yu Hua Investment Co., Ltd.	6	1	75	
Director	Ching-Wen Cheng Representing: Jin Yu Hua Investment Co., Ltd.	4	2	50	
Director	Chien-Chun Chang (Retired on Jan.11 2018) Hua Chiang Ji(Succeed on Jan 12 2018) Representing: Jin Yu Hua Investment Co., Ltd.	7	-	87.5	
Director	Chi-Chang Liu (Retired on Sep.30 2018) Chin-Yun Lu(Succeed on Oct 1 2018) Representing: Huasan Investment Co., Ltd.	7	-	87.5	

Other details that warrant inclusion:

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

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

Date and Order of Board Meeting	Motion	Opinion from Independent Directors and how it was handled
1 ST meeting of the 8 th Board of Directors on 2018 Mar.28 3 RD meeting of the 8 th Board of Directors on 2018 Aug.29	Annual and Semi-annual financial report.	
1 ST meeting of the 8 th Board of Directors on 2018 Mar.28	Capital increase from retained earnings of 2017.	
1 ST meeting of the 8 th Board of Directors on 2018 Mar.28	2017 COTA Commercial Bank (including concurrent Insurance Agent business) Statement on Internal AML/CFT Control	
1 ST meeting of the 8 th Board of Directors on 2018 Mar.28	2017 Statement on Internal Control (concurrent Insurance Agent business)	
1 ST meeting of the 8 th Board of Directors on 2018 Mar.28	2017 COTA Commercial Bank Statement on Internal Control	
1 ST meeting of the 8 th Board of Directors on 2018 Mar.28	Audit report from accountancy firm.	
1 ST meeting of the 8 th Board of Directors on 2018 Mar.28	Credit extended to Director Chi-Peng Yang.	Suggested the borrower provide solely owned collateral, increase collateral, or decrease credit limits. The approval letter is valid for 3 months.
1 ST meeting of the 8 th Board of Directors on 2018 Mar.28	Credit extended to Director Hsiu-Liu Chen.	
2 nd meeting of the 8 th Board of Directors on 2018 Jun. 27	As from the second quarter financial statement of 2018, CPA of auditing and attestation was changed due to business reconstruction of CPA firms	
2 nd meeting of the 8 th Board of Directors on 2018 Jun. 27	CPA remuneration.	
4 th meeting of the 8 th Board of Directors on 2018 Dec. 26	Audit plan declaration form of 2019	
4 th meeting of the 8 th Board of Directors on 2018 Dec. 26	Annual donation to COTA Culture and Education Foundation, for 2017	

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

2. Recusal of directors based upon conflicts of interest:

◆ 1st meeting of the 8th Board of Directors on March 28, 2018:

- Motion: Credit extended to Director Chi-Peng Yang (Representing: ChiaDe Development and Investment Co., Ltd.

Name of director: Chi-Peng Yang

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

Voting participation situation: Director Chi-Peng Yang requested a leave of absence due to conflict of interest pertaining to the motion.

◆ The 4th Meeting of the 8th Board of Directors on December.26, 2018:

- Motion: 2019 internal audit plan declaration.

Name of director: Chi-Peng Yang

Reason for recusal: Chi-Peng Yang is the manager of Taichung Branch.

Voting participation situation: Director Chi-Peng Yang requested a leave of absence due to conflict of interest pertaining to the motion.

- Motion: Annual donation to COTA Cultural and Education Foundation

Name of director: Ying-Che Chang

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

Voting participation situation: Director Ying-Che Chang requested a leave of absence due to conflict of interest pertaining to the motion.

3. The objective of strengthening the functions of the Board of Directors and the execution status in the current and most recent years: Cooperate with the competent authority's laws and regulations to hold various new types of business and legal training courses (such as: Board of Supervisors' Operational Practices and Corporate Governance - Corporate Social Responsibility (CSR) and Corporate Sustainability Competitiveness, Domestic and Foreign Anti-Money Laundering and Anti-Terrorism Laws Amendments and modalities (including risk trends), invite directors to participate actively to enhance professional knowledge and legal literacy.

3-3-2. Operation of the auditing committee:

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

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

Other details that warrant inclusion:

In the event of any following circumstances occurring while the audit committee is convened, please state the date, session, motion, the resolution of the audit committee and how the resolutions are handled by the bank:

a. Matters specified in Article 14-5 of the Securities Exchange Act:

Proposal	Resolution	Opinion from bank to the resolution	Date and Order of Board Meeting
Annual and Semi-annual financial report	Unanimous consent	Resolution discussed and passed by board meeting	1 st meeting of the 8 th Board of Directors on Mar.28, 2018 3 rd meeting of the 8 th Board of Directors on Aug.29, 2018
Capital increase from retained earnings of 2017.	Unanimous consent	The result was submitted to the board for voting.	1 st meeting of the 8 th Board of Directors on Mar.28, 2018
2017 COTA Commercial Bank (including concurrent Insurance Agent business) Statement on Internal AML/ CFT Control	Unanimous consent	Resolution discussed and passed by board meeting	1 st meeting of the 8 th Board of Directors on Mar.28, 2018
2017 Statement on Internal Control (concurrent Insurance Agent business)	Unanimous consent	Resolution discussed and passed by board meeting	1 st meeting of the 8 th Board of Directors on Mar.28, 2018
2017 COTA Commercial Bank Statement on Internal Control	Unanimous consent	Resolution discussed and passed by board meeting	1 st meeting of the 8 th Board of Directors on Mar.28, 2018
Audit report from accountancy firm.	Unanimous consent	Resolution discussed and passed by board meeting	1 st meeting of the 8 th Board of Directors on Mar.28, 2018
Credit extended to Director Chi-Peng Yang.	Suggested the borrower provide solely owned collateral, increase collateral, or decrease credit limits. The approval letter is valid for 3 months.	"The stakeholder should provide solely owned collateral." Apply separately.	1 st meeting of the 8 th Board of Directors on Mar.28, 2018
As from the second quarter financial statement of 2018, CPA of auditing and attestation was changed due to business reconstruction of CPA firms	Unanimous consent	Resolution discussed and passed by board meeting	2nd meeting of the 8 th Board of Directors on 2018 Jun. 27
CPA remuneration.	Unanimous consent	Resolution discussed and passed by board meeting	2nd meeting of the 8 th Board of Directors on 2018 Jun. 27
Audit plan declaration form of 2019	Unanimous consent	Resolution discussed and passed by board meeting	4th meeting of the 8 th Board of Directors on 2018 Dec. 26
Annual donation to COTA Culture and Education Foundation, for 2017	Unanimous consent	Resolution discussed and passed by board meeting	4th meeting of the 8 th Board of Directors on 2018 Dec. 26

b. Except for proposals hereinabove, any matter that has not been passed by the audit committee, but has been adopted with the approval of two-thirds or more of all board directors.: None

2. Recusals of independent directors based upon conflict of interest: None

3. Communication among independent directors, the Chief Auditor and CPAs:

(1) Communication between CPAs and independent directors:

1. Accountants and independent directors are very well communicated when producing annual and semi-annual financial reports. Financial reports are provided to independent directors before meetings of audit committee. Chief accounting officer is invited to meetings of audit committee to report the certification of financial report and to ensure integrity of the certification, which is then audited by audit committee after approved by board resolution.

2. In response to changes in Statements on Auditing Standards (SASs), on March 13, 2018, the Bank's CPAs were invited to the Audit Committee to explain matters related to cooperate governance (explain IFRS financial instrument impact) . In the future, the bank will continue to communicate with the Bank's CPAs at least once a year, and incorporate the mechanism into the Bank's internal operating procedures.

(2) Communication between the chief auditor and independent directors:

Director and independent directors are invited to semi-annual meetings discussing faults and issues listed in the report on internal audit and internal control.

Other significant matters are also presented to the audit committee and the board of directors.

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

3-3-4. Current Status of the Bank's Corporate Governance Practices and Its Comparison against the Corporate Governance Best-Practice Principles for Banks

Item	Status of Operation			Differences from "The Corporate Governance guidelines for banking industry" and Reasons
	Y	N	Summary	
I. Ownership structure and Shareholders' equity of the Bank (1) Has the bank established procedures handling shareholders' suggestions, queries, disputes and litigations, as well as act in accordance with said procedures? (2) Is the bank able to identify its major shareholders and the ultimate person or persons behind such shareholders? (3) Has the Bank established and implemented firewalls and risk management mechanisms between its affiliates.	✓		(1) Shareholder's suggestions and litigations are handled immediately by appropriate department. (2) The bank has appropriate department compiling list of major shareholders monthly. (3) The Bank established the Insurance Agents Department at May 1 st 2017 and merged the COTA Insurance Brokers (Shares) Company.	No difference
II. Duties of Board of Directors (1) Besides setting up the Compensation Committee and Audit Committee according to law, does the Bank voluntarily set up other functional committees? (2) Does the Bank evaluate the independence of its CPAs on a regular basis?	✓		(1) The Bank also established Nomination Committee. (2) Assessment of the independency of appointed CPAs is conducted regularly.	No difference.
III. In the event the bank is public or OTC listed company, has the bank instituted a dedicated(or concurrent) corporate governance unit or personnel to be in charge of corporate governance affairs(including but not limited to the provision of necessary data for board directors and supervisors to execute their duties, administering matters relating to the board meetings and shareholder's meetings in accordance with law, administering company incorporation and change in incorporation, and producing minute of board meetings and shareholder's meetings)?		✓	The bank is not a listed company	Not applicable
VI. Has the Bank established a channel to communicate with parties of interest (including but not limited to shareholders, employees and customers, etc)?	✓		Communications among interested parties in persons, by phone, or online. Directors are asked to update and confirm the information of interested parties regularly. Information of managers is updated every February and August. Operated according to San-Xin-Yin-Sheng-Zi-Di No.10403619(Oct. 15 2015)	No difference.

Item	Status of Operation			Differences from "The Corporate Governance guidelines for banking industry" and Reasons
	Y	N	Summary	
V. Disclosure of information (1) Has the Bank set up website for the disclosure of financial information and its corporate governance practices? (2) Any other methods adopted by the Bank for the disclosure of information (e.g., establishing English version website, appointing persons responsible for gathering and disclosing Bank information, implementing a spokesperson system, and placing the record of analyst meeting on its website)?	✓		(1) Disclose status of Financial information, Business operation and Corporate governance on the website (http://www.cotabank.com.tw) (2) Status of Financial information and business operation are disclosed on our website. President of the Bank is the spokesperson of the Bank.	No difference.
IV. Has the Bank provided other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, purchasing insurance for directors and supervisors, political donation and donation to interested parties and public interested group)?	✓		1. Employee rights: the Bank advocates the spirits of humanity. Ensure employee rights by complying with the labor standard law and establishing the Employees' Welfare Committee. Labor-Management conference is convened regularly. 2. Employee wellness: Organize staff trips to ease the tension of life. Home visiting every year to understand the living condition of staff. 3. Investors relations: Establish designated web-pages for shareholders providing relevant information of stock matters. The Bank formulated the code of practice and voting policy for legal person shareholders with higher privileges to ensure shareholders' equity. 4. Rights of stakeholders and consumer's protection and the policy of corporate governance: the Bank has always emphasized customer service quality. It provides customer complain channel and has implemented a number of customer protection policies. 5. Training and advanced studies of board members and supervisors: Taiwan Securities and Futures Institute and Taiwan Academy of Banking and Finance have arranged corporate governance courses for directors and supervisors. The 8 th board directors have taken 6~12 hours courses since they took office. Conducting on-the-job training in accordance with the Regulations Governing Required Qualifications for Responsible Persons and Required Trust Expertise or Experience for Operations and Managerial Personnel of Trust Enterprises. 6. Implementation of risk management policies and risk evaluation measures: Establish Risk Management Center, "Assets, Liabilities and Risk Management Committee" evaluate regularly operating risk and report to the board of directors. We obey rules of government and BIS to make policies of risk management to ensure our safety of banking operations and performances.	No difference

Item	Status of Operation			Differences from “The Corporate Governance guidelines for banking industry” and Reasons
	Y	N	Summary	
			7. Purchasing insurance for directors and supervisors: In order to round out the company's corporate governance mechanism and reduce risk exposed to directors and key staff members of the company, the Bank has taken out liability insurance for directors, supervisors and managers. 8. Political donation and donation to interested parties and public interested group in 2017 are stated below: a. Interested parties: COTA Culture and Education Foundation: 900 thousand dollars. b. Eden Social Welfare Foundation: 50 thousand dollars. c. 2018 Asia-Link Sketchwalk Taichung: 200 thousand dollars. d. CULROC: 100 thousand dollars e. Ganlin Social Welfare Foundation: 50 thousand dollars f. Political Donation: None.	
IIV. Please explain improvements made pursuant to the Taiwan Stock Exchange Corporation Corporate Governance Center's corporate governance assessment results issued in the most recent year, and explain any matters and measures to be strengthened as a first priority in areas where improvements have not yet been made.		✓	None.	No difference

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

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

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

© General Director Re-election was conducted in interim shareholders meeting on December 22, 2018. The 8th Director took office on December 23, 2017. The eighth remuneration committee was elected by the board on January 12, 2018.

Remarks:

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

Note:

1. Position: Please fill in Director, Independent Director or Others
2. Please mark "✓" in the space below relevant criteria met by members during the two years prior to appointment and during their period of appointment.
 - (1) Neither employees of Bank nor its affiliates.
 - (2) Neither a director/supervisor of Bank nor its affiliates, unless the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares.
 - (3) Not a shareholder who holds shares, together with those held by the person spouse, minor children, or held under others' names, in an aggregate amount of 1% or more of the total outstanding shares of the company or ranks among the top 10 shareholders who are natural persons in terms of the share volume held.
 - (4) Not a spouse or relative within the second-degree of kinship, or lineal relative within the third-degree of kinship, of any of the persons in the foregoing three subparagraphs.
 - (5) Not directors, supervisors, or employees of a corporate shareholder directly holding 5% or more of the total outstanding shares of the Bank or ranks among the top 5 corporate shareholders in the terms of share volume held.
 - (6) Not directors, supervisors, or executive officer, or shareholder holding 5% or more shares of a specific company or institution and who also has financial or business dealings with the company.
 - (7) Not a professional, or owner, partner, director, supervisor, or executive officer and the spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting or consulting services to the Bank or to any affiliates.
 - (8) Not contain one of the requirements listed in the various subparagraphs of Article 30 of the Company Act.

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

- (1) The Bank's Remuneration Committee has 5 members.
- (2) Period of appointment of 8th committee members is from January 12, 2018 to December 22, 2020. 3 meetings were convened in the most recent year, and the records of attendance at the meetings are as below:

Title	Name	Attendance in Person (B)	Attendance By Proxy	Actual Attendance Rate (%) (B/A)	Annotation
Chairman	Tsung-Ta Kuo	3	0	100	
Member	Ying-Che Chang	3	0	100	
Member	Chien-Chung Lai	2	1	67	
Member	Xian-De Lai	3	0	100	
Member	Chuan Cheng Hat Co., Ltd. Representative: Min-Chang Lin	3	0	100	

Remarks:

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

© General Director Re-election was conducted in interim shareholders meeting on December 22, 2018. The 8th Director took office on December 23, 2017. The eighth remuneration committee was elected by the board on January 12, 2018.



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

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies" and reasons
	Y	N	Summary	
1. Exercising Corporate Governance (1) Has the Bank had a corporate social responsibility policy or system in place and is the performance of such policy reviewed on a regular basis? (2) Does the bank organize social responsibility education for employee regularly? (3) Does the bank have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors? (4) Has the bank implemented a reasonable remuneration system that commensurate employee' performance appraisals with CSR? Is the remuneration system supported by an effective reward/discipline system?	✓		(1) The Bank strives to fulfill its social responsibility by sponsoring COTA Culture and Education Foundation and other public interest groups, and it has been consistently fulfilling its social responsibility. (2) Regular education training and conferences emphasize on business ethics (3) None (4) The bank has not implemented a reasonable remuneration system that commensurate employee' performance appraisals with CSR.	The Bank is not a listed company in TWSE or OTC
2. Fostering a sustainable environment (1) Is the bank committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment? (2) Has the bank developed an appropriate environmental management system, given its industry characteristics? (3) Is the bank aware of how climate changes affect its business activities? Are there any actions taken to measure and reduce greenhouse gas emission and energy use?	✓		(1) Encourage employees to use double-side printing and recycle and reuse used printing papers. Encourage employees to use their own cups in meetings to reduce the use of paper cup. (2) Turn off the power when leaving the offices, set the air-conditioner temperature at 27 degree, and do recycle. (3) The Bank replaces high energy consumption lights with T5 or LED lights.	
3. Preserving Public Welfare (1) Has the Bank stipulated policies and procedures in accordance with laws and the International Bill of Human Rights? (2) Has the Bank had employee grievance policy? Are grievances being handled properly? (3) Does the bank provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues? (4) Does the bank have channels to communicate with employees on a regular basis, and inform them of operational changes that may be of a significant impact? (5) Has the bank implemented an effective training program that helps employees develop skills over the course of their career?		✓	Has the Bank developed its policies (1) None (2) Employee grievances are well handled by the human resources department. (3) The Bank has developed employee safety and health policies which complied with the Labor Health Protection Regulations. (4) Periodical meetings between labor and management. (5) Employee education and training is carried out according to job responsibilities and personal career development every year. (6) The bank has developed consumer protection rules. Self-appraisals of consumer protection should be conducted when designing products, formulating contracts and providing services. Consumer grievances are taken cared according to internal directions for managing	

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies" and reasons
	Y	N	Summary	
<p>(6) Has the bank implemented consumer protection and grievance policies with regards to its research, development, procurement, production, operating and service activities?</p> <p>(7) Has the bank complied with laws and international standards with regards to the marketing and labeling of products and services?</p> <p>(8) Does the bank evaluate suppliers' environmental and social conducts before commencing business relationships?</p> <p>(9) Is the bank entitled to terminate the supply agreement at any time with a major supplier, if the supplier is found to have violated its corporate social responsibilities and caused significant impacts to the environment or the society?</p>	✓		<p>customer grievances. And a direct line is designed for consumer grievances.</p> <p>(7) With respect to advertising and promotional materials, the Bank has developed "Regulations on Soliciting of Business thru Advertisements and Business Promotion Activities" and "Regulations on Provision of Key Contractual Contents and Risk Disclosure before Providing Financial Products and Services" to ensure consumers' interests.</p> <p>(8) Bad records and derogatory information of suppliers are taken into consideration when selecting suppliers.</p> <p>(9) The company has implemented a set of "Supplier Management Guidelines" and CSR commitments to ensure that suppliers comply and fulfill their corporate social responsibilities in terms of worker respects, law compliance, and environmental-friendly and sustainable production, which are all taken into consideration when the company is evaluating or auditing a particular supplier.</p>	
<p>4. Enhancing Disclosure of Corporate Social Responsibility Information</p> <p>Has the bank disclosed relevant and reliable CSR information on its website and at the Market Observation Post System?</p>	✓		<p>CSR information is disclosed in annual report and website of the Bank (www.cotabank.com.tw)</p>	
<p>5. If the Company has stipulated its own corporate social responsibility rules on the basis of the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies," please state any discrepancy between implementation and the stipulated rules": None (The Bank is not a listed company in TWSE or OTC)</p>				
<p>6. Other important information that helps to understand the implementation of best practices of corporate social responsibility: COTA Bank upholds a philosophy of "Nurtured by the society, requite the society" so that we think it's our obligation to fulfill social responsibility. COTA bank cares about and contributes to the society thru various ways such as donation and holding activities among communities. The bank set up COTA Culture and Education Foundation to advocate lifelong learning. COTA bank will adhere to the principle of giving back to society by providing better community financial service and sponsoring and promoting community welfare.</p>				
<p>7. Please state if the bank's corporate social responsibility report is verified by relevant verification agency: None</p>				

3-3-7. Implementation of Ethical Corporate Management and Practices:

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies" and reasons
	Y	N	Summary	
<p>1. Establishment of ethical corporate management policies and programs.</p> <p>(1) Does the Bank adopt an explicit indication of its ethical corporate management policy in internal regulations and external documents; implementation of the pledge by its board of directors and management to enforce the policy rigorously and thoroughly?</p> <p>(2) Does the Bank adopt an unethical conduct prevention program in which operational procedures, behavioral guidelines, and a mechanism for punishment of appeals for alleged violations are clearly defined, and enforce it without fail?</p> <p>(3) Does the Bank adopt preventive measures against practices listed in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies or other business activities with higher risk of being linked to unethical conduct?</p>		<p>✓</p> <p>✓</p> <p>✓</p>	<p>(1) Instead, the Bank established honesty and integrity rules in "Procedure for Board of Directors Meetings", "Regulation on Donation" and "Employee Code of Conduct".</p> <p>(2) The Bank established honesty and integrity rules in "Procedure for Board of Directors Meetings", "Regulation on Donation", "Employee Code of Conduct", "Directions on Internal Control and Risk Management in Wealth Management Business" and "Regulations on Soliciting of Business thru Advertisements and Business Promotion Activities".</p> <p>(3) For prevention of unethical behavior, the bank has established "Regulations on Personnel Management", "Employee Code of Conduct", "Regulation on Donation" and "Directions on credit extension and other transactions with interested parties".</p>	The Bank is not a listed company in TWSE or OTC
<p>2. Implementation of ethical corporate management</p> <p>(1) Does the Bank evaluate the records of ethical/unethical conduct of its business counterparties and include in such contract provision demanding ethical corporate management policy compliance?</p> <p>(2) Does the Bank establish a unit under the Board of Directors that is exclusively or concurrently responsible for promoting ethical management, and reports its status of implementation to the board on a regular basis?</p> <p>(3) Status of the Bank's promulgating policies for prevention of conflicts of interests and offering appropriate means for related personnel to voluntarily explain whether their interests would potentially conflict with those of the Bank.</p> <p>(4) To enforce ethical management, does the Bank establish effective accounting and internal control systems that are subject to regular inspection of an internal auditing department or audit by externally engaged CPAs?</p> <p>(5) Does the Bank offer internal and external training with regard to ethical management on a regular basis?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>	<p>(1) The Bank avoids dealing with parties that have records of unethical conducts. When entering into contracts with other parties, the Bank shall include in such contract provision demanding ethical corporate management policy compliance. The Bank immediately stops business relation while acknowledging of unethical conducts of its counterparties.</p> <p>(2) The Bank established the compliance system, internal control systems, internal audit, risk management, and set functional committee by regulation to strengthen the function of decision-making and management of board of directors.</p> <p>(3) 1. The Bank established policies preventing conflict of interest:</p> <p>a. Clause of avoidance of conflict of interest is explicitly indicated in "Procedure for Board of Directors Meetings".</p> <p>b. Build a database of information of interested parties. The term of secured credit extensions to interested parties shall not be more favorable than those</p>	

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies" and reasons
	Y	N	Summary	
			<p>terms offered to other same category customers</p> <p>c. Establishing "Employee Code of Conduct" for prevention of unethical behavior of employee.</p> <p>d. Establishing "Directions on Internal Control and Risk Management in Wealth Management Business" regulating work ethics and disciplines of financial advisors.</p> <p>2. All relevant rules and procedures are on the website www.cotabank.com.tw. (4) The Bank has established accounting system and accounting department. To ensure impartiality of financial statements, Bank's financial statements has audited by CPAs. The Bank established internal audit control system which is subjected to reexamination and readjustment and an auditing division under the board of directors. Internal audit control system is implementing by regular and random internal auditing and by external auditing by CPAs.</p> <p>(5) The Bank undertakes training with regard to ethnical management and behavioral guidelines on a regular basis. All employees are required to attend. Employees are acknowledged of amendments of relevant regulations.</p>	
<p>3. Status of the Bank's implementation of its offence reporting system:</p> <p>(1) Does the Bank establish a mechanism that incentivizes prosecutors to step forward, put in place channels convenient for taking such action, and assign appropriate personnel to handle such cases?</p> <p>(2) Does the Bank set a standard operating procedure (SOP) for handling reports from prosecutors and adopt a mechanism for keeping confidentiality?</p> <p>(3) Does the Bank adopt measures to make sure that prosecutors do not undergo improper treatment because of their stepping forward?</p>		✓	<p>The bank has not established offence reporting system; nevertheless the Bank has established "Regulations on Personnel Management", "Employee Code of Conduct" and has also established Personnel Evaluation committee governing rewards and penalties system for employee. Also, The Bank has established "Directions on Handling Customer Complaints"</p>	
<p>4. Enforcement of information disclosure</p> <p>Does the Bank disclose the content and implementation status of its Principles for Ethical Management on its own website and the TSE's Market Observation Post System website?</p>	✓		<p>(1) Information of financial, operating and corporate governance of the bank are accessible through website www.cotabank.com.tw (also available in English)</p> <p>(2) The Bank has designated persons to update and disclose company information.</p>	

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies” and reasons
	Y	N	Summary	

5. If the Bank has established its own ethical corporate management principles based on the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any discrepancy in the Bank's implementation of the principles and explain why : None (The Bank is not a listed company in TWSE or OTC).

6. Other important information to facilitate better understanding of the Bank's implementation of ethical corporate management (e.g., status of the Bank's reviewing and amending its own ethical corporate management principles): In building an ethical management corporate culture, the Bank has set honesty and integrity rules in “Procedure for Board of Directors Meetings”, “Regulation on Donation” and “Employee Code of Conduct”. All directors and employees promote business with integrity and strong work ethic and to furthermore fulfill social responsibility. The Bank set the compliance system, internal control systems, internal audit, risk management, strengthening competency of the board and supervisors, functioning audit committee, respecting the right of interested parties, improving information transparency, continuing implementing policies that deepens the culture of ethical management in order to achieve sustainable development.

3-3-8. Corporate Governance Guidelines and Regulations

Please refer to the Bank's website on [Http://www.cotabank.com.tw](http://www.cotabank.com.tw)

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

Corporate Governance: None.



3-3-10. Execution of Internal Control System

(1) Statement of Internal Control

COTA Commercial Bank Statement of Internal Control

Date: 2019/3/27

To Financial Supervisory Commission

On behalf of COTA Commercial Bank, we hereby undertake that from 2018/01/01 to 2018/12/31 the Bank has duly complied with "Guidelines for the establishment of internal control and internal audit systems" by establishing an internal control system, implementing risk management, designating an independent and objective internal department to conduct audit, and submitting the audit report periodically to the Board of Directors and Supervisors (Audit Committee). Following prudent evaluation, it is found that except for items listed in the attached chart, the internal control systems of and compliance with laws and regulations by the different department were all implemented effectively.

Insurance agent business

1. The Company determines the effectiveness of the design and implementation of internal control system in accordance with "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies"(the Regulations). The criteria for an effectiveness of internal control system, according to the Regulations, shall contain at least the following components: (1) Control environment; (2) Risk assessment; (3) Control activities; (4) Information and communication; and (5) Monitoring activities.
2. The Company has adopted aforesaid criteria to examine the effectiveness of the design and implementation of internal control system.
3. Based on the results of the examination above, the Company deems the design and implementation of the internal control system (including the awareness of soundness of business operations, reliability of reporting, and compliance with all related laws and regulations), within the aforesaid period, were effective and able to reasonably ensure accomplishment of the goals above.
4. This declaration will be the main content of the Company's annual report and public prospectuses, and shall be disclosed to the public. Any illegal misrepresentation or omission relating to the public statement above is subject to the legal consequences under Articles 20, 32, 171, and 174 of the "Securities and Exchange Act" or other regulations related to the act.
5. This statement has been passed by the board of directors of the Company on March 27, 2019.

Attested by

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

Items for Improvement and Plan Table of Internal control

As of Dec. 31, 2018

Items for Improvement	Improvement Measure	Target Date
<p>1. Anti-money laundering operations</p> <p>(1) A certain amount of currency transactions, not reported to the Investigation Department of the Ministry of Justice, the provisions of Article 7(1) of the Money Laundering Prevention Act in violation of the Act and the "Regulations Governing Cash Transaction Reports (CTR) and Suspicious Transaction Reports (STR) by Financial Institutions" Articles are stipulated in Article 7 (3) of the Money Laundering Prevention Act.</p> <p>(2) Where a customer makes multiple cash deposits or withdrawals at the same counter, which cumulatively reach above a certain amount. The "Information System Screening for Suspected Transactions" didn't include the transactions of the same customer in different deposit accounts.</p> <p>(3) "Where the total cash deposits or withdrawals into or from the same account on the same business day cumulatively reaches above a certain amount" and "Where a customer make cash deposits or withdrawals that exceeds (or exceeds) at the different counters, deemed as suspicious money laundering activities, the transactions don't appear to be commensurate with the account holder's status and income or are unrelated to the nature of the customer's business, no kept as the transaction record.</p>	<p>1.</p> <p>(1)</p> <p>i. A new "Cash Transaction and Large Declaration Form" was checked one by one.</p> <p>ii. The program has been modified and the setting field cannot be changed.</p> <p>(2) The same customer has been checked by identity card number.</p> <p>(3) Computerized verification traces for anti-money laundering inspection departments.</p> <p>In addition to the above-mentioned measures, it also organizes briefings, education and training, and hires external professional organizations to conduct education and training.</p>	<p>(1) Listed in main auditing items in 2019.</p> <p>(2) Listed in main auditing items in 2018.</p> <p>(3) Listed in main auditing items in 2018.</p>
<p>2. Outsourcing of customer investment risk attribute assessment, the results of the assessment are not confirmed by the customer, directly accepting the order to purchase financial products, in violation of Article 9 of the Financial Consumer Protection Act, paragraph 2 authorized and adopted the "financial services industry to ensure that financial products or services for financial consumers approach" under Article 4 and article 22(1)(2) of the "Regulations Governing the Scope of Business, Restrictions on Transfer of Beneficiary Rights, Risk Disclosure, Marketing, and Conclusion of Contract" as stipulated in Article 18(1) of the Trust Enterprise Act.</p>	<p>2.</p> <p>(1) Outsourcing of customer investment risk attribute assessment, the random sampling method is revised to require confirmation every time, and the telephone recording content must include the customer's investment risk attribute before the transaction can be conducted.</p> <p>(2) Listed as a self-inspection work project.</p>	<p>Listed in main auditing items in 2019.</p>
<p>3. The business department has on behalf of the customer to take care of the blank seals of the certified seals. Ministry of Finance 85.12.4 Taiwan Finance No. 85354873 letter, violation of the "Forbidden Financial Institutional Staff to Handle Cash Deposits or Deposit Certificates".</p>	<p>3. The Business Department and the Compliance and Legal Affairs Department have separately strengthened employee education and training. It is forbidden for staff to handle deposits or to keep seals. The auditing department also made a speech in the management meeting for the heads of all units and the relevant personnel of the head office.</p>	<p>Listed in main auditing items from 2018.</p>
<p>4. Dealing with the credit of interested parties, credit conditions must not be better than other credit grantees, the case of comparison is not a credit client within the last year.</p>	<p>4. Published text.</p> <p>Letters asking all debts to check the credit conditions of interested parties, choose to compare the cases in the "most recent year".</p>	<p>Listed in main auditing items from 2018.</p>

Items for Improvement	Improvement Measure	Target Date
<p>5. The following defects affect the operation, according to the provisions of Article 61, paragraph 1, of the Banking Law, should be corrected:</p> <p>(1) The internal norms do not specify how to deal with or request investment opinions from special customers (such as senior citizens), nor do they establish a spot check management mechanism. The internal specifications still need to be strengthened.</p> <p>(2) For the evaluation of unsound credit assets, there are unaccompanied classifications, wrong cases, and those are "Losses" have not been resold for bad debts.</p> <p>(3) There is a lack of identification and verification operations for suspected money laundering transactions, customer review and continuous monitoring operations.</p>	<p>5.</p> <p>(1) In the "Main Points of Internal Control and Risk Management Operations of Wealth Management Business", the update: Special customers should not be recommended to purchase specific foreign securities.</p> <p>(2) The evaluation category has been readjusted and the program modification has been completed.</p> <p>(3)</p> <p>i. The relevant operations have been revised for customer risk review and grading operations.</p> <p>ii. In addition to strengthening the review of the customer's "Account Use / Transaction Purpose" and "Fund Source / Repayment Source", high-risk customers will increase their on-site and telephone interviews when they are new customers or add new services.</p> <p>iii. For high-risk customers, regular reviews should be conducted annually.</p>	Listed in main auditing items from 2019.
<p>6. Continue to monitor the NPL ratio to improve asset quality and financial structure.</p> <p>(1) The non-performing loan of the mortgage at the end of 2016, the end of 2017 and the end of Jun. 2018 were 78,527 thousand, 63,585 thousand and 65,655 thousand. The NPL ratio of the mortgage on the same day was 0.42%, 0.35% and 0.37%, both higher than the bank average. 0.20%, 0.25%, and 0.24%.</p> <p>(2) As of the end of Sep. 2018, the Bank's non-performing loan ratio was higher than the national bank average, and the NPL Coverage ratio was lower than the national bank average.</p>	<p>6.</p> <p>(1) Avoid enforcing procedures to reduce recovery time. The monthly risk management report will increase Non Performing Loan Ratios of mortgage and provide control to the board of directors and the fund management.</p> <p>(2) Strengthen management, and large and unsecured credit should be strengthened. If the audit process finds bad credit, it should ensure the creditor's rights.</p>	Listed in main auditing items from 2019.
<p>7. Strengthening the review of the conditions of the Syndicated loan:</p> <p>(1) It is appropriate to plan the repayment period and amount according to the net cash flow of the borrower, in order to reduce the credit risk.</p> <p>(2) Differentiate the use of each loan amount, assess the rationality and control</p> <p>(3) For the application for change of credit conditions (such as interest rates, repayment amount, financial commitments, etc.) or extension cases, a management and control mechanism that accurately identifies the borrower's repayment ability and financial and business conditions should be established to reduce the credit risk.</p>	<p>7. According to the letter from the competent authority to handle the common inspection opinions of the credit business, and the Bank's internal review of the lack of opinions on the loan operation, the Bank strengthened the risk management of the credit business.</p>	Listed in main auditing items from 2019.
<p>8. The personal data collection, processing and use consent form of the insurance agent business or the consent clause of the special negotiation clause has been signed by the customer but has not been filed.</p>	<p>8.</p> <p>(1) The precautions for the delivering process have been reiterated.</p> <p>(2) The Insurance Agents Department and the Compliance and Legal Affairs Department have respectively strengthened the education and training courses.</p> <p>(3) Will strengthen the training program of job-related insurance solicitor.</p>	<p>(1) It has been improved when it was discovered.</p> <p>(2) Listed in main auditing items.</p> <p>(3) Listed in main auditing items from 2019.</p>

(2) CPA Audit Report

Pursuant to ordinance article 28 of the “Guidelines for the Establishment of Internal Control and Internal Audit Systems”, the Bank arranged KPMG certified public accountants to audit performance of internal control during the period of Jan. 01, 2018 through Dec. 31, 2018.

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

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

Independent Auditors' Report

March 27, 2019

To COTA Commercial Bank

I performed the procedures agreed with you with respect to the accuracy of information filed by COTA Commercial Bank with the competent authorities, performance of the internal control system and compliance system, and appropriateness of the allowance for bad debt. The sufficiency of these procedures is solely your responsibility. Consequently, I make no representation regarding the sufficiency of the procedures. This agreed-upon procedures engagement was conducted in accordance with the Statements on Auditing Standards No. 34: Engagements to Perform Agree-Upon Procedures Regarding Financial Information for the purpose of assisting you in the assessment of compliance with the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries promulgated by the Financial Supervisory Commission. Compliance of the regulations above is the responsibility of your management team. The procedures I performed and my findings are described as follows.

Given the procedures performed will not constitute an audit in accordance with generally accepted auditing standards, I do not provide any level of assurance with respect to the accuracy of information filed by COTA Commercial Bank with the competent authorities, performance of the internal control system and compliance system, or appropriateness of the allowance for bad debt. Had I performed additional procedures or an audit in accordance with generally accepted auditing standards, other matters might have come to my attention that would have been reported.

This report is intended solely for the purpose described in the first paragraph and is not to be used for any other purpose or to be distributed to any other parties.

Notice to

KPMG

Accountant
Chun-Yuan, Wu

Notice to Readers

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

Suggestion Statement
Year 2018

No.	Matter of disclose	Suggestion	Opinion of Administration
1	Deposit operation of Taichung Branch The checking account's seal card of the company, the person in charge of the identity card did not add the words "limited to the COTA Bank account opening use".	It is suggested that the Bank keep a copy of the customer ID should ensure the security of the personal information.	Person in charge: Qing-Chi Jiang Complete date: Nov.8 2018 Execution method: The clerk must immediately stamp the relevant business seal and ask the supervisor to pay attention to the review.
2	Deposit operation of Longjing Branch The General Agreement of the customer's deposit business, the depositor did not sign the receipt of the debit card.	It is suggested that the customer receives the debit card to obtain the customer's receipt record.	Person in charge: Po-Hung Liu Complete date: Nov.23 2018 Execution method: Strengthen education training and pay attention to improvement.
3	Deposit operation of Longjing Branch The operation of seal change, the clerk did not stamp the cancellation date on the seal card.	It is suggested that the customer applies for the seal change, the date of cancellation should be confirmed on the original seal card cover.	Person in charge: Po-Hung Liu Complete date: Nov.21 2018 Execution method: Pay attention to improvement in the future.
4	Credit operation of Dazhi Branch The "Appropriation Notice Book" found an unfilled date.	It is advisable to complete and fill in immediately in the "Appropriation Notice Book".	Person in charge: Yu-E Dai Complete date: Nov.21 2018 Execution method: Add instructions in the register and pay attention to improvement in the future.
5	Credit operation of SME Banking Center Overdue collection of relevant forms, the internal presentation of the information of the IRS will be misplaced on the name and day of refusal.	It is suggested that the submission document should be filled in order to facilitate the retention of the information.	Person in charge: Rui-Chang Lin Complete date: Nov.29 2018 Execution method: Strengthen education training and pay attention to improvement.
6	Credit operation of SME Banking Center Overdue collection of relevant forms, the "external collections account" has not been filled out by the guarantor.	It is suggested that the Bank should indeed fill out the "external collection of accounts".	Person in charge: Rui-Chang Lin Complete date: Nov.29 2018 Execution method: Strengthen education training and pay attention to improvement.
7	Credit operation of Dazhi Branch The "Credit Case Acceptance Register" is incomplete, the same borrower borrows twice and the grant date is different. The register only records a grant date.	It is suggested that the "Credit Case Acceptance Register" should be filled in order to facilitate the retention of the information.	Person in charge: Yu-E Dai Complete date: Nov.20 2018 Execution method: Strengthen education training and pay attention to improvement.
8	Investment cycle of Business Department The process form for buying bonds found that the duration of the meeting record did not match the purchase report.	It is suggested that the submission document should be checked with relevant information and filled in.	Person in charge: Tsung-Yao Yu Complete date: Dec.31 2018 Execution method: Pay attention to improvement in the future.
9	Ex-serving officer's account permission management issues of IT Management Office The separating employee of Taichung Branch, the account number is not deleted immediately. Last date of work: Aug.22 2018 Deleted date: Aug.27 2018.	It is advisable to remove the account privilege immediately upon due diligence.	Person in charge: Qing-Chi Jiang Complete date: Aug.27 2018 Execution method: Completed, pay attention to immediate deletion in the future.

No.	Matter of disclose	Suggestion	Opinion of Administration
10	Program revision and online process control issues of IT Management Office After consulting the ITO Assistant Manager Yang Wei Sheng checking the "Program Transaction", most of the current program changes were tested and accepted by it, only system development or major program change projects will require users to test and accept.	It is suggested that the application documents for the revision of the system program should be designed to be tested and accepted by the user to confirm that the changes meet the needs of the user and retain the audit tracker.	Person in charge: Wei-Sheng Yang Estimated complete date: Dec.31 2018 Expected execution method: It is proposed to set up a test group to be responsible for the pre-line test and acceptance of the core computer program.
11	Insurance Agency Department Property insurance reference no.107020 1020.1070502021.1071001015. The insurance solicitor on the application of insurance does not match the system.	It is suggested that the system information must be checked for correctness and completeness.	Person in charge: Yong-Cheng Liao Estimated complete date: Feb.27 2018 Expected execution method: Since Dec. 2018, the insurance solicitor on the application of insurance and the system are required to check monthly.
12	Insurance Agency Department The list of insurance solicitor cancellation, within five days after the Feb.05 2018 transaction, the insurance solicitor did not report to the association in accordance with the regulations. The delivery will be processed until July.13 2018.	It is advisable to changes insurance solicitor qualification, it is necessary to declare to the association within the prescribed period.	Person in charge: Yong-Cheng Liao Estimated complete date: July.16 2018 Expected execution method: The personnel orders for retired employees are tracked one by one and included in the report archive for profit control.
13	Insurance Agency Department Conservation Ref no.1010206028. A107082110. C107070201, then insurance contract did not fill in the application date, and the operator (salesman) did not pay attention to review.	It is advisable to check with the customer information and ask the salesperson to confirm whether the customer field is completed at the time of the transaction.	Person in charge: Yong-Cheng Liao Estimated complete date: Jan.31 2018 Expected execution method: If the date of the branch salesman is missing, notify the salesman to make corrections within 7 working days.
14	Insurance Agency Department Conservation Ref no. A107082110, the address of the subject matter insured was changed, but the insurance system was not updated.	It is advisable to check customer information and update the system when making changes the conservation.	Person in charge: Yong-Cheng Liao Estimated complete date: Dec.5 2018 Expected execution method: It has already required the property insurance company to speed up the correction and delay operation.
15	Insurance Agency Department There is no supervisory review mechanism in the system to maintain "the application and the fee data". Although the details of the transaction during a certain period can be viewed from the report statistics, the report is not printed on time.	It is suggested that the bank establishes a review process to ensure the correctness of the control.	Person in charge: Yong-Cheng Liao Estimated complete date: Dec. 2018 Expected execution method: A monthly record of changes in premiums, commissions, and insurance solicitor.

3-3-11. Cases or Penalties due to Infliction of Laws and Regulations over the Past 2 Years and up to Feb.28:

1. Any indictment of a responsible person or employee by a prosecutor for an offense related to the occupation: None.
2. Any fine imposed by the FSC for violation of a law or regulation: None.
3. Any matters in which sanctions were imposed by the FSC pursuant to Article 61-1 of the Banking Act:
 The Bank's handling of Anti-money laundering failed to determine the level of customer risk assessment and the lack of verification of suspected money laundering characterization transactions and the retention of relevant verification trails.
 (1) The verification operation was replaced by computer input instead of manual entry and case investigation was carried out according to the characterization of the records, and the relevant verification traces were retained.
 (2) Increase customer risk assessment control procedures and practices.
 (3) Continuing education and publicity.

The Bank handled the lack of money laundering and prevention operations, and had a certain amount of currency transactions. It did not report to the Investigation Department of the Ministry of Justice, handle the identification and verification of suspected money laundering transactions, customer review, continuous monitoring operations, and defects in customer identification operations. On Nov.15 2018, the Financial Supervisory Commission punish NT\$1 million and correct it by violating the law and hindering sound management. The improvement is as follows:

- i. Increase the amount of large currency transaction reporting procedures to compare and modify related programs to increase control operations.
- ii. Revise OBU account opening review documents and processes to understand customers.
- iii. Revise the Bank's "Assessment of Money Laundering and Risk Warning Policy Procedures" to include a low-risk customer review mechanism.
- iv. The evaluation item of the customer risk assessment form has calculated the scores according to different products and revised the review work form.
- v. The customer's occupational field has been adjusted to fill in and document and strengthen the specification of risk assessment operations, and to increase the control mechanism.
- vi. Strengthen on-the-job education and training.

The relevant FSC's general business inspection report lacks "excerpts": for those who cannot recover the creditor's rights, according to Article 11 of the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", according to the bank Article 61, paragraph 1 of the Act, paragraph 1, should be corrected. Missing improvement situation:

- i. The borrowers who have inspected the opinions have been resold to bad debts in the future. If there are credit assets that have been assessed as uncollectible, they will immediately apply for resale into bad debts.
 - ii. Monthly print "Overdue (interest) more than one month of credit assets and other assets assessment schedule" (excluding consumer finance and credit cards), classified assets listed in the interview review list should be transferred immediately Sell bad debts to meet the requirements.
4. Any security incident arising from employee infidelity or material contingencies (e.g. fraudulent acquisition, theft, misappropriation, or robbery of assets; forgery of documents or securities; acceptance of a bribe; losses from natural disaster; losses from external causes; hacker attack, data theft, or leak of trade secrets or customer data; or other such material incidents) or failure to faithfully abide by the Directions for Maintenance of Security at Financial Institutions. If actual losses, whether singly or in aggregate, exceed TWD50 million in any given year, disclose the nature and amount of the loss: None.
 5. Other matters that must be disclosed pursuant to FSC designation: None.

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

3-3-12-1. Shareholders Meeting

Year	Nature of Shareholders Meeting	Convoking Date	Major Resolutions
2018	Regular Shareholders' Meeting	June 22, 2018	The earnings distribution of year 2017 and capital increase by earnings and issuance of new shares.

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

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

- ◆ Held the eighth and 1 time Board of directors.
 - (1) Proposal of Capital Increase by earnings of 2017.
 - (2) Proposal of Directors' remuneration and employee compensation distribution of 2017.
 - (3) Conditional approval of Stakeholder's credit case for Director Chih-Peng Yang by Board of Directors.
 - (4) Proposal of credit case for stakeholder Hsiu-Liu Chen by Board of Directors.

3-3-12-2-2. The Directors or Supervisors have different opinions to the board of directors meeting through the major resolution, and has the record or announce by statement: None.

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

Please refer to the Bank's website on

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

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



3-4. Information on the Certified Public Accountant

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

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

Accountant Firm	Name of Accountant		Period of Audit	Remarks
KPMG	Wu, Chun-Yuan	Mei, Yuan-Chen	Year 2018	

Unit: TWD thousand

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

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

Unit: TWD thousand

Accountant Firm	Name of Accountant		Auditing Fee	Non-Auditing Fee					Period of Audit by Accountant	Remarks
				System Design	Corporate Registers	Human Resources	Others (note)	Sub-Total		
KPMG	Wu, Chun-Yuan	Mei, Yuan-Chen	1,990		20		1,820	1,840	2018	

Note: non-auditing fee including special audit on personal data protection and AML/CFT mechanism TWD1,740 thousand, review of capital increased by cash and surplus turned capital TWD50 thousand, review of relevant attachments on financial debentures TWD30 thousand.

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

3-4-1-4. Whether the amount of fees paid for auditing services is lower than for the previous year by 15% or above: None.

3-4-2. Information of Accountants change

3-4-2-1. Former Accountants

Date of change	June 27, 2018		
Reasons for changes made and relevant explanations	Internal adjustment for administration by KPMG		
Service contract terminated by appointer or accountant / not accepting continued appointment	person concerned	Accountant	Appointer
	Event		
	Termination of Appointment	✓	
	Not Accepting (continued) Appointment		
Unqualified opinions in auditing reports certified within the recent 2 years and their reasons	None		
Any disagreement with the Bank's opinions	Yes		Accounting principles or practices
			Disclosure of financial statements
			Auditing scope or steps
			Others
	None	✓	
	remark: None		
Other things disclosed (Disclosure required by articles 10.6 1. 4 of this guideline)	None		

3-4-2-2. Succeeding Accountants:

Accounting firm	KPMG
Name of accountant	Wu, Chun-Yuan
Date of appoint	June 27, 2018
Consultations on accounting measure or principles concerning specific transactions or on likely opinions in financial statements	None
Written opinions by succeeding accountant over disagreements with former accountant	None

3-4-2-3. Response by former accountants regarding article 10, paragraph 6, item 1 and item2, point 3 of this guidelines: None

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

3-5. Change in Shareholdings and Pledged

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

Title	Name	2018		Up To February 28, 2019		Remark
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged	
Chairman	Song-Yie Liao	3,165,685	0	0	0	Major Shareholder
Managing Director	Ying-Che Chang	159,543	0	0	0	
Managing Director	Xien-De Lai	221,286	0	0	0	
Managing Director	Chuan Cheng Hat Co., Ltd. Representative: Min-Chang Lin	802,657 51,167	0 0	0 0	0 0	Major Shareholder
Managing Independent Director	Kun-Hsien Lin	66,095	0	0	0	
Director	Chun-Chieh Wang	644,464	0	0	0	Major Shareholder
Director	Chien-Chung Lai	44,027	0	0	0	
Director	Chia De Development and Investment Co., Ltd. Representative: Chih-Peng Yang	59,125 (2,857,627)	0 0	0 0	0 0	Major Shareholder
Director	Jin Yu Hua Investment Co., Ltd. Representative: Kang-Wei Chang	55,165 (1,014,858)	90,527 (1,014,858)	0 1,517,568	(974,586) 1,517,568	
Director	Jin Yu Hua Investment Co., Ltd. Representative: Chin-Chih Tseng	55,165 (913,761)	90,527 (913,761)	0 0	(974,586) 0	
Director	Jin Yu Hua Investment Co., Ltd. Representative: Hua-Chiang Chi	55,165 0	90,527 0	0 0	(974,586) 0	
Director	Jin Yu Hua Investment Co., Ltd. Representative: Ching-Wen Cheng	55,165 77	90,527 0	0 0	(974,586) 0	
Director	Huasan Investment Co., Ltd. Representative: Chin-Yun Lu	123,165 0	191,320 0	1,014,858 0	1,014,858 0	
Independent Director	Po-Yao Chi	163,194	0	0	0	
Independent Director	Tsung-Ta Kuo	0	0	0	0	
President	Jung-Hsien Chiu	80,987	0	0	0	
Chief Auditor	Chih-Sheng Hsiao	63,907	0	0	0	
Senior Executive Vice President	Huan-Mou Cheng	16,565	0	0	0	
Senior Executive Vice President Department General Manager	Yun-Ching Wang	30,232	0	0	0	
Senior Executive Vice President	Kuang-Hsiung Huang	23,077	0	0	0	

Title	Name	2018		Up To February 28, 2019		Remark
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged	
Executive Vice President Department General Manager	Shi-Jian Zhang	69,361	0	0	0	
Executive Vice President	Wei-Bin Lin	13,981	0	0	0	
Executive Vice President Department General Manager	Wen-Jung Chen	552,498	0	1,000	0	
Executive Vice President Department General Manager	Shi-Tung Chang	47,116	0	0	0	
Executive Vice President Department General Manager	Jian-Chen Xu	44,592	0	0	0	
Department General Manager	Shih-Chao Li	11,131	0	0	0	
Department General Manager	Chih-Peng Yang	(2,857,627)	0	0	0	Major Shareholder
Department General Manager	Ming-Heng Zhan	14,995	0	0	0	
Department General Manager	Quan-Hong Yang	10,002	0	0	0	
Department General Manager	Hung-Tsang Chiang	17,210	0	0	0	
Department General Manager	Jun-Sheng Lin	10,716	0	0	0	
Department General Manager	Chang-Chieh Lin	16,755	0	0	0	
Department General Manager	Chi-Nan Huang	4,685	0	0	0	
Department General Manager	Jun-Long Tsai	10,719	0	0	0	
Department General Manager	Yun-Xie Chen	1,148	0	0	0	
Department General Manager	Chen-Chuan Kuo	0	0	0	0	
Branch General Manager	Jui-Sen Liao	13,957	0	0	0	
Branch General Manager	Chih-Huang Huang	24,146	0	0	0	
Branch General Manager	Zheng -Xian Xie	27,875	0	0	0	
Branch General Manager	Mei-Ling Shih	18,465	0	0	0	
Branch General Manager	Ling-Chen Ting	(10,303)	0	0	0	
Branch General Manager	Mao-Sheng Huang	17,373	0	0	0	
Branch General Manager	Chi-Shen Huang	40,443	0	0	0	
Branch General Manager	Hung-Chi Tung	26,358	0	0	0	
Branch General Manager	Chang-Cheng Chen	13,658	0	0	0	
Branch General Manager	Chia-Wen Ke	16,917	0	0	0	
Branch General Manager	Tzu-Hsiu Liang	10,918	0	0	0	
Branch General Manager	Hsi-Hsien Wang	13,718	0	0	0	
Branch General Manager	Cheng-Hao Wu	7,943	0	0	0	
Branch General Manager	Shu-Chen Shih	29,539	0	0	0	
Branch General Manager	Shih-Tsung Liu	22,349	0	0	0	
Branch General Manager	Hong-Yi Chen	14,841	0	0	0	
Branch General Manager	Kuo-Mao Wu	1,114	0	0	0	
Branch General Manager	Pi-Lan Hsu	0	0	0	0	
Branch General Manager	Ming-Yung Yu	12,901	0	0	0	
Branch General Manager	Ping-Hung Chuang	5,959	0	0	0	
Branch General Manager	Hsien-Hsun Chiang	17,445	0	0	0	
Branch General Manager	Ming-Feng Wu	2,499	0	0	0	

Title	Name	2018		Up To February 28, 2019		Remark
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged	
Branch General Manager	Tien-Long Yang	12,312	0	0	0	
Branch General Manager	Po-Hsun Chang	2,724	0	0	0	
Branch General Manager	Yung-Hung Tsao	6,867	0	0	0	
Branch General Manager	Chung-Yi Hsu	17,913	0	0	0	

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

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

Information of Shareholding Transfer: None

Shares Pledged Information

As of Dec. 31, 2018

Name (Note 1)	Reason for change of pledge (Note2)	Date of change	Counterparty	Counterparty's relationship with the financial holding company, the directors, supervisors, and shareholders with more than 10% ownership interest.	Number of shares	Amount of pledge/ redemption
Kang-Wei Chang	Redemption	2018/12/27	The Second Credit Cooperative of Keelung	None	436,858	
Kang-Wei Chang	Redemption	2018/12/28	The Second Credit Cooperative of Keelung	None	578,000	
Chin-Chih Tseng	Redemption	2018/11/02	The Second Credit Cooperative of Keelung	None	913,761	
Jin Yu Hua Investment Co., Ltd.	Redemption	2018/10/12	Sunny Bank Shihpai Branch	None	884,059	
Jin Yu Hua Investment Co., Ltd.	Pledge	2018/10/26	Guangsheng International Asset Management Consulting Co., Ltd.	None	884,059	
Jin Yu Hua Investment Co., Ltd.	Redemption	2018/11/20	Guangsheng International Asset Management Consulting Co., Ltd.	None	884,059	
Jin Yu Hua Investment Co., Ltd.	Pledge	2018/12/25	Guangsheng International Asset Management Consulting Co., Ltd.	None	974,586	
Huasan Investment Co., Ltd.	Redemption	2018/10/12	The Second Credit Cooperative of Keelung	None	1,643,602	
Huasan Investment Co., Ltd.	Pledge	2018/10/26	The Second Credit Cooperative of Keelung	None	550,000	
Huasan Investment Co., Ltd.	Pledge	2018/11/02	The Second Credit Cooperative of Keelung	None	1,093,602	
Huasan Investment Co., Ltd.	Redemption	2018/11/20	The Second Credit Cooperative of Keelung	None	1,643,602	
Huasan Investment Co., Ltd.	Pledge	2018/12/04	The Second Credit Cooperative of Keelung	None	1,834,922	

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

Note 2: Fill in the Pledge or Redemption

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

As of Dec. 31, 2018

Name	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Top ten shareholders who meet the related party disclosures term of FASC NO.6 shall disclose name and relationship		Remark
	No. of Shares	Shares Held %	No. of Shares	Shares Held %	No. of Shares	Shares Held %	Name	Relationship	
Ho Chu Investment Co., Ltd. Representative: Chia-Hung Lin	78,180,536	9.67							
Song-Yie Liao	55,927,104	6.92	1,437,552	0.18			Chuan Cheng Hat Co., Ltd Chuan Chi Co., Ltd. (Ching-Ling Liu)	Director Major shareholder Spouse	
Chuan Chi Co., Ltd. Representative: Ching-Ling Liu	28,247,793	3.49					Song-Yie Liao	Major shareholder Spouse	
Kuo-Chao Hsiao	19,232,269	2.38							
Yuhui Co., Ltd Representative: Gui-Xian Wang	16,945,224	2.1							
Chuan Cheng Hat Co., Ltd. Representative: Ching-Ling Liu	14,180,275	1.75					Song-Yie Liao	Director Spouse	
Chun-Chieh Wang	11,385,532	1.41							
Chih-Peng Yang	11,055,031	1.37							
Yuan Ta Chung Machinery Co., Ltd. Representative: Chi-Jung Huang	10,847,829	1.34							
Jun Heng Investment Co., Ltd. Representative: Shih-Ying Hsiao	10,637,616	1.32							

3-5-3. Consolidated Shareholdings:

Unit: share; %

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

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



Capital Arrangement 4

4 Capital Arrangement

4-1. Capital Shares and Dividends

4-1-1. Source of Capital

As of Feb. 28, 2019; Shares Held (%)

Month/Year	Issuing price (TWD)	Registered Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Source	Other
July 2018	10	1,000,000,000	10,000,000,000	808,305,442	8,083,054,420	Increased from retained earnings of TWD457,531,380	

As of Dec. 31, 2017

Type of share	Registered capital			Remark
	Outstanding shares	Unissued shares	Total	
Common shares	808,305,442	191,694,558	1,000,000,000	Bank is not a listed company

Information for comprehensive reporting: None

4-1-2. Shareholder Structure

As of Dec. 31, 2017

Category	Government Agency	Financial Institution	Other Institution	Individual	Foreign Institution and Foreigner	Total
Number of Shareholders	1	1	417	64,319	45	64,783
Number of Shares	1,456	14,603	215,071,875	591,555,995	1,661,513	808,305,442
Percentage	-	-	26.61%	73.18%	0.21%	100%



4-1-3. Distribution of Shareholders' Equity

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

As of Dec. 31, 2018

Tier	Number of Shareholders	Number of Shares	Percentage (%)
1 - 999	45,928	11,462,023	1.42%
1,000 - 5,000	10,734	20,859,795	2.58%
5,001 - 10,000	1,760	12,525,142	1.55%
10,001 - 15,000	1,747	24,249,682	3.00%
15,001 - 20,000	1,264	22,045,083	2.73%
20,001 - 30,000	1,197	28,465,603	3.52%
30,001 - 40,000	312	10,873,222	1.35%
40,001 - 50,000	262	11,794,790	1.46%
50,001 - 100,000	700	51,474,912	6.37%
100,001 - 200,000	461	63,450,506	7.85%
200,001 - 400,000	235	63,946,731	7.91%
400,001 - 600,000	67	32,424,044	4.01%
600,001 - 800,000	25	17,133,377	2.12%
800,001 - 1,000,000	17	14,947,503	1.85%
1,000,001 and above	74	422,653,029	52.28%
Total	64,783	808,305,442	100.00%

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

4-1-4. List of Major Shareholders

As of Dec. 31, 2018

Name	Number of Shares	Percentage (%)
Ho Chu Investment Co., Ltd.	78,180,536	9.67%
Song-Yie Liao	55,927,104	6.92%
Chuan Chi Co., Ltd.	28,247,793	3.49%
Kuo-Chao Hsiao	19,232,269	2.38%
Yuhui Co., Ltd	16,945,224	2.10%
Chuan Cheng Hat Co., Ltd.	14,180,275	1.75%
Chun-Chieh Wang	11,385,532	1.41%
Chih-Peng Yang	11,055,031	1.37%
Yuan Ta Chung Machinery Co., Ltd.	10,847,829	1.34%
Jun Heng Investment Co., Ltd.	10,637,676	1.32%
Hooann Co., Ltd.	8,441,152	1.04%

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

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

Unit: TWD

Item \ Year		2017	2018	Up To Feb. 28, 2019
Market Value	Highest	N/A	N/A	N/A
	Lowest	N/A	N/A	N/A
	Average	N/A	N/A	N/A
Net Worth	Before Distribution	13.50	13.41	13.57
	After Distribution	12.73	(Note 4)	(Note 2)
Earnings	Weighted Average Shares		808,305,402	808,305,402
	Earnings per Share	Before Adjust	1.33	0.93
		After Adjust	1.13	(Note 4)
Dividend (Note 1)	Cash Dividends		0.30	0.25
	Stock Dividends	Retained Earning	0.40	0.60
		Capital Reverse	0	0
	Dividends in Arrear		0	0
ROI Analysis (Note 3)	P/E Ratio		N/A	N/A
	P/D Ratio		N/A	N/A
	Cash Dividend Yield		N/A	N/A

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

Note 2: Year 2019 hasn't ended.

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

Note 4: Year 2018 distribution number is to be confirmed after the approval of board of directors and the shareholder meeting.

4-1-6. Dividend Policy and Executive Status

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

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

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

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

Resolution: Our bank has adopted a Proposal for Distribution of 2018: cash dividends TWD202,076,360 stock dividends TWD323,322,170



4-1-7. Impact of Stock Dividends to Market Value and Earnings per Share:

UNIT: Thousands of TWD

Year/Item		2018 (Estimate)
Beginning Paid-in capital (TWD)		8,083,054
Stock and Cash Dividends for Current	Cash dividends per share	0.25 (Note 2)
	Stock dividends per share for capital increment from retained earnings (Shares)	0.40 (Note 2)
	Stock dividends per share for capital increment from capital surplus (Shares)	-
Changes in Performance	Operating profit	N/A (Note 1)
	Change in operating profit compared with previous year	
	After-tax profit	
	Change in after-tax profit compared with previous year	
	Earnings per share (TWD)	
	Change in earnings per share compared with previous year	
	Average return on investment (Average annual EP ratio)	
Conjectural Earnings per Share and Price/Earnings Ratio	If retained earnings for capital increment all converted to cash dividends	Earnings per share (TWD)
		Average annual return on increment
	If no increment using capital surplus	Earnings per share (TWD)
		Average annual return on increment
	If no increment using capital surplus but switch to cash dividends	Earnings per share (TWD)
		Average annual return on increment

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

Note 2: Cash and stock dividends of this year has not yet been approved by the Shareholders' Meeting.

4-1-8. Remuneration to Staff, Directors and Supervisors:

4-1-8-1. Pursuant to the amendment of article 34 of the Bank's Articles distributes bonus and remuneration.

- to appropriate 6% as employee remuneration.
- to appropriate the remuneration of the directors and supervisors do not exceed 2%

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

4-1-8-3. Information on proposals passed by the Board of Directors to distribute remuneration:

- employee cash remuneration: TWD58,665 thousand
- director/supervisor remuneration: TWD19,555 thousand
- Amount of distributed stock as employee compensation and as the percentage of the net profit after tax and the percentage of the employee's total compensation: Not applicable.

4-1-8-4. In 2017, the distribution amount of employee remuneration was TWD69,305 thousand, director/supervisor remuneration: TWD23,102 thousand. There is no difference between the actual amount of employee bonus and the recognized amount.

4-1-9. Repurchase Stocks: None



4-2. Issuance of Bank Debentures

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

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

4-3. Preferred Stock: None

4-4. Issuance of Depositary Receipt: None

4-5. Employee Stock Option Plan: None

4-6. Status of Employee Restricted Stock: None

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

4-8. Utilization of Capital Plan: None

The background of the page features a dark blue grid with various financial charts, including line graphs and candlestick patterns. Overlaid on this are several large, thick, green abstract shapes that sweep across the lower half of the page. The text 'Business Operation' is in white, and the large number '5' is also white with a slight shadow effect.

Business Operation 5

5 Business Operation

5-1. Business Report

5-1-1. Business Results

5-1-1-1. Deposits

Unit: TWD thousand

Items \ Year	31 Dec 2018		31 Dec 2017		Increase (Decrease) Amount	Increase (Decrease) %
	Amount	%	Amount	%		
Checking Deposits	2,327,600	1.56%	2,318,320	1.61%	9,280	0.40
Demand Deposits	19,823,809	13.25%	17,673,061	12.24%	2,150,748	12.17
Foreign currency Demand Deposits	1,522,120	1.02%	1,645,479	1.14%	(123,359)	(7.50)
Demand Savings Deposits	38,231,938	25.56%	36,948,681	25.60%	1,283,257	3.47
Employees Demand Savings Deposits	845,854	0.57%	824,477	0.57%	21,377	2.59
Time Deposits	22,054,145	14.74%	21,183,812	14.68%	870,333	4.11
Foreign currency Time Deposits	1,097,266	0.73%	1,089,007	0.75%	8,259	0.76
Negotiable Certificates of Deposit	8,794,500	5.88%	8,533,500	5.91%	261,000	3.06
Time Savings Deposits	54,905,862	36.70%	54,112,208	37.49%	793,654	1.47
Remittances	9	0.00%	6,945	0.00%	(6,936)	(99.87)
Total	149,603,103	100.00%	144,335,490	100.00%	5,267,613	3.65

5-1-1-2 Loans

Unit: TWD thousand

Items \ Year	31 Dec 2018		31 Dec 2017		Increase (Decrease) Amount	Increase (Decrease) %
	Amount	%	Amount	%		
Export bills	0	0%	11,119	0.01%	(11,119)	(100)
Overdraft	3,985	0.00%	1,936	0.00%	2,049	105.84
Short-term Loan	2,806,466	2.40%	3,685,684	3.16%	(879,218)	(23.85)
Guarantee overdraft	35,014	0.03%	64,549	0.05%	(29,535)	(45.76)
Short-term secured lending	10,057,033	8.62%	11,409,962	9.78%	(1,352,929)	(11.86)
Medium-term Loan	13,452,660	11.53%	16,504,611	14.15%	(3,051,951)	(18.49)
Medium-term secured lending	59,351,474	50.86%	53,528,361	45.88%	5,823,113	10.88
Long-term Loan	684,898	0.59%	641,975	0.55%	42,923	6.69
Long-term secured lending	29,905,056	25.63%	30,655,018	26.28%	(749,962)	(2.45)
Collection money	401,757	0.34%	157,877	0.14%	243,880	154.47
Total	116,698,343	100.00%	116,661,092	100.00%	37,251	0.03

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

Unit: USD thousand

Items \ Year	2018 Amount	2017 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Foreign currency Deposit	85,231	91,614	(6,383)	(6.97)
Foreign currency Loan	29,838	34,754	(4,916)	(14.15)
Import and export business	17,061	29,138	(12,077)	(41.45)
Exchange business	252,231	288,675	(36,444)	(12.62)

5-1-1-4 Trust Business

Unit: TWD thousand

Items \ Year	31 Dec 2018 Amount	31 Dec 2017 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Specific domestic and foreign securities investment trust money	4,540,292	4,212,161	328,131	7.79
Other trust money	264,042	217,343	45,430	20.90
Trust money (total)	4,804,334	4,429,504	373,561	8.43
Real estate trust	377,105	203,010	175,364	86.38
Trust property (total)	5,181,439	4,632,514	548,925	11.85
Other affiliated business	0	0	0	0
Certified business	0	0	0	0

5-1-1-5 Wealth Management Business

Unit: TWD thousand

Items \ Year	2018 Amount	2017 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Fund fee income	15,777	17,841	(2,064)	(11.57)
Insurance fee income	149,806	127,602	22,204	17.40
Total	165,583	145,443	20,140	13.85

5-1-1-6 Credit Card Business

Unit: TWD thousand/ number of cards

Items \ Year	2018 Amount	2017 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Cumulative total number of issuers(number of cards)	97,115	95,865	1,250	1.30
Circulation number(number of cards)	15,000	15,775	(775)	(4.91)
Amount of consumption	1,419,821	1,425,181	(5,360)	(0.38)
Revolving credit balance	26,568	27,581	(1,013)	(3.67)

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

Unit: TWD thousand

Items \ Year	31 Dec 2018 Amount	31 Dec 2017 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Government Bond	1,008,793	1,015,946	(7,153)	(0.70)
Financial Bonds and corporate Bonds	9,184,993	6,330,734	2,854,259	45.09
Convertible Bond	608,800	730,700	(121,900)	(16.68)
Reverse Repurchase Agreement	9,681,841	8,968,517	713,324	7.95
CBC certificates of Deposits (include NCD)	15,000,000	15,000,000	0	0.00
Short-term Transactions Instruments	766,895	0	766,895	-

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

Unit: TWD thousand

Items	2018		2017	
	Amount	Ratio of Net Income (%)	Amount	Ratio of Net Income (%)
INTN (Interest Income (Net))	2,574,935	89.00	2,506,208	83.25
Service Fee Revenue (Net)	248,819	8.60	230,686	7.66
FIAL (Gains or Losses on Financial Assets (Liabilities) at Fair Value through Profit or Loss)	(3,225)	(0.11)	35,581	1.18
REFI (Realized Gain or Loss on Available-for-Sale Financial Assets)			(9,330)	(0.31)
FVOCI(Gains (loss) from sale of fair value through other comprehensive income financial assets)	6,212	0.21		
Gains (losses) from sale of amortized cost financial assets	(1)	0.00		
ASSO (Share of Profit of Associates Accounted for Using Equity Method)			5,634	0.19
Reversal of Impairment Loss on Assets			162,574	5.40
XGL (Foreign Exchange Gain or Loss)	45,412	1.57	(48,616)	(1.61)
OREV (Other Revenue except for Interest Income)	21,037	0.73	27,784	4.24
NREV (Net Revenue)	2,893,189	100.00	2,910,521	100.00

5-1-2. Business Plans for year 2018

5-1-2-1. Operation Plans

- In order to fulfill the development of digital banks, we use the electronization to develop potential online-banking customers, select excellent target customer, and provide exclusive offers and services to expand business.
- We cooperate with the competent authority to promote the development of financial technology and regulatory amendment, keep develop and improve the electronic access service to expand the digitalization of various business and provide convenient and diversified financial services.
- In response to the implementation of Basel III, we strengthen the capital structure, the equity basis of common stock and the risk-taking ability.
- To carry out legal compliance positively in the business management and plant deeply in the enterprise culture to be the important cornerstone for continuous operation.
- We implement budget enforcement to make resources more efficient.
- Keeping expand saving deposits, consumer banking, corporate loans, wealth management, trusts, foreign exchange, international banking, and e-banking. And adjusting structure, enlarging economy of scale and enhancing operating efficiency to reduce costs and increase profits.
- Full investment in better profitability and safety financial commodities and strengthen management of margin funds with interest income and capital gains to improve financial operation performance.
- Strengthening capital structure and operation ability, improving asset quality, implementing risk management and corporate governance, enhancing the ability to undertake long-term risks.
- To provide customers with a more convenient service by enhancing mobile internet banking function continuously and find customer's financial needs for the purpose of improving customer use and penetration rate.

- To develop and build related software and hardware system with the implementation of Computer - Processed Personal Data Protection Law.
- Strengthening risk management to implementation reasonable pricing and uphold the principles of credit 5P in order to maintain high quality of the loan assets and increase capital efficiency.
- Enhance staff training and education to promote professional functions for the development of financial technology.
- Adjust internal transfer pricing mechanism to improve the efficiency and effectiveness of business and management units.
- Continuously simplifies accounting operations and streamlining manpower and time.
- Concerning to simplify the operation procedure and internal control, review and improve business regulations any time to optimizing adjustment, promote service quality and work efficiency.
- Consolidate tax reporting information by electronic way to improve performance and correctness.
- Concerning regional development prospects, the bank considers relocate branches and broadening channel efficiency.
- Implementation of paperless and save on photocopying to get costs down.

5-1-2-2. Consumer Banking

- In line with digital development and customer financial needs, we will continue to expand our network business and service scope to enhance our competitiveness.
- We continue to promote and optimize online banking services to improve online banking usage and satisfaction.
- We plan various mobile payment business, such as the QR code scanning of credit card and other payment application services, and actively participate in the development of domestic mobile payment.
- We continue to pay attention to the development of Innovative financial technology applications, discuss the feasibility of introducing the resources of financial technology into the business, and improve service efficiency.
- To create optimized business model to upgrade Bank's competition so as to cope with external changes on competition and regulations to make maximum profits
- Strictly carry out SOP of credit and loan business, strengthen detailed evaluation of credit facility, review and follow-up outstanding cases after credit release and keep track of the performance of customer management and financial control to avoid or reduce losses and maintain credit assets.
- Through the electronization, we will accelerate the credit-management process and develop personal financial services with the principle of equal quality and enhanced risk control to ensure the Bank's revenue.
- Making good use of internal credit rating system to adjust factors and weights moderately after collecting sufficient quantitative data and summarize reasons for timing and overdue of default by using credit default database.
- Continuously enhance staff education and training, cultivate major personnel in electronic financial business and strengthen ability of branches in marketing of digital financial service.
- Continuous planning business operations, electronic and paperless, introducing the virtual and integrated service model to improve service efficiency.
- Making the back office standardized, automatic and digitalized to save operational cost and shorten operating time so that making the lending procedure more competitive and efficient to achieve the goal of economies of scale.
- As widespread use of internet and mobile devices, revise the version to close customer needs to reach customer satisfaction and use willingness.
- Planning to provide interactive mobile bill in addition to reconciliation information, as well as business advice and real-time contributions and other functions to facilitate customers to use and enhance relationship.
- To create new consumer financial products based on market dynamics, and develop diversified and customized projects with low risk and competitive advantages as the mainstay in order to increase the added value of various products, expand product services and increase the scale of personal financial loans.
- Continuously strengthen the on-the-job training courses for business personnel, aiming at compliance, product positioning,

marketing direction, development skills, service etiquette, and supplemented by the four purposes of integrity, innovation, cordiality, and service to improve the overall business team's production capacity.

- Enhance the pre-existing risk control capabilities of the entire product to improve asset quality and implement post-event management. Regularly review the operating conditions and asset quality of the consumer finance credit business, and adjust the pricing and credit policies of the products at any time, and strengthen the management structure of the product line to respond product performance.
- Selecting target customers to provide specific benefits and services to expand consumer banking business.
- Strengthen the understanding and recognition of the bank's consumer financial products for the wealth management investment group at the top of the pyramid.

5-1-2-3. Corporate Banking

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

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

- For anti-money laundering, we strengthen and implement the cash transaction, banknote identification and flow control of the branches.
- Let IT member add the fund tracking function, UETR settings and message format updates within the SWIFT system.
- Customer can apply the reserved online banking transfer transactions without over-the-counter service to enhance foreign exchange automation services.
- In line with Central Bank's foreign exchange business management, cooperate with IT to amend foreign exchange data processing and uploading system to submit foreign exchange payment or transaction data.
- Increasing RP/RS investment allocation, seeking high-rating overseas securities and creating revenues from financial operation on foreign currency funds.
- To follow with the things to be aware of Anti-Money Laundering and countering terrorist finance, the Bank Integrates the identification and evaluation of national risk, and controls process over the real-time system and strengthen blacklist control and inspection.

- Continuing to enforce the professional knowledge and training for personnel in order to enhance ability to expand foreign exchange business.
- Let IT member develop the direct connection of the Central Bank Foreign Exchange Information Reporting system for branches, thus we don't need to report the foreign exchange settlement amount again.
- Increasing fixed income investment allocation, seeking high-rating overseas securities and creating revenues from financial operation on foreign currency funds.
- Applying more domestic banking units to provide more extensive services.
- We plan the new foreign exchange system with IT member, which includes the data construction of deposit, import, export, bond and foreign exchange trading.
- Assisting branch to develop potential customers promoting trading finance to create more profits from foreign exchange.

5-1-2-5. Wealth Management

- With high age society and following the policy of government, we are actively in promoting trust care for the elderly and the physically and mentally handicapped people to enhance business social responsibility and customer experience value.
- To promote diversified trust goods and provide customized services according to the different needs of customers, in order to realize the purpose of trust.
- The Bank is constantly maintain local and customer base in line with the situation and market trend on Line, Facebook to let customers and the potential in the audience to understand to cement customers and cultivation their loyalty. To take professional activity of the advantages to actively develop the potential customer and stable customer grow.
- Looking for more excellent domestic and offshore mutual funds for different risk appetite customers to have a wide range option, and help the Wealth Management Department to promote products of fund and trust in business.
- Through the external teachers not only to shape the professional image and the realization of multi-life knowledge but also to enhance legal common sense and professional knowledge of tax introduction.
- To strengthen staff follow rules and business ethics, legal compliance and risk management in order to realize internal control and audit system, and actual practice in internal control of Three Lines of Defense to prevent possible drawbacks.
- To meet the needs of investors and maintain customer relationship, the Bank provides all-round financial professional services to deal with clients by VIP financial management seminar and invite professional lecturers for customers with the latest market information in real time and create strong relationship with clients.
- In response to the global digital era, the APP business model is becoming popular. The Bank is trying to develop the device by using mobile network banking APP to combine with financial business, fund and market investment information so that customers are not limited by time and space to get the investment affairs to grasp the market situation.
- To make financial plans for customer, understand all use of assets continuously to provide diversified financial products in addition to meet demand for customer funds parking as well as to improve the depth and quality of banking services.
- To strengthen education and training cooperation with Fund and Insurance companies, push and train staff to participate in the series of courses with financial expertise and marketing skills to achieve policy object of full business marketing.
- Regular review of annual objectives to achieve the situation in line with the market investment environment and carry out competition activities to strengthen staff will and improve performance.
- Strengthening development of financial management business, conducting financial trends sharing and financial commodity training in branch morning meeting or after working hours. To integrate the latest trends of global market to promote the professional ability of staff.
- Strengthen professional education and training to staff about financial consumer protection, personal data protection and fair hospitality to maintain customer rights.

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

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

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

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

5-1-2-8. Credit Card Business

- Plan to launch more feedbacks to holders for those using credit card overseas, attract holders to use the bank's credit card when going abroad, increase using our cards and fee income.
- Using the bank's credit card get high cash return feedbacks to pay specific insurance products, and provides financial officers tools to market insurance products, compound marketing financial products and credit card products.
- Occasional promotion activities will be launched for credit card holders, such as reach the amount or frequency can receive 7-11 product vouchers, to send "short URL" and "authentication code" by message in combination with 7-11 superstores and subcontractors with professional service, after selection it will be converted into commodity vouchers, providing new experience for new friends and service experience as well as make the Bank to create new intentions.
- Through the "Public Service Payment Platform" to provide 1,342 public agencies/state-owned enterprises and public institutions to have handling fees waive, cardholders will be exempted from fees of Land Administration Department, Household Registration Office, the Ministry of Foreign Affairs, National Taxation Bureau, Health Insurance Bureau, and Directorate General of Highways by reaching counters to pay payments.
- Plan to revise credit card application form and provide different patterns for customers to apply for personalized credit card designs, so that customers can increase their sense of participation and adhesion.
- In response to the 24-hour customer service online, we continued to establish various operating procedures database to provide customer service staff promptly solve the customer's questions.
- To use the joint credit card processing center "credit card promotion platform" to increase the credit card exposure opportunities and increase the credit card of the Bank through marketing activities.
- "High cash rewards" is still the main stream of marketing. With the free three-phase payment service, it is conducive to bank credit cards marketing.
- Continuously streamline credit card operating procedures and modify execution procedures to improve customer satisfaction and employee efficiency.

5-1-2-9. Insurance Agency Business

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

5-1-3. Market Analysis

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

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

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

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

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

5-1-3-3-1. Advantages

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

5-1-3-3-2. Disadvantages

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

5-1-3-3-3. Countermeasures

- A. Keep adjusting for branch positions in order to establish a more complete financial services business.
- B. To optimize bank digital financial services environment and choose suitable digital development strategies to enhance customer convenience and break through the limits of entities branch distribution.

- C. Increasing fee income on Wealth Management and actively expanding SME lending.
- D. With “strengthening capital and stabilizing profits” as a perpetual business strategy, reduce the cost of capital, improve asset quality and financial management to keep profitable growth.

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

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

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

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

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

- Expenditure of Financial Products Research and Development in recent 2 years.
Year 2017: TWD4,889 thousand; Year 2018: TWD3,490 thousand

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

- Added “ATM cardless withdrawal service”.
- FOREX “ Enterprise Internet Banking” is online
- To upgrade prevention and control of anti-money laundering , counter terrorist financing related and blacklist check database systems
- Mobile Internet Banking adds “Fingerprint Identification and Face recognition Login” service
- Taiwan pay scans QR Code transfer, payment and consumption deduction service online.
- Launched the “electronic Payment Tax Processing Platform” medical referee app payment platform service and financial institution collection mode.
- Building big data analysis system
- To build up online education and training system for employee
- Revision of official website to support pages adaptation function
- Development of interbank FXML trading system
- To add ID text automatic identification of seal identification system to improve open bank accounts efficiency
- Development of mobile push notification system
- To develop pad system for internal meeting
- Development of lottery system for business unit activities
- Cooperate with authorities to complete the evaluation of information security and ATM offensive and defensive drills
- Complete various types of passbook management and the inventory details
- Increase “Firewall Hardware”, “Source Code Analysis”, Financial information service remittance and ATM host business system encipher
- Replacement partial of ATM to build a good space for disabled persons
- Credit card certificate management with computers and make e-book of bad debt
- Use Microsoft’s AD system to control computer permissions to observe to Personal Information Protection Law

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

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

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

5-1-5-1. For our Short Term Business Development Plan, details please refer to our profile of Business Plans for Year 2019

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

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

5-2. Human Capital

Information of Educational Background for Employees in Recent 2 Years

Item \ Year		2017	2018	Up to Feb. 28, 2019
Number of Employee		1,141	1,110	1,122
Average Age		40.98	41.51	41.39
Average Seniority		14.13	14.94	14.90
Structure of Education	Doctor	2	2	2
	Master	87	79	80
	University/College	840	842	836
	Senior High School	210	185	202
	Below	2	2	2
Certificated Proficiency Tests of Employees			Total (Up to Feb. 28, 2019)	
Basic Proficiency Test for Bank Lending Personnel			558	
Advanced Proficiency Test for Bank Lending Personnel			40	
Proficiency Test for Bank Collateral Appraisal Personnel			49	
Basic Proficiency Test for International Banking Personnel			376	
Proficiency Test for Foreign Exchange Trading Personnel			46	
Proficiency Test for Financial Planning Personnel			333	
Test for Small-Medium Business Financial Staff			180	
Proficiency Test for Trust Operations Personnel			708	
Proficiency Test for Obligation & Debt Collection Personnel			167	
Proficiency Test for Bank Internal Control and Audit Personnel			723	
Proficiency Test for Financial Risk Management Personnel			3	
Securities Investment Analysts			6	
Senior Securities Specialist			203	
Securities Specialist			134	
Future Specialist			173	
Securities Investment Trust & Consulting Professionals			192	
Qualified Test for Bill Finance Specialist			93	
Proficiency Test for Bond Specialist			19	
Proficiency Test for Stock Affair Specialist			14	
Basic Ability Test for Asset Securitization			5	
Personal Insurance Representative			748	
Test for Life Insurance Representative (Foreign Currency Base) – Non Investing Insurance Products			480	
Investment-Orientated Insurance Representative			435	
Property Insurance Representative			635	

Certificated Proficiency Tests of Employees	Total (Up to Feb. 28, 2019)
Financial Risk Management (FRM)	1
Land Registry Agent	3
Property Insurance Agent	7
Personal Insurance Agent	7
Personal Insurance Broker	3
Property Insurance Broker	3
General English Placement Test – Intermediate	2
General English Placement Test – Elementary	22
TOEIC score above 880	2
TOEIC score 750-880	4
TOEIC score 550-750	14
TOEIC score 350-550	12

5-3. Responsibility and Ethical Code

The Bank all along been upholding “what is taken from society, used for the community” to fulfill social responsibility. For many years the Bank also sponsored charity activities of Eden Social Welfare Foundation, Ganlin Social Welfare Charity Foundation, Taichung Food Bank. The Bank set up “COTA Culture and Education Foundation” in Aug. 1999 to develop the public welfare like as lifelong learning lectures, arranging book club for elder persons, with other public interest groups held health talks and friendship activities for retirees. Held activity of voluntary blood donation with Taichung Blood Center for 4 years that raised 925 donated blood bags of total in 231,250 c.c. The Bank sponsored the “Three-to-Three Basketball Community Friendship Competition” organized by the “republic of China Credit Union” and continued to concern with the corporate. We hope to inject good energy and create a society full of love and care.

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

Unit: TWD

Item	2017	2018
Non-supervisory Employee Welfare Expenses	1,140,653,424	1,178,918,932
Number of Non-supervisory Employees	1,093	1,063
Average Welfare Expense for each Non- supervisory Employee	1,043,599	1,109,049

Note:

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

5-5. IT Equipment

The Bank uses IBM UNIX server for Business System, Testing System, Inter-bank Business and Utility System separately. Furthermore, we also uses Windows server and Linux server depend on network and different business lines, and operated by virtualized integration and deployment in multiple HP entities.

Up to date, our working software includes Demand Deposits, Time Deposit, Comprehensive Deposit, collection of bills, collection and payment, ATM and financial cards, correspondent banking, credit , safe deposit box, insurance, trusts, gold passbooks, credit card, Foreign Exchange (including DBU and OBU), Personal Internet Banking, Corporate Internet Banking, Mobile Banking, phone Voice, etc., as well as Staff Field System (including E-Document, Staff Management, Personnel & Wages, Operation Analysis, Credit Review, consumer finance, business finance, financial commissioner, wealth management, messaging transmission, document image transmission, joint inquiry, teaching film platform, employee's job content platform, ...) accounting, seal management, etc.

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

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

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

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

5-6. Labor-Management Relationship

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

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

5-6-1-1. Group Insurance

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

5-6-1-2. Bonus

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

5-6-1-3. Incentive Interest Rate

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

5-6-1-4. Security and Hygiene

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

5-6-1-5. Staff Proficiency Training

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

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

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

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

5-7. Major Contracts

Nature of Contract	Concern Party	Contractual Period	Major Content	Restrictive Covenants
Deposit Insurance Contract	Central Deposit Insurance Corp.	Engaged on Aug. 15, 1995	To enhance protection of customer deposits	The same depositor maximum amount of compensation is up to TWD3 million
Bank Comprehensive Insurance	Chung Kuo Insurance Co., Ltd.	From Apr. 1, 2018 to Apr. 1, 2019	1. Staff unfaithful behavior 2. Asset of branches 3. Asset in transit 4. Forged drafts and securities 5. Forged cash 6. Damage of equipment 7. Fault of securities or contracts 8. Inadvertency of short banknotes	None
Outsourcing Contract	Yuen Foong Paper Co., Ltd.	From May 3, 2018 to May 2, 2019	Transaction statements	None
Outsourcing Contract	Han Yeh Office Supplies Company	From May 3, 2018 to May 2, 2019	Computer printing jobs and packages	None
Outsourcing Contract	Taiwan Security Co., Ltd. and Lian-An Co., Ltd.	From Oct. 1, 2018 to Sep. 30, 2019	Loading cash & troubleshooting of AMT	None
Outsourcing Contract	Taiwan Security Co., Ltd.	From Jun. 1, 2018 to May 31, 2019	Securities, cheques and cash delivery	None
Outsourcing Contract	Feng Tay Motor Co., Ltd.	From Jun. 27, 2018 to Jun. 27, 2019	To search cars for overdue payments of car loans	None
Outsourcing Contract	21Century Finance Service	From Jun. 27, 2018 to Jun. 27, 2019	To search cars for overdue payments of car loans	None
Outsourcing Contract	Sinjang Co., Ltd.	From Jun. 27, 2018 to Jun. 27, 2019	Authorization of vehicle auction	None
Outsourcing Contract	President Chain Store Corporation	From May 1, 2018 to Apr. 30, 2019	Collection for consumer loans	None
Outsourcing Contract	National Credit Card Center of R.O.C.	From Mar. 10, 2007 to either party in writing of termination and confirm the termination date	Credit card business (credit card payment system & support services)	None
Outsourcing Contract	President Chain Store Corporation	From Jun. 13, 2018 to Jun. 13, 2019	Collection for credit card payments	None
Outsourcing Contract	Taiwan Family Mart Co., Ltd.	From Apr 5, 2018 to Apr 5, 2019	Collection for credit card payments	None
Outsourcing Contract	Hi-Life International Co., Ltd.	From Apr 5, 2018 to Apr 5, 2019	Collection for credit card payments	None
Outsourcing Contract	OK . Mart	From Apr 5, 2018 to Apr 5, 2019	Collection for credit card payments	None

Nature of Contract	Concern Party	Contractual Period	Major Content	Restrictive Covenants
Outsourcing Contract	Taiwan Name Plate Co., Ltd.	From Mar. 10, 2018 to Mar. 9, 2019	Chip-card processing, package and mailing	None
Outsourcing Contract	Chunghwa Post Co., Ltd.	From Sep. 20, 2018 to Sep. 19, 2019	Statements printing & package of full management accounts	None
Outsourcing Contract	Transnational Logistic Solutions (Taiwan) Pte. Ltd.	From Dec. 1, 2018 to Nov. 30, 2019	Bank cheques, documents & securities collection & delivery	None

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

The background of the page features a 3D rendering of several tall stacks of gold coins. In the center, a golden globe with a grid pattern is visible. From the top of some of the coin stacks, glowing yellow lines emerge, resembling liquid or energy being poured. The page is decorated with large, flowing green shapes that sweep across the bottom and right sides. The text "Financial Status" is in white, and the large number "6" is also in white.

Financial Status 6

6 Financial Status

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

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

Unit: TWD thousand

Descriptions	Year	Financial data during recent 5 years					Up to YYYY/ MM/DD financial data
		2018	2017	2016	2015	2014	
Cash, Cash equivalents, due from the Central Bank, and call loan to other banks		10,439,306	9,509,193	24,477,847	24,937,444	23,535,092	
Financial asset or Financial Liability at fair value through profit or loss		1,471,328	820,000	1,796,034	2,016,660	2,229,841	
Financial assets measured at fair value through other comprehensive income		7,495,797	-	-	-	-	
Debt instrument investment measured by amortized cost		18,116,779	-	-	-	-	
Available-for-sale financial assets		-	3,736,500	6,375,802	4,345,123	4,381,065	
Derivative Financial Assets for Hedging		-	-	-	-	-	
Bonds and bills purchased under resale agreements		9,681,841	8,968,517	2,102,052	3,654,787	1,848,138	
Net Receivables		392,836	385,124	404,658	396,245	374,516	
Current tax Assets		-	6,725	6,725	-	-	
Assets Held for Sell		-	-	-	-	-	
Net Discounts and Loans		114,714,150	114,538,216	111,725,677	104,728,135	100,969,801	
Held-to-maturity financial assets		-	18,762,940	3,525,120	3,506,657	3,423,956	
Long-term investments under equity method		-	-	-	-	-	
Restricted assets		-	-	-	-	-	
Other financial assets		36	182,100	186,372	187,701	185,432	
Net property and equipment		1,311,480	1,339,251	1,321,946	1,328,977	1,359,122	
Investment property		1,004,301	991,733	830,192	831,225	691,269	
Intangible assets		114,567	111,395	107,688	107,588	109,972	
Deferred tax assets		165,541	162,668	177,823	250,404	257,662	
Other assets		140,232	105,505	70,841	66,915	69,790	
Total Assets		165,048,194	159,619,867	153,108,777	146,357,861	139,435,656	
Deposits to The Central Bank and other banks		64,470	77,837	64,470	64,470	111,139	
Financing to The Central Bank and other banks		-	-	-	-	-	
financial liability at fair value through loss		360	16	491	1,045	137	
Hedging derivative financial liabilities		-	-	-	-	-	
Bonds and bills held under repurchased agreements		-	-	-	-	-	
Accounts Payable		790,203	825,747	732,650	839,543	791,664	
Current tax liability		50,525	82,787	2,946	8,381	43,427	
Liabilities directly associated with assets held for sale		-	-	-	-	-	

Year Descriptions		Financial data during recent 5 years					Up to YYYY/ MM/DD financial data
		2018	2017	2016	2015	2014	
Deposits and remittances		149,603,103	144,335,490	139,736,041	134,979,877	129,389,480	
Bond payable		3,000,000	3,300,000	3,300,000	1,500,000	1,500,000	
Preference share liabilities		-	-	-	-	-	
Other financial liabilities		-	-	-	-	-	
Provision		255,287	259,015	299,452	447,437	442,947	
Deferred tax liabilities		118,239	110,642	115,526	121,430	114,904	
Other liabilities		322,950	337,280	339,951	358,966	388,658	
Total liabilities	Before allocation	154,205,137	149,328,814	144,591,527	138,321,149	132,782,356	
	After allocation	-	149,519,452	144,782,648	138,441,124	132,948,435	
Equity attributable to owners of the parent		10,843,057	10,291,053	8,517,250	8,036,712	6,653,300	
Share capital	Before allocation	8,083,054	7,625,523	6,370,695	5,998,771	5,032,692	
	After allocation	-	8,083,054	6,625,523	6,370,695	5,198,771	
Capital reserve		911,160	910,524	898,234	898,204	892,620	
Retained earnings	Before allocation	1,838,638	1,732,015	1,256,421	1,090,916	723,138	
	After allocation	-	1,083,846	810,472	599,017	390,980	
Other components		10,205	22,991	-8,100	48,821	4,850	
Treasury Shares		-	-	-	-	-	
non-controlling interests		-	-	-	-	-	
Total Shareholders' equity	Before allocation	10,843,057	10,291,053	8,517,250	8,036,712	6,653,300	
	After allocation	-	10,100,415	8,326,129	7,916,737	6,487,221	

Note:

1. The earnings distribution for 2018 has not been approved by the 2019 Shareholders' General Meeting.
2. 2015 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD122, 018, 000.
3. 2017 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD162, 574, 000.

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

Unit: TWD thousand

Year Descriptions		Financial data during recent 5 years					Up to YYYY/ MM/DD financial data
		2018	2017	2016	2015	2014	
Cash, Cash equivalents, due from the Central Bank, and call loan to other banks		10,439,306	9,509,193	24,477,847	24,937,444	23,535,092	
Financial asset or Financial Liability at fair value through profit or loss		1,471,328	820,000	1,796,034	2,016,660	2,229,841	
Financial assets measured at fair value through other comprehensive income		7,495,797	-	-	-	-	
Debt instrument investment measured by amortized cost		18,116,779	-	-	-	-	
Available-for-sale financial assets		-	3,736,500	6,375,802	4,345,123	4,381,065	
Derivative Financial Assets for Hedging		-	-	-	-	-	
Bonds and bills purchased under resale agreements		9,681,841	8,968,517	2,102,052	3,654,787	1,848,138	

<div> <div></div> <div>Year</div> </div> <div>Descriptions</div>		Financial data during recent 5 years					Up to YYYY/ MM/DD financial data
		2018	2017	2016	2015	2014	
Net Receivables		392,836	385,124	390,473	396,919	379,357	
Current tax Assets		-	6,725	6,725	-	-	
Assets Held for Sell		-	-	-	-	-	
Net Discounts and Loans		114,714,150	114,538,216	111,725,677	104,728,135	100,969,801	
Held-to-maturity financial assets		-	18,762,940	3,525,120	3,506,657	3,423,956	
Long-term investments under equity method		-	-	39,513	34,828	24,481	
Restricted assets		-	-	-	-	-	
Other financial assets		36	182,100	186,372	187,701	185,432	
Net property and equipment		1,311,480	1,339,251	1,321,946	1,328,904	1,359,012	
Investment property		1,004,301	991,733	830,192	831,225	691,269	
Intangible assets		114,567	111,395	107,688	107,588	109,972	
Deferred tax assets		165,541	162,668	177,823	250,404	257,662	
Other assets		140,232	105,505	68,825	64,790	67,628	
Total Assets		165,048,194	159,619,867	153,132,089	146,391,165	139,462,706	
Deposits to The Central Bank and other banks		64,470	77,837	64,470	64,470	111,139	
Financing to The Central Bank and other banks		-	-	-	-	-	
financial liability at fair value through loss		360	16	491	1,045	137	
Hedging derivative financial liabilities		-	-	-	-	-	
Bonds and bills held under repurchased agreements		-	-	-	-	-	
Accounts Payable		790,203	825,747	722,944	839,816	796,955	
Current tax liability		50,525	82,787	-	5,010	41,696	
Liabilities directly associated with assets held for sale		-	-	-	-	-	
Deposits and remittances		149,603,103	144,335,490	139,773,092	135,017,248	129,414,163	
Bond payable		3,000,000	3,300,000	3,300,000	1,500,000	1,500,000	
preference share liabilities		-	-	-	-	-	
Other financial liabilities		-	-	-	-	-	
Provision		255,287	259,015	299,452	447,437	442,947	
Deferred tax liabilities		118,239	110,642	115,526	121,430	114,904	
Other liabilities		322,950	337,280	338,864	357,997	387,465	
Total liabilities	Before allocation	154,205,137	149,328,814	144,614,839	138,354,453	132,809,406	
	After allocation	-	149,519,452	144,805,960	138,474,428	132,975,485	
Equity attributable to owners of the parent		10,843,057	10,291,053	8,517,250	8,036,712	6,653,300	
Share capital	Before allocation	8,083,054	7,625,523	6,370,695	5,998,771	5,032,692	
	After allocation	-	8,083,054	6,625,523	6,370,695	5,198,771	
Capital reserve		911,160	910,524	898,234	898,204	892,620	
Retained earnings	Before allocation	1,838,638	1,732,015	1,256,421	1,090,916	723,138	
	After allocation	-	1,083,846	810,472	599,017	390,980	
Other components		10,205	22,991	-8,100	48,821	4,850	

Descriptions	Year	Financial data during recent 5 years					Up to YYYY/ MM/DD financial data
		2018	2017	2016	2015	2014	
Treasury Shares		-	-	-	-	-	
non-controlling interests		-	-	-	-	-	
Total Shareholders' equity	Before allocation	10,843,057	10,291,053	8,517,250	8,036,712	6,653,300	
	After allocation	-	10,100,415	8,326,129	7,916,737	6,487,221	

Note:

1. The earnings distribution for 2018 has not been approved by the 2019 Shareholders' General Meeting.
2. 2015 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD122,018, 000.
3. 2017 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD162,574, 000.

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

Unit: TWD thousand

Descriptions	Year	Financial data during recent 5 years					Up to YYYY/ MM/DD financial data
		2018	2017	2016	2015	2014	
Interest income		3,578,908	3,497,564	3,414,505	3,467,577	3,283,481	
Interest expense(Minus)		1,003,973	991,327	1,012,506	1,140,481	1,097,041	
Net Interest income		2,574,935	2,506,237	2,401,999	2,327,096	2,186,440	
Other net interest income		318,254	414,681	332,039	576,993	406,865	
Net income		2,893,189	2,920,918	2,734,038	2,904,089	2,593,305	
Provision for bad debt expense and guarantees		88,142	(93,114)	12,120	151,443	292,273	
Operating expense		1,905,510	1,950,196	1,863,275	1,920,708	1,767,902	
Income from continuing operations before income taxes		899,537	1,063,836	858,643	831,938	533,130	
Tax income (expense)		(145,926)	(146,554)	(143,826)	(110,746)	(92,141)	
Net profit from continuing operations		753,611	917,282	714,817	721,192	440,989	
profit or loss from discontinuing operations		-	-	-	-	-	
Current net profit (or loss)		753,611	917,282	714,817	721,192	440,989	
Current other comprehensive income(after taxes)		(17,062)	35,352	(114,334)	22,715	(1,516)	
Current Total other comprehensive income		736,549	952,634	600,483	743,907	439,473	
Net profit attributable to owners of the parent		753,611	917,282	714,817	721,192	440,989	
Net profit to non-controlling interests		-	-	-	-	-	
Current Total other comprehensive income to owners of the parent		736,549	952,634	600,483	743,907	439,473	
Current Total other comprehensive income to non-controlling interests		-	-	-	-	-	
Earnings per share		0.93	1.13	1.08	1.13	0.85	

1. Certified public accountants: Shi-Hua Guo and Yuan-Chen Mei for 2014~2017
Jun-Yuan Wu and Yuan-Chen Mei for 2018
2. Opinions: No standard retained opinion for 2014~2018.

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

Unit: TWD thousand

Descriptions \ Year	Financial data during recent 5 years					Up to YYYY/ MM/DD financial data
	2018	2017	2016	2015	2014	
Interest income	3,578,908	3,497,564	3,414,505	3,467,577	3,283,481	
Interest expense (Minus)	1,003,973	991,356	1,012,682	1,140,662	1,097,231	
Net Interest income	2,574,935	2,506,208	2,401,823	2,326,915	2,186,250	
Other net interest income	318,254	404,313	289,868	531,262	365,273	
Net income	2,893,189	2,910,521	2,691,691	2,858,177	2,551,523	
Provision for bad debt expense and guarantees	88,142	(93,114)	12,120	151,443	292,273	
Operating expense	1,905,510	1,940,954	1,826,369	1,879,783	1,729,298	
Income from continuing operations before income taxes	899,537	1,062,681	853,202	826,951	529,952	
Tax income (expense)	(145,926)	(145,399)	(138,385)	(105,759)	(88,963)	
Net profit from continuing operations	753,611	917,282	714,817	721,192	440,989	
profit or loss from discontinuing operations	-	-	-	-	-	
Current net profit (or loss)	753,611	917,282	714,817	721,192	440,989	
Current other comprehensive income(after taxes)	(17,062)	35,352	(114,334)	22,715	(1,516)	
Current Total other comprehensive income	736,549	952,634	600,483	743,907	439,473	
Net profit attributable to owners of the parent	753,611	917,282	714,817	721,192	440,989	
Net profit to non-controlling interests	-	-	-	-	-	
Current Total other comprehensive income to owners of the parent	736,549	952,634	600,483	743,907	439,473	
Current Total other comprehensive income to non-controlling interests	-	-	-	-	-	
Earnings per share	0.93	1.13	1.08	1.13	0.85	

1. Certified public accountants: Shi-Hua Guo and Yuan-Chen Mei for 2014~2017
Jun-Yuan Wu and Yuan-Chen Mei for 2018

2. Opinions: No standard retained opinion for 2014~2018.



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

6-2-1. Under IFRS Consolidated

Unit: TWD thousand; %

Year (Note.1) Descriptions (Note.3)		Financial analysis during recent 5 years					Up to YYYY/ MM/DD financial data
		2018	2017	2016	2015	2014	
Operating Capability	Loans to deposits ratio (%)	78.01	80.83	81.54	79.39	79.97	
	Overdue loan ratio (%)	0.50	0.24	0.22	0.21	0.34	
	Interest expense to average balance of deposits ratio (%)	0.64	0.64	0.70	0.82	0.83	
	Interest income to average balance of loans ratio (%)	2.59	2.59	2.79	2.80	2.74	
	Total assets turnover (times)	0.02	0.02	0.02	0.02	0.02	
	Average operating revenue per employee	2,606	2,560	2,417	2,543	2,275	
	Average earnings per employee	679	804	626	632	387	
Profitability	Return on first capital type assets (%)	8.54	11.75	10.85	11.90	8.66	
	ROA (%)	0.46	0.59	0.48	0.50	0.33	
	ROE (%)	7.13	9.75	8.64	9.82	6.79	
	Net income ratio (%)	26.05	31.40	26.15	24.83	17.00	
	EPS (loss)	0.93	1.13	1.08	1.13	0.85	
Financial structure	Ratio of liabilities to assets	93.41	93.53	94.41	94.49	95.22	
	Ratio of fix assets to shareholder's equity	12.10	13.01	15.52	16.54	20.43	
Growth Rate	Asset growth rate (%)	3.40	4.25	4.61	4.96	6.01	
	Profitability growth rate (%)	-15.35	23.90	3.21	56.05	-6.39	
Cash flow	Cash flow ratio	122.20	Note9	Note9	67.27	Note9	
	Cash flow adequacy ratio	Note9	Note9	Note9	N/A	N/A	
	Ratio of cash flow for operating to cash flow from investing	Note9	Note9	Note9	Note9	Note9	
Liquid Reserves Ratio (%)		23.17	20.09	17.42	18.99	18.99	
Secured Loans to Related Parties		613,825	600,101	787,649	756,883	756,883	
Secured Loans to Related Parties to Total Outstanding Loans Ratio (%)		0.52	0.51	0.70	0.71	0.71	
Operation Scale	Market share of assets (%)	0.21	0.22	0.22	0.22	0.22	
	Market share of net worth (%)	0.18	0.17	0.15	0.15	0.14	
	Market share of deposits (%)	0.44	0.44	0.44	0.44	0.45	
	Market share of loan (%)	0.45	0.48	0.49	0.47	0.47	

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

1. The decrease in return on first capital type assets, mainly is because decrease income before tax and increase first capital type assets result in 2018.
2. The decrease in profitability growth rate, mainly is because decrease income before tax result in 2018.
3. The decrease in ROA and ROE, mainly is because decrease income after tax result in 2018.
4. The increase in cash flow ratio, mainly is because the net cash inflow from operating activities result in 2018.
5. The decrease of asset growth rate is mainly due to decline of lending amount in 2018.
6. The increase in NPL ratio is mainly due to deterioration in quality of overdue lending assets.

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

Note:

1. It should be specified if the year without checked visa by CPA auditor.
2. If there is recent financial information reviewed by CPA before annual report was printed, the Bank will reveal all information.
3. Calculation formula
 - (1) Operating ability
 - (A) Ratio of loans to deposits = Total loans / deposits
 - (B) Ratio of overdue = (Loans Overdue + Other Overdue) / Total Loans
 - (C) Ratio of interest Cost to Annual Average Deposits = interest Cost / Annual Average Deposits
 - (D) Ratio of interest income to Annual Average Loans Outstanding = Interest Income / Annual Average Loans Outstanding
 - (E) Total Assets Turnover = Net Operating Revenue / Total Assets
 - (F) Average Operation Revenue per Employee = Net Operating Revenue / Number of Employees
 - (G) Average Profit per Employee = After-tax Income / Total Number of Employees
 - (2) Profitability
 - (A) Return on Tier I Capital = Pretax Earnings or Losses / Total Average Tier I Capital
 - (B) Return on Assets = Net Income / Average of Total Assets
 - (C) Return on Shareholders' Equity = Net income / Average of Total Shareholders' Equities
 - (D) Ratio of Net Income = Net Income / Total Revenue
 - (E) Earnings per Share = (Net Income – Preferred stock Dividend) / Average Weighted Outstanding Stock (Note.5)
 - (3) Financial Structure
 - (A) Ratio of Liabilities to Assets = Liabilities / Total Assets
 - (B) Ratio of Fix Assets to Shareholders' Equity = Fix Assets / Shareholders' Equities
 - (4) Growth Rate
 - (A) Asset Growth Rate = (Total Assets of the Year - Total Assets of Previous Year) / Total Assets of Previous Year
 - (B) Profit Growth Rate = (Pretax Earnings or Losses of the Year - Before-tax Earnings or Losses of Previous Year) / Pretax Earnings or Losses of Previous Year
 - (5) Cash Flow (Note.8)
 - (A) Ratio of Cash Flow = Net cash flow from business activities / (call loans and overdrafts from banks + commercial paper payable + financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreement + current portion of payables)
 - (B) Ratio of Net Cash Flow Adequacy = Net cash flow from business activities for the past five years / (capital expenditures + cash dividends) for the past five years
 - (C) Ratio of Cash Flow for operating to cash flow from investing = Net cash flow from business activities / Net cash flow from investing activities
 - (6) Liquidity Reserves Ratio = Liquid Assets Stipulated by CBC / Reserves Appropriated for various Types of Deposits
 - (7) Operating Scale
 - (A) Market Share of Asset = Total Asset / Total Asset of the major financial institutions (Note.6)
 - (B) Market Share of Net Worth = Net Worth / Total Asset of the major financial institutions
 - (C) Market Share of Deposit = Total Deposit / Total Asset of the major financial institutions
 - (D) Market Share of Loan = Total Loan / Total Asset of the major financial institutions
4. Total liabilities do not contain Prepare guarantee responsibility and Accident liability reserve.
5. The following shall be noted in the equations of EPS of the preceding paragraph:
 - (1) It is based on weighted average common stock shares instead of the issued stock shares at the end of year.
 - (2) For cash capitalization or Treasury stock trade, the circulation period is to be considered for the calculation of weighted average stock shares.
 - (3) For capitalized retained earnings or additional paid-in, for the calculation of earnings per share of previous years and semi-annual, it is to be adjusted retroactively and proportionally to the ratio of capitalization but not the issuance period of the capitalization.
 - (4) If the preferred stock is non-convertible cumulative preferred stock, the dividend (distributed or not distributed) is to be deducted from Net Income or is to be added to Net Loss.
 - (5) If the preferred stock is non-cumulative preferred stock; also, if there is Net income generated, preferred stock dividend is to be deducted from Net income; however, if there is net loss resulted, no adjustment is required.
6. Can apply for deposit and loan business: Local banks, Branches of foreign banks in Taiwan, Credit Cooperatives, Agriculture, Fisheries and credit department
7. The income means the total interest income and non-interest income.
8. The following shall be considered in measuring of cash flow analysis:
 - (1) Net cash flow from operating activities means the net cash inflow from operating activities in the cash flow statement.
 - (2) Capital expenditure means the cash outflow from capital investment per year.
 - (3) Cash dividends include of common and preferred stocks.
 - (4) Gross for real estate and equipment means the total real estate and equipment before deduction of accumulated depreciation.
9. Relevant ratio of cash flow is Negative, no disintegration.

Under IFRS Condensed

Unit: TWD thousand; %

Descriptions (Note.3)		Financial analysis during recent 5 years					Up to YYYY/ MM/DD
		2018	2017	2016	2015	2014	
Operating Capability	Loans to deposits ratio (%)	78.01	80.83	81.52	79.37	79.95	
	Overdue loan ratio (%)	0.50	0.24	0.22	0.21	0.34	
	Interest expense to average balance of deposits ratio (%)	0.64	0.64	0.70	0.82	0.83	
	Interest income to average balance of loans ratio (%)	2.59	2.59	2.79	2.80	2.74	
	Total assets turnover (times)	0.02	0.02	0.02	0.02	0.02	
	Average operating revenue per employee	2,606	2,551	2,401	2,523	2,254	
	Average earnings per employee	679	804	638	637	390	
Profitability	Return on first capital type assets (%)	8.54	11.73	10.78	11.83	8.60	
	ROA (%)	0.46	0.59	0.48	0.50	0.33	
	ROE (%)	7.13	9.75	8.64	9.82	6.79	
	Net income ratio (%)	26.05	31.52	26.56	25.23	17.28	
	EPS (loss)	0.93	1.13	1.08	1.13	0.85	
Financial structure	Ratio of liabilities to assets	93.41	90.58	94.41	94.49	95.20	
	Ratio of fix assets to shareholder's equity	12.10	13.01	15.52	16.54	20.43	
Growth Rate	Asset growth rate (%)	3.40	4.24	4.60	4.97	6.03	
	Profitability growth rate (%)	-15.35	24.55	3.17	56.04	(6.95)	
Cash flow	Cash flow ratio	122.20	Note9	Note9	67.25	Note9	
	Cash flow adequacy ratio	Note9	Note9	Note9	N/A	N/A	
	Ratio of cash flow for operating to cash flow from investing	Note9	Note9	Note9	Note9	Note9	
Liquid Reserves Ratio (%)		23.17	20.09	17.42	17.43	18.99	
Secured Loans to Related Parties		613,825	600,101	787,649	720,777	756,883	
Secured Loans to Related Parties to Total Outstanding Loans Ratio (%)		0.52	0.51	0.70	0.70	0.71	
Operation Scale	Market share of assets (%)	0.21	0.22	0.22	0.22	0.22	
	Market share of net worth (%)	0.18	0.17	0.15	0.15	0.14	
	Market share of deposits (%)	0.44	0.44	0.44	0.44	0.45	
	Market share of loan (%)	0.45	0.48	0.49	0.47	0.47	

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

1. The decrease in return on first capital type assets, mainly is because decrease income before tax and increase first capital type assets result in 2018.
2. The decrease in profitability growth rate, mainly is because decrease income before tax result in 2018.
3. The decrease in ROA and ROE, mainly is because decrease income after tax result in 2018.
4. The increase in cash flow ratio, mainly is because the net cash inflow from operating activities result in 2018.
5. The increase in NPL ratio is mainly due to deterioration in quality of overdue lending assets.

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

Note:

1. It should be specified if the year without checked visa by CPA auditor.
2. If there is recent financial information reviewed by CPA before annual report was printed, the Bank will reveal all information.
3. Calculation formula

- (1) Operating ability
 - (A) Ratio of loans to deposits = Total loans / deposits
 - (B) Ratio of overdue = (Loans Overdue + Other Overdue) / Total Loans
 - (C) Ratio of interest Cost to Annual Average Deposits = interest Cost / Annual Average Deposits
 - (D) Ratio of interest income to Annual Average Loans Outstanding = Interest Income / Annual Average Loans Outstanding
 - (E) Total Assets Turnover = Net Operating Revenue / Total Assets
 - (F) Average Operation Revenue per Employee (Note.7) = Net Operating Revenue / Number of Employees
 - (G) Average Profit per Employee = After-tax Income / Total Number of Employees
- (2) Profitability
 - (A) Return on Tier I Capital = Pretax Earnings or Losses / Total Average Tier I Capital
 - (B) Return on Assets = Net Income / Average of Total Assets
 - (C) Return on Shareholders' Equity = Net income / Average of Total Shareholders' Equities
 - (D) Ratio of Net Income = Net Income / Total Revenue
 - (E) Earnings per Share = (Net Income – Preferred stock Dividend) / Average Weighted Outstanding Stock (Note.5)
- (3) Financial Structure
 - (A) Ratio of Liabilities to Assets = Liabilities / Total Assets
 - (B) Ratio of Fix Assets to Shareholders' Equity = Fix Assets / Shareholders' Equities
- (4) Growth Rate
 - (A) Asset Growth Rate = (Total Assets of the Year - Total Assets of Previous Year) / Total Assets of Previous Year
 - (B) Profit Growth Rate = (Pretax Earnings or Losses of the Year - Before-tax Earnings or Losses of Previous Year) / Pretax Earnings or Losses of Previous Year
- (5) Cash Flow (Note.8)
 - (A) Ratio of Cash Flow = Net cash flow from business activities / (call loans and overdrafts from banks + commercial paper payable + financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreement + current portion of payables)
 - (B) Ratio of Net Cash Flow Adequacy = Net cash flow from business activities for the past five years / (capital expenditures + cash dividends) for the past five years
 - (C) Ratio of Cash Flow for operating to cash flow from investing = Net cash flow from business activities / Net cash flow from investing activities
- (6) Liquidity Reserves Ratio = Liquid Assets Stipulated by CBC / Reserves Appropriated for various Types of Deposits
- (7) Operating Scale
 - (A) Market Share of Asset = Total Asset / Total Asset of the major financial institutions (Note.6)
 - (B) Market Share of Net Worth = Net Worth / Total Asset of the major financial institutions
 - (C) Market Share of Deposit = Total Deposit / Total Asset of the major financial institutions
 - (D) Market Share of Loan = Total Loan / Total Asset of the major financial institutions
4. Total liabilities do not contain Prepare guarantee responsibility and Accident liability reserve.
5. The following shall be noted in the equations of EPS of the preceding paragraph:
 - (1) It is based on weighted average common stock shares instead of the issued stock shares at the end of year.
 - (2) For cash capitalization or Treasury stock trade, the circulation period is to be considered for the calculation of weighted average stock shares.
 - (3) For capitalized retained earnings or additional paid-in, for the calculation of earnings per share of previous years and semi-annual, it is to be adjusted retroactively and proportionally to the ratio of capitalization but not the issuance period of the capitalization.
 - (4) If the preferred stock is non-convertible cumulative preferred stock, the dividend (distributed or not distributed) is to be deducted from Net Income or is to be added to Net Loss.
 - (5) If the preferred stock is non-cumulative preferred stock; also, if there is Net income generated, preferred stock dividend is to be deducted from Net income; however, if there is net loss resulted, no adjustment is required.
6. Can apply for deposit and loan business: Local banks, Branches of foreign banks in Taiwan, Credit Cooperatives, Agriculture, Fisheries and credit department
7. The income means the total interest income and non-interest income.
8. The following shall be considered in measuring of cash flow analysis:
 - (1) Net cash flow from operating activities means the net cash inflow from operating activities in the cash flow statement.
 - (2) Capital expenditure means the cash outflow from capital investment per year.
 - (3) Cash dividends include of common and preferred stocks.
 - (4) Gross for real estate and equipment means the total real estate and equipment before deduction of accumulated depreciation.
9. Net cash flow from business activities or relevant ratio of cash flow is Negative, no disintegration.

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

Unit: TWD thousand; %

Year (Note.1) Items			Capital Adequacy Ratio of Recent Five Year (Note.2)					Up to YYYY/ MM/DD
			2018	2017	2016	2015	2014	
Net Capital	Common equity		10,542,187	9,950,751	8,163,589	7,659,153	6,322,519	
	Other non-common equity of Tier I Capital		574,247	-	-	-	-	
	Tier I Capital		3,435,395	3,112,248	3,379,440	1,721,351	1,949,132	
	Net Capital Base		14,551,829	13,062,999	11,543,029	9,380,504	8,271,651	
Total Weighted Risk Assets	Credit Risk	Standardized Approach	103,195,398	98,167,383	97,220,080	83,437,336	78,829,506	
		Internal-rating-based Approach	-	-	-	-	-	
		Securitization	671,320	-	-	-	-	
	Operational Risk	Basic Indicator Approach	5,217,355	5,118,685	4,992,342	4,795,648	4,477,977	
		Standardized Approach / Alternative Approach	-	-	-	-	-	
		Advanced Measurement Approach	-	-	-	-	-	
	Market Risk	Standardized Approach	3,604,702	4,918,013	9,524,884	3,757,382	4,247,874	
		Internal Model Approach	-	-	-	-	-	
	Total Risk-weighted Assets		112,688,775	108,204,081	111,737,306	91,990,366	87,555,357	
Capital Adequacy Ratio			12.91	12.07	10.33	10.20	9.45	
Tier I Capital to Risk Assets Ratio			9.86	9.20	7.31	8.33	7.22	
Common equity to Risk Assets Ratio			9.36	9.20	7.31	8.33	7.22	
Leverage rate			6.00	5.51	4.65	4.61	3.98	

Note:

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

Entity Capital Adequacy Ratio under IFRS

Unit: TWD thousand; %

Year (Note.1) Items			Capital Adequacy Ratio of Recent Five Year (Note.2)					Up to YYYY/ MM/DD
			2018	2017	2016	2015	2014	
Net Capital	Common equity		10,542,187	9,950,751	8,163,589	7,659,153	6,322,519	
	Other non-common equity of Tier I Capital		574,247	-	-	-	-	
	Tier I Capital		3,435,395	3,112,248	3,379,440	1,721,351	1,949,132	
	Net Capital Base		14,551,829	13,062,999	11,543,029	9,380,504	8,271,651	
Total Weighted Risk Assets	Credit Risk	Standardized Approach	103,195,398	98,167,383	97,220,080	83,437,336	78,829,506	
		Internal-rating-based Approach	-	-	-	-	-	
		Securitization	671,320	-	-	-	-	
	Operational Risk	Basic Indicator Approach	5,217,355	5,118,685	4,992,342	4,795,648	4,477,977	
		Standardized Approach / Alternative Approach	-	-	-	-	-	
		Advanced Measurement Approach	-	-	-	-	-	
	Market Risk	Standardized Approach	3,604,702	4,918,013	9,524,884	3,757,382	4,247,874	
		Internal Model Approach	-	-	-	-	-	
	Total Risk-weighted Assets		112,688,775	108,204,081	111,737,306	91,990,366	87,555,357	
Capital Adequacy Ratio			12.91	12.07	10.33	10.20	9.45	
Tier I Capital to Risk Assets Ratio			9.86	9.20	7.31	8.33	7.22	
Common equity to Risk Assets Ratio			9.36	9.20	7.31	8.33	7.22	
Leverage rate			6.00	5.51	4.65	4.61	3.98	

Note:

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

6-3. Auditing committee Report for Latest Year

COTA Commercial Bank Co., Ltd., Auditing committee Report for Year 2019

March 27, 2019

To: Shareholders' General Meeting of Year 2019

The Business Report, Financial Statement, Consolidated Financial Statement and Earning Distribution of fiscal year 2018, worked out and submitted by COTA Bank board of directors have been duly audited by KPMG Certified Public Accountants, and further verified by us. This Report duly submitted in accordance with Article 219 of the Company Law.

Independent Director : Po-Yao Chi

Independent Director : Kun-Hsien Lin

Independent Director : Tsung-Ta Kuo

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

Representation Letter

The entities that are required to be included in the combined financial statements of COTA Commercial Bank Co., Ltd. as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, COTA Commercial Bank Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: COTA Commercial Bank Co., Ltd.

Chairman: Sung-Yie Liao

Date: March 27, 2019

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of COTA Commercial Bank Co., Ltd. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as of December 31, 2018 and 2017, the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with The Regulations Governing the Preparation of Financial Reports by Public Banks, and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and the 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Impairment of loan and receivables

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

Description of key audit matter:

The Group mainly engages in providing loans to its clients; hence, the recoverability of loans and receivables has a significant influence on its business operation which can result in its exposure to

credit risk. Therefore, the valuation of impairment of loans and receivables has been identified as our key audit matter.

How the matter was addressed in our audit:

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

Other Matter

The Company has prepared its parent-company-only financial statements for reference as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chun-Yuan Wu and Yuan-Chen Mei.

KPMG

Taipei, Taiwan (Republic of China)

March 27, 2019

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

COTA COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES**Consolidated Balance Sheets****December 31, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017		Liabilities and Equity	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets									
11000 Cash and cash equivalents (note 6 (a))	\$ 1,679,974	1	2,000,561	1	Liabilities:				
11500 Due from Central Bank and call loans to bank (note 6 (b))	8,759,332	5	7,508,632	5	Due to the Central Bank and other banks (note 6(o))	\$ 64,470	-	77,837	-
12000 Financial assets measured at fair value through profit or loss (note 6 (c))	1,471,328	1	820,000	-	Financial liabilities measured at fair value through profit or loss (note 6(c))	360	-	16	-
12100 Financial assets at fair value through other comprehensive income (note 6 (d))	7,495,797	4	-	-	Payables (note 6(p))	790,203	-	825,747	-
12200 Financial assets at amortized cost (note 6 (e) and 8))	18,116,779	11	-	-	Current income tax liabilities	50,525	-	82,787	-
12500 Securities purchased under resell agreements (note 6 (f))	9,681,841	6	8,968,517	6	Deposits and remittances (note 6 (q) and 7)	149,603,103	91	144,335,490	91
13000 Receivables, net (note 6 (g))	392,836	-	385,124	-	Subordinate financial debentures (note 6 (r))	3,000,000	2	3,300,000	2
13200 Current income tax assets	-	-	6,725	-	Provisions (note 6 (s) and (t))	255,287	-	259,015	-
13500 Discounts and Loans, net (note 6 (h) and 7)	114,714,150	70	114,538,216	72	Deferred income tax liabilities (note 6 (u))	118,239	-	110,642	-
14000 Available-for-sale financial assets, net (note 6 (i))	-	-	3,736,500	2	Other liabilities (note)	322,950	-	337,280	-
14500 Held-to-maturity financial assets, net (note 6 (j) and 8)	-	-	18,762,940	12	Total liabilities	154,205,137	93	149,328,814	93
15500 Other financial assets (note 6 (k))	36	-	182,100	-	Equity attributable to owners of parent: (note 6 (r))				
18500 Property and equipment - net (note 6 (l))	1,311,480	1	1,339,251	1	Common stock	8,083,054	5	7,625,523	5
18700 Investment Property - net (note 6 (m))	1,004,301	1	991,733	1	Capital reserve	911,160	1	910,524	1
19000 Intangible assets - net (note 6 (n))	114,567	-	111,395	-	Statutory reserve	1,071,418	1	796,233	-
19300 Deferred income tax assets (note 6 (u))	165,541	-	162,668	-	Special Reserve	8,161	-	11,675	-
19500 Other assets	140,232	-	105,505	-	Undistributed earnings	759,059	-	924,107	1
					Other items in stockholders' equity	1,838,638	7	1,732,015	7
					Total equity	10,205	-	22,991	-
Total assets	\$ 165,048,194	100	159,619,867	100	Total liabilities and equity	10,843,057	7	10,291,053	7
						\$ 165,048,194	100	159,619,867	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

COTA COMMERCIAL BANK CO.,LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017

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

	2018		2017		Change
	Amount	%	Amount	%	%
41000 Interest income (note 6(y) and 7)	\$ 3,578,908	124	3,497,564	120	2
51000 Less: Interest expense (note 6(y) and 7)	1,003,973	35	991,327	34	1
Net sales revenue	2,574,935	89	2,506,237	86	3
49100 Service fees income, net (note6(z)and7)	248,819	8	246,797	8	1
49200 Gain on financial assets or liabilities measured at fair value through profit and loss (note6(c)and(aa))	(3,225)	-	35,581	1	(109)
49300 Realized Gains on Available-for-sale Financial Assets Abstract	-	-	(9,330)	-	(100)
49310 Gain from investments in equity instruments measured at fair value through other comprehensive income (note6(ab))	6,212	-	-	-	-
49450 Losses arising from derecognition of financial assets measured at amortized cost	(1)	-	-	-	-
49600 Foreign exchange gains (loss), net	45,412	2	(48,616)	(2)	(193)
49700 Impairment gain and reversal of Impairment Loss on Assets Abstract (note6(d), (e), (m)and(s))	(880)	-	162,574	6	(101)
49800 Other non-interest income, net (note6(ab))	21,917	1	27,675	1	(21)
Operating revenue, net	2,893,189	100	2,920,918	100	(1)
58200 Provisions for bad debt expenses and guarantee reserve (note6(g), (h), (k), (s) and(ae))	88,142	3	(93,114)	(3)	(195)
58500 Personnel expenses (note6(af)and(ag))	1,321,986	46	1,353,753	46	(2)
59000 Depreciation and amortization expenses (note6(ah))	51,340	2	49,452	2	4
59500 Other general and administrative expenses (note)	532,184	18	546,991	18	(3)
Total operating expenses	1,905,510	66	1,950,196	66	(2)
61001 Profit (loss) from continuing operations before tax	899,537	31	1,063,836	37	(15)
61003 Less : Income tax expenses (note6(u))	145,926	5	146,554	5	-
Profit (loss)	753,611	26	917,282	32	(18)
65000 Other comprehensive income:					
65200 Components of other comprehensive income that will not be reclassified to profit or loss					
65201 Actuarial gains and losses on Defined benefit plans	1,476	-	5,134	-	(71)
65202 Unrealized losses from investments in debt instruments measured at fair value through other comprehensive income	(16,380)	(1)	-	-	-
65205 Less: Income tax related to components of other comprehensive income	(295)	-	(873)	-	(66)
	(15,199)	(1)	4,261	-	(457)
65300 Other components of other comprehensive income that will not be reclassified to profit or loss (note6(r))					
65301 Exchange differences of overseas subsidiaries' financial reports translation	872	-	(222)	-	(493)
65302 Unrealized losses on available-for-sale financial instruments	-	-	31,313	1	(100)
65309 Unrealized losses from investments in debt instruments measured at fair value through other comprehensive income	(2,735)	-	-	-	-
	(1,863)	-	31,091	1	(106)
65000 Other comprehensive income	(17,062)	(1)	35,352	1	(148)
Total comprehensive income	\$ 736,549	25	952,634	33	(23)
Earnings per share (NT dollars) (note 6(x))					
Basic earnings per share	\$ 0.93		1.13		
Diluted earnings per share	\$ 0.93		1.13		

See accompanying notes to consolidated financial statements.

COTA COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the years ended December 31, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars)

	Share capital	Equity attributable to owners of parent					Total other equity interest			
		Retained earnings		Unrealized			Exchange differences on translation of foreign financial statements	gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) available-for-sale financial assets	Total other interest
Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings					
\$	6,370,695	898,234	599,011	-	657,410	1,256,421	5	-	(8,105)	8,517,250
Balance on January 1, 2017										
Appropriation and distribution of retained earnings:										

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

COTA COMMERCIAL BANK CO.,LTD. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the years ended December 31, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 899,537	1,063,836
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	48,628	45,841
Amortization expense	2,712	3,611
Provision (reversal of provision) for bad debt expense	82,642	(95,114)
Interest expense	1,003,973	991,327
Net loss arising from derecognition of financial assets measured at amortised cost	1	-
Interest income	(3,578,908)	(3,497,564)
Dividend income	(7,321)	(10,499)
Net change in provisions for guarantee liabilities	-	2,000
Net change in other provisions	5,500	-
Loss (gain) on disposal of property and equipment	(131)	1,886
Property and equipment transferred to expenses	880	-
Reversal of impairment gain on non-financial assets	-	(162,574)
Cost of employee stock option	-	11,713
Total adjustments to reconcile profit (loss)	(2,442,024)	(2,709,373)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in due from the central bank and call loans to banks	(447,122)	(145,896)
(Increase) decrease in financial assets at fair value through profit or loss	(651,328)	976,034
Increase in derivative financial assets for hedging	(3,645,060)	-
Decrease in current financial assets at amortized cost	697,829	-
Increase in securities purchased under resell agreements	(713,324)	(6,866,465)
Decrease in receivables	14,904	8,399
Increase in discounts and loans	(233,599)	(2,715,022)
Decrease in available-for-sale financial assets	-	2,670,615
Increase in held-to-maturity financial assets	-	(15,237,820)
Decrease in other financial assets	13	4,272
Increase in other assets	(29,732)	(8,743)
Total changes in operating assets	(5,007,419)	(21,314,626)
Changes in operating liabilities:		
(Decrease) increase in deposits from the central bank and banks	(13,367)	13,367
Increase (decrease) in financial liabilities at fair value through profit or loss	344	(475)
(Decrease) increase in payable	(22,155)	64,210
Increase in deposits and remittances	5,267,613	4,599,449
Decrease in provisions for employee benefits	(30,761)	(37,278)
Decrease in other liabilities	(14,321)	(2,696)
Total changes in operating liabilities	5,187,353	4,636,577
Total changes in operating assets and liabilities	179,934	(16,678,049)
Total adjustments	(2,262,090)	(19,387,422)
Cash outflow generated from operations	(1,362,553)	(18,323,586)
Interest received	3,557,031	3,506,296
Dividends received	6,212	10,499
Interest paid	(1,017,362)	(962,440)
Income taxes paid	(167,034)	(57,315)
Net Cash flows from (used in) operating activities	1,016,294	(15,826,546)
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(33,824)	(58,767)
Proceeds from disposal of property and equipment	530	777
Acquisition of intangible assets	(5,884)	(7,318)
Increase in other assets	(4,995)	(31,930)
Net cash flows from (used in) investing activities	(44,173)	(97,238)
Cash flows from (used in) financing activities:		
Proceeds from issuing bank notes payable	1,200,000	-
Repayments of bank notes payable	(1,500,000)	-
Proceeds from issuing shares	-	1,000,000
Payments to acquire treasury shares	612	554
Proceeds from sale of treasury shares	24	23
Treasury shares sold to employees	(190,638)	(191,121)
Net cash flows from (used in) financing activities	(490,002)	809,456
Effect of exchange rate changes on cash and cash equivalents	872	(222)
Net increase (decrease) in cash and cash equivalents	482,991	(15,114,550)
Cash and cash equivalents at beginning of period	4,994,850	20,109,400
Cash and cash equivalents at end of period	\$ 5,477,841	4,994,850
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 1,679,974	2,000,561
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	3,797,867	2,994,289
Cash and cash equivalents at end of period	\$ 5,477,841	4,994,850

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

COTA COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

(1) Company history

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

The Company is engaged in:

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

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

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

The Consolidated Financial Statements were authorized for issuance by the Board of Directors on March 27, 2019.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

(Continued)

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 "Presentation of Financial Statements", which requires impairment of debt investment at FVOCI and debt investment measured at amortized cost to be recognized in the impairment of assets, and impairment of loan commitment to be recognized in bad debt loss, commitment, guarantee, and provision. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: "Disclosures" that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies, as well as the nature and effect of the changes to the previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument, as a whole, is assessed for classification. For an explanation of how the Group classifies and measures its financial assets and accounts for related gains and losses under IFRS 9, please see note 4(f).

The adoption of IFRS 9 did not have any significant impact on the accounting policies on financial liabilities of the Group.

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, loan commitment, financial guarantee contract and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(f).

(Continued)

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, and therefore, is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held-for-trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, the Group shall assume that the credit risk on its asset will not increase significantly since its initial recognition.

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Amortized cost	2,000,561	Amortized cost	2,000,561
Due from Central Bank and call loans to bank	Amortized cost	7,508,632	Amortized cost	7,508,632
Financial assets measured at fair value through profit or loss	FVTPL	820,000	FVTPL	820,000
Securities purchased under resell agreements	Amortized cost	8,968,517	Amortized cost	8,968,517
Receivables, net	Amortized cost	385,124	Amortized cost	385,124
Discounts and Loans, net	Amortized cost (note 1)	114,538,216	Amortized cost	114,562,823
Available-for-sale financial assets, net	Investments in debt instruments measured at fair value through other comprehensive income (note 2)	3,736,500	Investments in debt instruments measured at fair value through other comprehensive income	3,736,500
Held-to-maturity financial assets, net	Amortized cost (note 3)	18,762,940	Amortized cost	18,762,290
Other financial assets, net	Cost (financial assets measured at cost) (note 3)	129,892	Investments in equity instruments measured at fair value through other comprehensive income	134,392
	Amortized cost (investments in debt instruments without active market) (note 3)	52,159	Amortized cost	52,159
	Amortized cost (delinquent receivables not arising from loans)	98	Amortized cost	98
Other assets, net	Amortized cost (Guarantee deposits paid)	63,198	Amortized cost	63,198

(Continued)

Note1: The allowance for impairment of financial assets was assessed based on the "incurred loss" model under IAS39. When the IFRS9 is applied, it is measured with the "expected credit loss" model. When applying the standard, the Group reallocates its allowance for impairment after assessment, resulting in a decrease of \$24,607 thousand in its allowance for bad debt and an increase of \$24,607 thousand in its retained earnings upon transition to IFRS9 on January 1, 2018.

Note2: The debt securities categorized as available-for-sale under IAS 39 are held by the Group's treasury unit in a portfolio to acquire interest income, however, they may be sold to meet liquidity requirements arising from the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The debt securities mature in one to two years and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9. An allowance for impairment of \$957 thousand was recognized in opening retained earnings on transition to IFRS 9 on January 1, 2018.

Note3: Debt securities that were previously classified as held-to-maturity and bond investment without an active market are now classified at amortized cost. The Group intends to hold its assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. An increase of \$650 thousand in the allowance for impairment was recognized in opening retained earnings on January 1, 2018 upon transition to IFRS 9.

Note4: These equity securities (including financial assets measured at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI, resulting in an increase of \$4,500 thousand in those assets recognized as other equity.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	<u>2017.12.31</u>			<u>2018.1.1</u>	<u>2018.1.1</u>	<u>2018.1.1</u>
	<u>IAS 39</u>	<u>Reclassi</u>	<u>Remeasure</u>	<u>IFRS 9</u>	<u>Retained</u>	<u>Other</u>
	<u>Carrying</u>	<u>fications</u>	<u>ments</u>	<u>Carrying</u>	<u>earnings</u>	<u>equity</u>
	<u>Amount</u>			<u>Amount</u>		
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	<u>\$ 820,000</u>	<u>-</u>	<u>-</u>	<u>820,000</u>	<u>-</u>	<u>-</u>
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	<u>\$ 3,866,392</u>	<u>-</u>	<u>4,500</u>	<u>3,870,892</u>	<u>(957)</u>	<u>5,457</u>
Amortized cost						
Beginning balance of cash and cash equivalents (IAS39)	\$ 2,000,561	-	-		-	-
Due from Central Bank and call loans to bank (IAS 39)	7,508,632	-	-		-	-
Securities purchased under resell agreements (IAS 39)	8,968,517	-	-		-	-
Receivables, net	385,124	-	-		-	-
Discounts and Loans, net (IAS 39)	114,538,216	-	-		-	-
Held-to-maturity financial assets, net (IAS 39)	18,762,940	-	-		-	-
Other financial assets(including investments in debt instruments without active market and overdue loans of non-loans transferred) (IAS 39)	52,257	-	-		-	-
Other assets (guarantee deposit paid) (IAS 39)	63,198	-	-		-	-
Adjustments for allowance of impairment for financial assets measured at amortized cost	<u>-</u>	<u>-</u>	<u>23,957</u>		<u>23,957</u>	<u>-</u>
Total	<u>\$ 152,279,445</u>	<u>-</u>	<u>23,957</u>	<u>152,303,402</u>	<u>23,957</u>	<u>-</u>

(Continued)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	Allowance for impairment loss balance (IAS 39) and refer (IFRS 9)	Reclassi- fications	Remeasure- ments	Allowance for impairment loss balance (IFRS 9)
Loans and receivables (IAS 39) and financial assets at amortized cost (IFRS 9)				
Receivables	\$ 8,024	-	-	8,024
Discounts and Loans	599,226	-	-	599,226
Replenish impairment in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal	1,292,750	-	(24,607)	1,268,143
Subtotal	1,900,000	-	(24,607)	1,875,393
Available-for-sale financial assets (IAS 39) and financial assets fair value through other comprehensive income (IFRS 9)				
Available-for-sale financial assets	-	-	957	957
Held-to-maturity (IAS 39) and financial assets at amortized cost (IFRS 9)				
Held-to-maturity financial assets	-	-	650	650
Investments in debt instruments without active market (IAS 39) and financial assets at amortized cost (IFRS 9)				
Investments in debt instruments without active market	7,537	-	-	7,537
Financial promise and Provision for guarantees Financial promise and Provision for guarantees				
Loans (Financial promise)	-	-	22,500	22,500
Credit card (Financial promise)	-	-	500	500
Replenish impairment in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal	39,502	-	-	39,502
Subtotal	39,502	-	23,000	62,502
Total	\$ 1,947,039	-	-	1,947,039

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

The following new standard, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

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

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

(Continued)

(i) IFRS 16 "Leases"

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

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its branches, official vehicles, and ATM locations. The Group estimated that the right-of-use assets and the lease liabilities to increase by 146,498 thousand and 146,498 thousand respectively, as well as the retained earnings to decrease by 0 on January 1, 2019. No significant impact is expected for the Group's finance leases.

(Continued)

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

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

(4) Summary of significant accounting policies:

Significant accounting policies which consistently adopted by the company and its subsidiaries in accounting period of consolidated financial statements are summarized as below.

(a) Assertion of compliance

The consolidated financial reports were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks (hereinafter referred to the Regulations).

(b) Basis of Compilation

(i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the financial statements:

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments);
- 2) Fair value through other comprehensive income is measured at fair value;
- 3) Available-for-sale financial assets are measured at fair value (policy applicable before January 1, 2018);
- 4) Defined Benefit liabilities are recognized at the present value of defined benefit obligation, plus (minus), fair value of pension plan liabilities (assets), unrecognized actuarial losses (gains), and unrecognized service cost.

(ii) Functional currency

The functional currency of the Bank is the currency of the primary economic environment in which it operates. The consolidated financial reports are presented in New Taiwan Dollars, the functional currency of the Company. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(Continued)

Intra-group balances, and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The financial statements of subsidiaries have been adjusted to conformity of consistency in accounting policies.

(ii) Subsidiaries included in the consolidated financial reports

Name of investor company	Name of Subsidiary	Principal activity	Shareholding	
			December 31, 2018	December 31, 2017
COTA Commercial Bank Co., Ltd	COTA Bank Insurance Brokers Co., Ltd	Property and personal insurance broker	- %	- %

COTA Bank Insurance Brokers Co., Ltd had been consolidated with COTA Commercial Bank Co., Ltd on May 1, 2017 and had been registered and approved by the government authorities.

(d) Foreign Currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date when fair value was determined. Nonmonetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss except for difference relating to available-for-sale equity investment, which are recognized in other comprehensive income

(ii) Foreign operations

Regarding offshore banking unit (OBU), the assets and liabilities reported in functional currencies are translated into New Taiwan dollars at the exchange rates on reporting date; the income and expenses, excluding in hyperinflationary economic situation, are translated into New Taiwan dollars at the rate of exchange prevailing on the date of the transaction date. Exchange differences are recognized as other comprehensive income.

When the settlement of monetary receivables/payables to OBU is neither planned nor likely to happen in the foreseeable future, gains and losses arising from currency exchange are valued as part of net investment and are recognized as other comprehensive income.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, checks for clearance, checking and demand deposits due from other banks, money deposited in other financial institutions without designated purposes or with unrestricted access and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents reported in the statement of cash flows are assets that reported in the statement of financial positions, due from central bank, call loans to bank following the definition of cash and cash equivalents under IAS 7 as accepted by FSC, and securities purchased under resell agreements.

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

(Continued)

(f) Financial instruments

(i) Financial assets (policy applicable commencing January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

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

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

A. Financial assets measured at amortized cost

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

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

B. Securities purchased under resell agreements

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

C. Loans and receivables

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

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

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

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

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

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

Outstanding balances of overdue loans' unrecoverable parts are written-off under approval of board of directors.

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2) Fair value through other comprehensive income (FVOCI)

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

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

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

A financial asset measured at FVOCI is initially recognized at fair value, plus, any directly attributable transaction costs. These assets are subsequently measured at fair value. Changes in carrying value of the financial assets are recognized in OCI and accumulated in the line of "unrealized gains and losses for financial assets at FVOCI" under equity, except for foreign exchange gains and losses for debt investment, interest income and impairment loss calculated using the effective interest method, as well as dividend revenue from equity securities, which are recognized in profit and loss. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using the settlement date accounting. Dividend income derived from equity investments is recognized on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the exdividend date.

3) Fair value through profit or loss (FVTPL)

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

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account (any dividend and interest income), are recognized in profit or loss.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on its financial assets measured at amortized cost, debt investments measured at FVOCI, accounts receivable measured at FVOCI, loan commitment and financial guarantee contract.

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

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

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

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

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

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

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

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

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

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

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

In addition to the above assessment, the ending balance of the allowance for bad debts and the guarantee liability provision on all credit assets, on and off the balance sheets, are in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Nonaccrual Loans, with consideration given to the status of loan collateral and the length of time overdue. The Group classifies its credit assets into normal credit assets, assets that require special mention, assets that are substandard, assets that are doubtful, and assets for which there is a loss, with allowances for doubtful debt for each category of 1%, 2%, 10%, 50% and 100%, respectively. The allowance for doubtful debt on credit card receivables is in accordance with the "Regulations Governing Institutions Engaging in Credit Card Business". The abovementioned regulations are the minimum standards on allowance for bad debts for credit assets, on and off the balance sheets.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Company recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

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On derecognition of a financial asset other than in its entirety, the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate fluctuation exposures. At initial recognition, derivatives are recognized at fair value; and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein, are recognized in profit or loss. When a derivative is designated as a hedging instrument, the timing for recognizing gain or loss is determined on the nature of the hedge. When the fair value of a derivative instrument is positive, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(g) Financial instruments (Policy applicable before January 1, 2018)

Financial assets and financial liabilities are initially recognized when the Group become a party to the contractual provisions of the instruments.

(i) Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), available-for-sale financial assets, held-to-maturity financial assets, loans and receivables, financial assets carried at costs, and investment in debt securities without active market.

1) Financial assets measured at FVTPL

A financial asset is classified in this category if it is held-for-trading or is designated as financial assets at FVTPL. Financial assets held-for-trading are acquired principally for the purpose of selling or repurchasing in the short term.

The Group designates investment in fair value as financial assets measured at FVTPL.

At initial recognition, financial assets of this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent valuation is measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, trade date accounting is used.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on monetary financial instruments are recognized in other comprehensive income and unrealized gains (losses) on available-for-sale financial assets in equity. When an available-for-sale investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, under other income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, trade date accounting is used.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost less any impairment loss, and are included in financial assets measured at cost.

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Dividend income is recognized in profit or loss on the date when the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in other comprehensive income.

3) Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Interest income is included in statement of comprehensive income account.

4) Financial assets carried at cost

Equity instruments with no quote market price and whose fair value cannot be reliably measured are stated at cost. If there is objective evidence that financial assets carried at cost are impaired, the carrying amount of the assets is reduced, and impairment loss is recognized. However, the impairment losses may not be reversed subsequently.

5) Loans and receivables

Loans and receivables are financial assets that have no quoted market price with fixed or determinable payment, including receivables, other receivables and debts investment without active market. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables.

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

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

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

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

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

Outstanding balances of overdue loans' unrecoverable parts are written-off under approval of board of directors.

6) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that

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correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

A. Available-for-sale financial assets

When impairment loss of available-for-sale financial assets are recognized, the accumulated gains and losses exist in other comprehensive income are reclassified to profit or loss. Impairment losses of available-for-sale equity security cannot be reversed through profit or loss. Any subsequent recovery in fair value from impairment is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss.

B. Held-to-maturity financial assets

Impairment loss in respect of financial assets measured at amortized cost is the difference between its carrying amount and present value of the estimated future cash flows discounted at the asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

C. Loans and receivables

The ending balance of the allowance for bad debts and the guarantee liability provision on all credit assets on and off the balance sheets is in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, with consideration given to the status of loan collateral and the length of time overdue. The Group of balance classifies credit assets into normal credit assets, assets that require special mention, assets that are substandard, assets that are doubtful, and assets for which there is a loss. The allowance for doubtful debt for each category of credit assets is 1%, 2%, 10%, 50% and 100%, respectively. The allowance for doubtful debt on credit card receivables is in accordance with the "Regulations Governing Institutions Engaging in Credit Card Business". The abovementioned regulations are the minimum standards on allowance for bad debts for credit assets on and off the balance sheets.

For loans and receivables, the objective evidence should be identified first to reveal any impairment existing for financial assets that are individually significant, and individual or collective impairment for financial assets that are individually insignificant. If no objective evidence of impairment exists in an individually assessed financial asset, it should be included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. For assets with recognized impairment losses already, the aforementioned assessment method is not required. For loans and receivables with objective evidence of impairment but without incurred impairment loss, they are not required to be included in portfolio of similar credit risk characteristics for collective assessment after considering all significant risks exists in the current situation.

If there any objective evidence that an impairment loss on financial assets has incurred, the amount of the loss is shows the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate; the amount of the loss shall be recognized in profit or loss in the current period. The estimation of future cash flows includes the recoverable amount of collateral and related insurance when determining the amount of the loss.

The aforesaid objective evidence includes:

- (A) Significant financial difficulty of the issuer or obligor;
- (B) A breach of contract, such as a default or delinquency in interest or principal payments;

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- (C) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (D) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (E) The disappearance of an active market for that financial asset because of the issuer's financial difficulties;
- (F) Adverse changes in the payment status of the borrower; and
- (G) Changes in national or local economic conditions that correlate with defaults on the assets.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. While the allowance, which is written off, is collected, the allowance account should be credited. Changes in the amount of the allowance account are recognized in profit or loss.

D. Financial assets carried at costs

An impairment loss in respect of a financial asset measured at amortized cost is the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Such impairment loss is not reversible in subsequent periods.

7) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the group transfers substantially the ownership of all risks rewards of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available for sale financial assets is recognized as profit or loss under "other gains and losses, net".

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Bank are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

2) Financial liabilities measured at FVTPL

Financial liabilities are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in a short term.

Attributable transaction costs are recognized in profit or loss as incurred; Subsequent changes in value, including interest expense, are measured at FVTPL through profit or loss.

3) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capitalized cost is recognized in profit or loss, and included in operating costs.

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4) Derecognition of a financial liability

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

5) Offsetting of financial assets and liabilities

The Group presents its financial assets and liabilities on a net basis when the Group has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate fluctuation exposures. At initial recognition, derivatives are recognized at fair value; and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein, are recognized in profit or loss. When a derivative is designated as a hedging instrument, the timing for recognizing gain or loss is determined on the nature of the hedge. When the fair value of a derivative instrument is positive, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(h) Investment property

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

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its book value at the date of reclassification becomes its cost for subsequent accounting.

(i) Property, plant, and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately unless the useful life and depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses of profit or loss.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

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

(Continued)

property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

Leased assets are depreciated by using the straight line method during the period of expected use, consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings : 5 years ~ 80 years
- 2) Operating equipment : 1 year ~ 20 years
- 3) Transportation equipment : 6 years ~ 12 years
- 4) Miscellaneous equipment : 3 year ~ 50 years
- 5) The significant portion of buildings and their useful life are as follow :

Item	useful life
Buildings	
Main building	60 years ~ 80 years
Premises Renovation	8 years

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as changes in an accounting estimate.

(iv) Reclassification to investment property

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

(j) Lease

(i) Lessor

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

(ii) Lessee

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

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

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

(Continued)

(k) Intangible assets**(i) Computer software**

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

Its amortization method, useful life and residual value are referred to the regulation of properties and equipment. If the property is change, the change is accounted for as a change in an accounting estimate.

(ii) Goodwill

Goodwill derives from enterprise acquisition is included in intangible assets.

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

(l) Impairment of non-financial assets

The carrying amounts of the Group non-financial assets, other than assets arising from deferred tax assets and assets arising from employee benefits, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The excess of carrying amount of the asset over its recoverable amount is recognized as an impairment loss which is charged to profit or loss.

An assessment is made at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been an improvement in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

If the carrying amount of each of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of each asset in the unit.

Reversal of an impairment loss for goodwill is prohibited.

(m) Provisions

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

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(n) Financial guarantee contract

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

(o) Revenue recognition

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

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

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

(p) Employee benefits

(i) Short-term employee benefit

Short-term employee benefit obligations are measured on an undiscounted basis and expensed as the related services are provided.

A liability is recognized at expected amount of short-term cash bonus or profit-sharing plans if present legal or constructive obligations resulted from past service provided by the employee can be estimated reliably.

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

1) Defined contribution plans

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

2) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, based on the discounted present value of the said defined benefit obligation. Any unrecognized past service costs and the fair value of any plan assets are deducted for purposes of determining the Group's net defined benefit obligation. The discount rate used in calculating the present value is the market yield at the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. If the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in

(Continued)

future contributions to the plan. In calculating the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

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

Remeasurements of a net defined benefit liability (asset), which comprise (1) actuarial gains and losses; (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period. The Group recognizes remeasurements of defined benefits plan in retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment or settlement arises from any change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Deposits with favorable rate

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

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

(q) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee salary expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards, the grant-date fair value of the share-based payment considers such non-vesting conditions and there is no true-up for differences between expected and actual outcomes.

(r) Income taxes

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

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

(Continued)

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

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) Levied by the same taxing authority; or
 - 2) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary difference can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences are also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

Effectuated amounts of tax directly recognized in other comprehensive income are measured by temporary difference between the book value of related asset and liability and its taxing base multiplied with tax rate that is expected to apply to the period when the asset is realized and the liability is settled.

The surtax on inappropriate earnings of 10% is expensed in the year of shareholder approval.

Reserve for land revaluation increment tax which is generated from land re-evaluated in accordance with reference law and regulations is taxable temporary difference and is recognized as deferred tax liability.

(s) Earnings per share (EPS)

The Group discloses the Group's basic and diluted earnings per share attributable to ordinary equity holders of the Group. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Group divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

(t) Operating segment information

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete. Each operating segment consists of standalone financial information.

(Continued)

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

The preparation of the consolidated interim financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

(a) Impairment loss on loans and receivables

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

(b) Impairment of goodwill

The assessment of impairment of goodwill requires the Group to make subjective judgments to identify cash-generating units, allocate the goodwill to relevant cash-generating units, and estimate the recoverable amount of relevant cash-generating units. Refer to note 6(n) for further description of the impairment of goodwill.

(c) Measurement of defined benefit obligations

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

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

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

(Continued)

(6) Explanation of significant accounts:

(a) Cash and Cash Equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash	\$ 1,328,485	1,468,709
Checks on hand for clearance	164,917	166,140
Deposits from other banks	186,572	365,712
	<u>\$ 1,679,974</u>	<u>2,000,561</u>

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents in the statement of financial position	\$ 1,679,974	2,000,561
Due from Central Bank and call loans to bank following the definition of cash and cash equivalents under IAS 7 as accepted by FSC	3,797,867	2,994,289
Cash and cash equivalents reported in the Statement of Cash Flows	<u>\$ 5,477,841</u>	<u>4,994,850</u>

(b) Due from the Central Bank and Call Loans to Banks

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Deposit reserve - checking accounts	\$ 2,486,732	1,811,565
Deposit reserve - demand accounts	4,377,728	4,098,736
Deposit reserve - foreign currency deposits	4,302	4,179
Call loans to banks	1,311,135	1,182,724
Deposits with Financial Information Service Co., Ltd.	579,435	411,428
	<u>\$ 8,759,332</u>	<u>7,508,632</u>

The reserves for deposits are calculated at prescribed rates, using the average monthly balances of various deposit accounts, and are appropriated and deposited in the reserve account of the Central Bank of the Republic of China (Taiwan). Deposits in "Required reserve - Account A" are interest free and can be withdrawn at any time; deposits in "Required reserve - Account B" are interest bearing and cannot be withdrawn except for the monthly adjustment to the required reserve permitted by relevant regulations.

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Call loans to banks	\$ 1,311,135	1,182,724
Required reserve—Account A	2,486,732	1,811,565
	<u>\$ 3,797,867</u>	<u>2,994,289</u>

(Continued)

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial assets		
Securities of listed companies	\$ 34,314	
Beneficiary certificates	57,866	
Derivatives	767,075	
Convertible bonds	609,669	
Derivatives	2,404	
Sub-total	<u>\$ 1,471,328</u>	
Financial assets held for trading		
Securities of listed companies		36,572
Beneficiary certificates		40,000
Convertible bonds		4,500
Derivatives		6,392
Sub-total		<u>87,464</u>
Designated as measured at fair value through profit or loss		
Convertible bonds		732,536
		<u>820,000</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial liabilities held for trading		
Derivatives	\$ 360	16

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

The nominal amount information of outstanding derivative contracts as of December 31, 2018 and 2017 was as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Derivative contracts	<u>\$ 1,056,354</u>	<u>900,388</u>

The net gains (losses) on financial assets measured at fair value through profit or loss for the years ended December 31, 2018 and 2017, were \$(2,881) thousands and \$35,106 thousands, respectively. The net gains (losses) on financial assets measured at fair value through profit or loss for the years ended December 31, 2018 and 2017 were \$(344) thousands and \$475 thousands, respectively.

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

	<u>December 31, 2018</u>
Debt investments at fair value through other comprehensive income:	
Corporate bonds	\$ 7,392,785
Equity investments at fair value through other comprehensive income:	
Domestic unlisted stock	103,012
Total	<u>\$ 7,495,797</u>

(Continued)

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

The Group has assessed that the following securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and by selling securities; therefore, they have been classified as debt investments at fair value through other comprehensive income on January 1, 2018. These investments were classified as available-for-sale financial assets on December 31, 2017. Please refer to note 6(i).

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

On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term strategic purposes. These investments were classified as financial assets measured at cost on December 31, 2017. Please refer to note 6(k).

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

No strategic investments were disposed as of December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

(iv) The financial assets of the Company above had been pledged as collateral.

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

	2018
Balance on January 1, 2018 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	957
Balance on January 1, 2018 per IFRS 9	957
Recognized during the period	1,040
Balance on December 31, 2018	\$ 1,997

(e) Financial assets measured at amortized cost

	December 31, 2018
Government bonds	\$ 1,008,793
Corporate bonds	1,811,640
Negotiable Certificate of Deposits	15,000,000
Financial bonds	303,596
Deposits from other banks	1,000
Subtotal	18,125,029
Less: the allowance for impairment loss	(8,250)
Total	\$ 18,116,779

(i) The Group has assessed that these financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost on January 1, 2018.

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

(iii) Government bond of \$221,300 thousands was placed as deposits in courts as of December 31, 2018. Government bonds provided and deposited as trust compensation reserve as of December 31, 2018 amounted to \$50,000 thousands.

(Continued)

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

	2018
Balance on January 1, 2018 per IAS 39	\$ 7,537
Adjustment on initial application of IFRS 9	650
Balance on January 1, 2018 per IFRS 9	8,187
Reversal during the period	(160)
Effect of Exchange Rate Changes	223
Balance on December 31, 2018	<u>\$ 8,250</u>

(f) Securities purchased under resell agreements

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

December 31, 2018				
Item	Bond Book value	Resell agreement	Resell Price	Resell Price
Reverse sell agreement				
Commercial papers	\$ 8,443,100	8,429,755	8,431,324	Resell gradually before 2019.01.09
Corporate bonds	1,053,000	1,053,251	1,053,406	Resell gradually before 2019.01.08
Government bonds	197,800	198,835	198,868	Resell gradually before 2019.01.07
	<u>\$ 9,693,900</u>	<u>9,681,841</u>	<u>9,683,598</u>	

December 31, 2017				
Item	Bond Book value	Resell agreement	Resell Price	Resell Price
Reverse sell agreement				
Commercial papers	\$ 7,768,300	7,758,004	7,758,611	Resell gradually before 2018.01.12
Corporate bonds	1,147,300	1,150,483	1,150,586	Resell gradually before 2018.01.08
Government bonds	55,000	60,030	60,035	Resell gradually before 2018.01.05
	<u>\$ 8,970,600</u>	<u>8,968,517</u>	<u>8,969,232</u>	

(g) Receivables, net

	December 31, 2018	December 31, 2017
Credit card accounts receivable	\$ 149,213	149,212
Interest receivable	243,197	221,320
Accrued income	8,610	8,699
Guarantee payments Receivable	8,663	8,747
Others	28,726	38,433
Sub-total	438,409	426,411
Less: allowance for doubtful accounts	(45,573)	(41,287)
	<u>\$ 392,836</u>	<u>385,124</u>

(Continued)

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

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

These included the delinquent receivables not arising from loans of \$35 thousands. For the movement in the allowance for receivables for the year ended December 31, 2017, please refer to note (6)(h).

(h) Discounts and loans - net

	December 31, 2018	December 31, 2017
Exchanges and export bills negotiated	\$ -	11,119
Overdrafts	38,999	66,485
Short-term loans	12,863,499	15,095,647
Medium-term loans	72,804,134	70,032,972
Long-term loans	30,589,954	31,296,993
Overdue loans	401,757	157,876
Sub-total	116,698,343	116,661,092
Less: allowance for loan losses	(1,715,676)	(1,858,664)
discount	(268,517)	(264,212)
	<u>\$ 114,714,150</u>	<u>114,538,216</u>

(Continued)

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

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

The change in allowance for loan losses for the years ended December 31, 2017 was as follows:

	2017
Beginning balance	2,003,225
Provision	(95,114)
Recovery of written-off credits	288,081
Write-offs	(295,721)
Effects of exchange rate changes	(471)
Ending balance	<u>1,900,000</u>

(i) Available-for-sale financial assets - net

	December 31, 2017
Corporate bonds	<u>\$ 3,736,500</u>

(i) These investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018; please refer to note 6(d).

(ii) As of December 31, 2018, the available-for-sale financial assets of the Group no was pledged as collateral;

(Continued)

(j) Held-to-Maturity Financial Assets

	December 31, 2017
Government bonds	1,015,946
Corporate bonds	2,617,443
Negotiable certificates of deposit	15,000,000
Financial debentures	128,551
Time deposits due from banks	1,000
	18,762,940

These investments were classified as financial assets measured at amortized cost on December 31, 2018; please refer to note 6(e).

Government bonds placed as deposits in courts as of December 31, 2017 were \$145,900 thousands. Government bonds provided and deposited as trust compensation reserve as of December 31, 2017 were \$50,000 thousands.

(k) Other Financial Assets-net

	December 31, 2018	December 31, 2017
Overdue receivables	\$ 71	98
Less: allowance for bad debts	(35)	(49)
Net	36	49
Financial assets carried at cost		129,892
Debts investment without active market		52,159
	\$ 36	182,100

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

(i) Financial assets carried at cost:

	December 31, 2017	
	Book Value	Ownership %
Taiwan Asset Management Corp.	75,000	0.57
Taiwan Financial Asset Service Corp.	50,000	2.94
Taiwan Depository & Clearing Corporation	4,639	0.08
Sunny Asset Management Corporation	253	0.42
	129,892	

The aforementioned investments held by the Group were measured at amortized cost as of December 31, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably. These investments were classified as financial assets at fair value through other comprehensive income or at fair value through profit or loss on December 31, 2018. Please refer to note 6(d).

(Continued)

(ii) Debts investment without active market

	<u>December 31, 2017</u>
Auction Rate Security	59,696
Less: accumulated impairment	<u>(7,537)</u>
	<u>52,159</u>

The investments were classified as financial assets measured at amortized cost, please refer to note 6(e).

(I) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Operating equipment</u>	<u>Transportation equipment</u>	<u>Miscellaneous equipment</u>	<u>Leasehold improvements</u>	<u>Work-in process</u>	<u>Total</u>
Cost								
Balance at January 1, 2018	\$ 828,818	636,693	133,201	34,347	206,867	95,831	-	1,935,757
Additions	-	-	18,963	2,535	12,216	110	-	33,824
Disposals	-	-	(2,793)	(1,702)	(8,640)	-	-	(13,135)
Reclassification	(12,989)	(3,476)	-	-	-	-	-	(16,465)
Balance at December 31, 2018	<u>\$ 815,829</u>	<u>633,217</u>	<u>149,371</u>	<u>35,180</u>	<u>210,443</u>	<u>95,941</u>	<u>-</u>	<u>1,939,981</u>
Balance at January 1, 2017	\$ 828,818	601,349	127,036	34,834	197,515	87,639	7,550	1,884,741
Additions	-	244	12,829	1,390	8,414	8,340	27,550	58,767
Disposals	-	-	(11,053)	(1,877)	(682)	(148)	-	(13,760)
Reclassification	-	35,100	4,389	-	1,620	-	(35,100)	6,009
Balance at December 31, 2017	<u>\$ 828,818</u>	<u>636,693</u>	<u>133,201</u>	<u>34,347</u>	<u>206,867</u>	<u>95,831</u>	<u>-</u>	<u>1,935,757</u>
Depreciation and impairment losses:								
Balance at January 1, 2018	\$ -	(275,860)	(90,037)	(15,005)	(167,542)	(48,062)	-	(596,506)
Depreciation for the period	-	(12,182)	(13,450)	(3,583)	(8,926)	(9,395)	-	(47,536)
Disposals	-	-	2,684	1,412	8,640	-	-	12,736
Reclassification	-	2,805	-	-	-	-	-	2,805
Balance at December 31, 2018	<u>\$ -</u>	<u>(285,237)</u>	<u>(100,803)</u>	<u>(17,176)</u>	<u>(167,828)</u>	<u>(57,457)</u>	<u>-</u>	<u>(628,501)</u>
Balance at January 1, 2017	\$ -	-	-	-	-	-	-	-
Depreciation for the period	-	(265,221)	(85,938)	(12,686)	(160,026)	(38,924)	-	(562,795)
	-	(10,639)	(13,134)	(3,551)	(8,198)	(9,286)	-	(44,808)
Disposals	-	-	9,035	1,232	682	148	-	11,097
Balance at December 31, 2017	<u>\$ -</u>	<u>(275,860)</u>	<u>(90,037)</u>	<u>(15,005)</u>	<u>(167,542)</u>	<u>(48,062)</u>	<u>-</u>	<u>(596,506)</u>
Carrying amounts:								
Balance at December 31, 2018	<u>\$ 815,829</u>	<u>347,980</u>	<u>48,568</u>	<u>18,004</u>	<u>42,615</u>	<u>38,484</u>	<u>-</u>	<u>1,311,480</u>
Balance at January 1, 2017	<u>\$ 828,818</u>	<u>336,128</u>	<u>41,098</u>	<u>22,148</u>	<u>37,489</u>	<u>48,715</u>	<u>7,550</u>	<u>1,321,946</u>
Balance at December 31, 2017	<u>\$ 828,818</u>	<u>360,833</u>	<u>43,164</u>	<u>19,342</u>	<u>39,325</u>	<u>47,769</u>	<u>-</u>	<u>1,339,251</u>

No premise or equipment was pledged as collateral.

(Continued)

(m) Investment Property-net

	Land	Buildings	Total
Cost:			
Balance at January 1, 2018	\$ 1,093,531	62,005	1,155,536
Reclassify from PPE	12,989	3,476	16,465
Balance at December 31, 2018	<u>\$ 1,106,520</u>	<u>65,481</u>	<u>1,172,001</u>
Balance at December 31, 2017 (Balance at January 1, 2017)	<u>\$ 1,093,531</u>	<u>62,005</u>	<u>1,155,536</u>
Depreciation and impairment losses:			
Balance at January 1, 2018	\$ (131,095)	(32,708)	(163,803)
Depreciation for the period	-	(1,092)	(1,092)
Reclassify from PPE	-	(2,805)	(2,805)
Balance at December 31, 2018	<u>\$ (131,095)</u>	<u>(36,605)</u>	<u>(167,700)</u>
Balance at January 1, 2017	\$ (293,669)	(31,675)	(325,344)
Depreciation for the period	-	(1,033)	(1,033)
Gain on reversal of impairment Loss	162,574	-	162,574
Balance at December 31, 2017	<u>\$ (131,095)</u>	<u>(32,708)</u>	<u>(163,803)</u>
Carrying amounts:			
Balance at December 31, 2018	<u>\$ 975,425</u>	<u>28,876</u>	<u>1,004,301</u>
Balance at January 1, 2017	<u>\$ 799,862</u>	<u>30,330</u>	<u>830,192</u>
Balance at December 31, 2017	<u>\$ 962,436</u>	<u>29,297</u>	<u>991,733</u>

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

The fair value of investment property (as disclosed in the financial statements) is based on a valuation by an internal or independent external value which holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The fair value of investment property as of December 31, 2018 and 2017 are \$1,226,485 thousands and \$1,187,389 thousands, respectively.

Based on the results of the Group's assessment, a \$162,574 thousands reversal gain of impairment loss on investment property is recognized for the year ended December 31, 2017.

Related rent revenue and direct operating expenses are as below:

	2018	2017
Rent revenue	<u>\$ 20,235</u>	<u>20,046</u>
Direct operating expenses	<u>\$ 1,092</u>	<u>1,033</u>

No investment property was pledged as collateral.

(n) Intangible assets

The costs of intangible assets, amortization, and the impairment loss of the Group as of and for the years ended December 31, 2018 and 2017, were as follows:

(Continued)

Cost:

	Goodwill	Software	Total
Balance at January 1, 2018	154,027	22,851	176,878
Additions	-	5,884	5,884
Decreases	-	(7,751)	(7,751)
Balance at December 31, 2018	<u>\$ 154,027</u>	<u>20,984</u>	<u>175,011</u>
Balance at January 1, 2017	<u>\$ 154,027</u>	<u>19,449</u>	<u>173,476</u>
Additions	-	7,318	7,318
Decreases	-	(3,916)	(3,916)
Balance at December 31, 2017	<u><u>\$ 154,027</u></u>	<u><u>22,851</u></u>	<u><u>176,878</u></u>

Amortization:

Balance at January 1, 2018	51,738	13,745	65,483
Amortization for the period	-	2,712	2,712
Decreases	-	(7,751)	(7,751)
Balance at December 31, 2018	<u>\$ 51,738</u>	<u>8,706</u>	<u>60,444</u>

	Goodwill	Software	Total
Balance at January 1, 2017	<u>\$ 51,738</u>	<u>14,050</u>	<u>65,788</u>
Amortization for the period	-	3,611	3,611
Decreases	-	(3,916)	(3,916)
Balance at December 31, 2017	<u><u>\$ 51,738</u></u>	<u><u>13,745</u></u>	<u><u>65,483</u></u>

Carrying amounts:

Balance at December 31, 2018	<u>\$ 102,289</u>	<u>12,278</u>	<u>114,567</u>
Balance at January 1, 2017	<u>\$ 102,289</u>	<u>5,399</u>	<u>107,688</u>
Balance at December 31, 2017	<u><u>\$ 102,289</u></u>	<u><u>9,106</u></u>	<u><u>111,395</u></u>

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

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

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

No intangible assets were pledged as collateral.

(o) Due to the Central Bank and Other Banks

	December 31, 2018	December 31, 2017
Postal deposits accepted	<u>\$ 64,470</u>	<u>64,470</u>
Call Loans to Banks	<u>-</u>	<u>13,367</u>
	<u><u>\$ 64,470</u></u>	<u><u>77,837</u></u>

(Continued)

(p) Payables

	December 31, 2018	December 31, 2017
Interest payable	\$ 141,505	154,894
Tax payable	32,414	31,951
Collections payable	39,554	41,165
Accrued expenses	353,600	368,856
Checks awaiting clearance	164,917	166,140
Others	58,213	62,741
	\$ 790,203	825,747

(q) Deposits and Remittances

	December 31, 2018	December 31, 2017
Checking accounts	\$ 2,117,753	2,100,611
Cashiers' checks	209,847	217,374
Certified Cashier's Checks	-	335
Demand deposits	21,345,928	19,318,540
Time deposits	31,945,912	30,806,320
Demand savings deposits	39,077,792	37,773,158
Term savings deposits	54,905,862	54,112,207
Inward Remittance	9	6,945
	\$ 149,603,103	144,335,490

(r) Subordinate Financial Debentures

	December 31, 2018	December 31, 2017
Subordinate financial debentures	\$ 3,000,000	3,300,000

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

The details were as follows:

- 1) Issue price: At face value.
- 2) Issue period: From December 12, 2018 to December 12, 2025.
- 3) Interest rate: For 100-1A, 1.95%.
- 4) Interest accrual: Annually accrued and paid since the issued date.
- 5) Repayment of principal: Outright repayment of principal at maturity.

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

The details were as follows:

- 1) Issue price: At face value.
- 2) Issue period: From June 21, 2018 to Null.

(Continued)

- 3) Interest rate: For 100-1A, 3.2%, based on the Group's term deposits regular rate plus 1.65%.
- 4) Interest accrual: Annually accrued and paid since the issued date.
- 5) Repayment of principal: After the expiration of 5 years after the issuance of this bond, if the ratio of the Bank's own capital to the risky assets after the redemption is calculated meets the minimum ratio requirements set by the competent authority, the Bank may redeem it with the consent of the competent authority; Announcement on the 30th day of the redemption date, the interest payable plus the denomination, and all redemption.
- (iii) In order to increase the capital adequacy and raise medium-term and long-term operating funds, the board of directors of the Group resolved to issue subordinate financial debentures in a total amount of \$1,800,000 thousands on June 23, 2016, which was approved by the regulation authorities on September 5, 2016. The Group issued these debentures on November 16, 2016, and the subscription was completed during the year.

The details were as follows:

- 1) Issue price: At face value.
 - 2) Issue period: From November 16, 2016 to November 16, 2023.
 - 3) Interest rate: For 100-1A, 2.1%.
 - 4) Interest accrual: Annually accrued and paid since the issued date.
 - 5) Repayment of principal: Outright repayment of principal at maturity.
- (iv) In order to increase the capital adequacy and raise medium-term and long-term operating funds, the board of directors of the Group resolved to issue subordinate financial debentures in a total amount of \$1,500,000 thousands on June 24, 2010, which was approved by the regulation authorities on September 10, 2010. The Group issued these debentures on March 29, 2011, and the subscription was completed during the year.

The details were as follows:

- 1) Issue price: At face value.
- 2) Issue period: From March 29, 2011 to March 29, 2018.
- 3) Interest rate: For 100-1A, 3.2%. For 100-1B, based on the Group's term deposits regular rate plus 1.65%.
- 4) Interest accrual: Annually accrued and paid since the issued date.
- 5) Repayment of principal: Outright repayment of principal at maturity.

(s) Provisions

	December 31, 2018	December 31, 2017
Provisions for guarantees	\$ 39,511	39,502
Provisions of loan commitments	23,500	-
Provisions for other	5,000	-
Provisions for employee benefits	187,276	219,513
	<u>\$ 255,287</u>	<u>259,015</u>

- (i) The movement in the provision for loan commitments was as follows:

	2018	2017
Balance on January 1, 2018 per IAS 39	\$ 39,502	37,527
Adjustment on initial application of IFRS 9	-	-
Balance on January 1, 2018 per IFRS 9	39,502	-
Recognized during the period	-	2,000
Effect of Exchange Rate Changes	9	(25)
Balance on December 31, 2018	<u>\$ 39,511</u>	<u>39,502</u>

(Continued)

(ii) The movement in the provision for guarantees was as follows:

	2018
Balance on January 1, 2018 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	23,000
Balance on January 1, 2018 per IFRS 9	23,000
Recognized during the period	500
Balance on December 31, 2018	\$ 23,500

(iii) The movement in the provision for other was as follows:

	2018
Balance on January 1, 2018 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	-
Balance on January 1, 2018 per IFRS 9	\$ -
Recognized during the period	5,000
Balance on December 31, 2018	\$ 5,000

(t) Employee benefits

	December 31, 2018	December 31, 2017
Defined benefit plans	\$ 125,373	159,735
Employee Promotions Deposits plans	61,903	59,778
	\$ 187,276	219,513

(i) Defined benefit plans:

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

	December 31, 2018	December 31, 2017
Total present value of obligations	\$ 1,060,099	1,034,706
Fair value of plan assets	(934,726)	(874,971)
Recognized liabilities for defined benefit obligations	\$ 125,373	159,735

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

1) Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$934,726 thousands as of December 31, 2018. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Change in present value of defined benefit obligations

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

(Continued)

	2018	2017
Defined benefit obligation at January 1	\$ 1,034,706	1,040,427
Current service costs and interest	34,049	34,631
Actuarial (losses) gains	21,492	(6,571)
Benefits paid by the plan assets	(30,148)	(33,781)
Defined benefit obligation at December 31	<u>\$ 1,060,099</u>	<u>1,034,706</u>

3) Change in fair value of defined benefit plan assets

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

	2018	2017
Fair value of plan assets at January 1	\$ 874,971	839,492
Expected return on plan assets	12,130	11,600
Actuarial gains (losses)	22,968	(1,437)
Benefits paid by the plan assets	52,925	52,291
Contributions made	(28,268)	(26,975)
Fair value of plan assets at December 31	<u>\$ 934,726</u>	<u>874,971</u>

4) Expenses recognized in profit or loss

The expenses recognized in profits or losses were as follows:

	2018	2017
Current service costs	\$ 20,080	20,626
Net Interest on the defined benefit liability (asset)	1,839	2,405
	<u>\$ 21,919</u>	<u>23,031</u>
Administrative expenses	<u>\$ 21,919</u>	<u>23,031</u>
Actual return on assets	<u>\$ 35,098</u>	<u>10,163</u>

5) Actuarial gains and losses recognized in other comprehensive income

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

	2018	2017
Cumulative amount at January 1	\$ 124,698	129,832
Recognized during the period	(1,476)	(5,134)
Cumulative amount at December 31	<u>\$ 123,222</u>	<u>124,698</u>

6) Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	1.125%	1.375%
Future salary increases	1.75%	2.00%
Actuarial assumptions in deciding cost of defined benefit plans:		
	2018	2017
Discount rate	1.375%	1.375%
Future salary increases	2.00%	2.00%

(Continued)

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is \$52,925 thousands.

The weighted average duration of the defined benefit plan is 13.94 years.

7) Sensitivity analysis

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

	The impact on defined benefit obligation	
	Increase 0.25%	Decrease 0.25%
December 31, 2018		
Discount rate	(25,660)	26,605
Future salary increase	25,591	(24,816)
December 31, 2017		
Discount rate	(26,883)	27,922
Future salary increase	26,898	(26,038)

The sensitivity analysis above is based on the static risk structure of discount rate against the constant status of other assumed factors. However, the changes in assumptions are linked in practice. The calculation methodology of sensitivity analysis is the same as the net defined benefit obligations of the balance sheet.

(ii) Employee Promotions Deposits plans

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	\$ 61,903	59,778

1) Expenses recognized in profit or loss

As of December 31, 2018 and 2017, the Group's expenses recognized in profit or loss were \$13,851 thousands and \$10,321 thousands, respectively.

2) Actuarial assumptions

	2018	105
Discount rate	4.00%	4.00%
Interest rate of Employee Promotions Deposits plans	8.870%	8.870%
Return on funds deposited	2.00%	2.00%
Account balance annual decline rate	1.00%	1.00%
Chance of future changes in the system of Employee Promotions Deposits plans	50.00%	50.00%

3) Defined contribution plans

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

(Continued)

The pension costs incurred from the contributions to the Bureau of Labor Insurance amounted to 26,418 thousands and 26,135 thousands for the years ended December 31, 2018 and 2017, respectively.

(u) Income tax

According to the amendments to the "Income TAX Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable commencing 2018.

(i) The components of income tax in the years 2018 and 2017 were as follows:

	2018	2017
Current tax expense		
Current	\$ 141,045	137,034
Adjustment for prior periods	452	121
	<u>141,497</u>	<u>137,155</u>
Deferred tax expense		
Origination and reversal of temporary differences	35,954	9,399
Tax rate change	(31,525)	-
	<u>4,429</u>	<u>9,399</u>
Income tax expense excluding tax on sale of discontinued operation	<u>\$ 145,926</u>	<u>146,554</u>

The amount of income tax recognized in other comprehensive income for 2018 and 2017 was follows:

	2018	2017
Items that will not be reclassified subsequently to profit or loss:		
Re-measurement from defined benefit plans	<u>\$ 295</u>	<u>873</u>

Reconciliation of income tax and profit before tax for 2018 and 2017 is as follows:

	2018	2017
Profit excluding income tax	\$ 899,537	1,063,836
Income tax using the Company's domestic tax rate	179,907	180,852
Adjustment in tax rate	(31,525)	-
Tax effect of tax-exempt gains from sale of marketable securities	3,679	10
Changes in unrecognized temporary differences	(2,000)	(3,000)
Other adjustments	(4,757)	(31,685)
Income tax underestimates in prior year	452	121
Undistributed earnings additional tax at 10%	170	256
	<u>\$ 145,926</u>	<u>146,554</u>

(ii) Deferred tax asset and liability

1) Unrecognized deferred tax assets

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

	December 31, 2018	December 31, 2017	January 1, 2017
Tax effect of deductible Temporary Differences	<u>\$ 35,000</u>	<u>37,000</u>	<u>40,000</u>

(Continued)

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

	Defined Benefit Plans	Fair Value Losses	Allowance of impairment loss	Other	Total
Deferred Tax Assets:					
Balance at January 1, 2018	\$ 36,456	29,220	87,031	9,961	162,668
Recognized in profit or loss	1,307	(3,488)	(3,973)	9,322	3,168
Recognized in other comprehensive income	(295)	-	-	-	(295)
Balance at December 31, 2018	<u>\$ 37,468</u>	<u>25,732</u>	<u>83,058</u>	<u>19,283</u>	<u>165,541</u>
Balance at January 1, 2017	\$ 43,665	21,872	106,177	6,109	177,823
Recognized in profit or loss	(6,336)	7,348	(19,146)	3,852	(14,282)
Recognized in other comprehensive income	(873)	-	-	-	(873)
Balance at December 31, 2017	<u>\$ 36,456</u>	<u>29,220</u>	<u>87,031</u>	<u>9,961</u>	<u>162,668</u>
	Accrued land value increment tax	Fair Value profit		Other	Total
Deferred Tax Liabilities:					
Balance at January 1, 2018	\$ 83,799	-		26,843	110,642
Recognized in profit or loss	-	4,425		3,172	7,597
Balance at December 31, 2018	<u>\$ 83,799</u>	<u>4,425</u>		<u>30,015</u>	<u>118,239</u>
Balance at January 1, 2017	\$ 83,799	2,983		28,744	115,526
Recognized in profit or loss	-	(2,983)		(1,901)	(4,884)
Balance at December 31, 2017	<u>\$ 83,799</u>	<u>-</u>		<u>26,843</u>	<u>110,642</u>

3) Examination and Approval

The company's tax returns for the years through 2016 were examined and approved by the Tax Authorities.

(v) Share capital and other equity accounts

As of December 31, 2018, and 2017, the Company's authorized capital consisted of 10,000,000 thousand shares and issued shares worth \$8,083,054 thousands and \$7,625,523 thousands, respectively, with par value of \$10 per share.

Outstanding shares reconciliation as below:

	Common Stock	
(thousand shares)	2018	2017
Balance at January 1	762,552	637,069
Issuance of common stock for cash	-	100,000
Common stock dividend	45,753	25,483
Balance at December 31	<u>808,305</u>	<u>762,552</u>

(Continued)

(i) Share capital

It was resolved in the directors' meeting on March 24, 2017 to increase capital through a cash injection amounting to \$1,000,000 thousands divided into 100,000 thousands shares at \$10 par value. This had been registered and approved by the government authorities on September 25, 2017.

It was resolved in the stockholders' meeting on June 16, 2017 to increase capital through a capitalization of retained earnings amounting to \$254,828 thousands. This had been registered and approved by the government authorities on July 28, 2017.

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

(ii) Capital reserve

The components of capital reserve were as follows:

	December 31, 2018	December 31, 2017
Statutory reserve and special reserve transferred in	\$ 742,056	742,056
Additional Paid-in Capital	167,738	167,738
Others	200	176
Dividends not received overtime by shareholders	1,166	554
	\$ 911,160	910,524

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

(iii) Retained earnings

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

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

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

1) Legal reserve

Under the ROC Bank Act, the Company must retain 10% of its earnings as legal reserve until such retention equals the amount of the total capital. According to the amendment of the ROC Bank Act as of January 2012, legal reserve is limited to the extent of 25% of the share capital. In addition, under the ROC Bank Act, the Bank shall retain 30% of its after-tax earnings as the legal reserve before distributing them. Before the amount of legal reserves reaches the

(Continued)

amount of the total capital, the maximum amount of distributing earnings in cash shall not exceed 15% of the total capital. The restriction is not applied if the amount of legal reserves equals the amount of the total capital, or if the Bank is in a sound financial condition and when it comply the ROC Bank Act.

2) Special reserve

In accordance with permit NO.1010012865 as issued by the financial supervisory commission on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of other shareholders' equity resulting from the first-time adoption of IFRSs and the carrying amount of special earnings reserve as stated above. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

In accordance with permit NO.10510001510 as issued by the financial supervisory commission, the bank shall retain 0.5% to 1% of its after-tax earnings as the special reserve before distributing the earning for 2016 to 2018. The special reserve from this as of December 31, 2018 and 2017 were \$8,161 thousands and \$3,575, respectively.

3) Appropriation of earnings

Earning distribution for 2017 and 2016 was decided via the general meeting of shareholders held on June 22, 2018 and June 16, 2017, respectively. The details were as follows:

	2017		2016	
	Amount per share	Total amount	Amount per share	Total amount
Dividends distributed to ordinary shareholders				
Cash	\$ 0.25	190,638	0.30	191,121
Shares	0.60	457,531	0.40	254,828
Total		\$ 648,169		445,949

4) Other equity accounts

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available- for-sale financial assets	Total
Balance, January 1, 2018	\$ (217)		23,208	22,991
Retroactive application of new criteria	-	28,665	(23,208)	5,457
Adjusted balance on January 1, 2018	(217)	28,665	-	28,448
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income		(19,115)		(19,115)
Foreign currency translation differences (net of tax):	872	-	-	872
Balance, December 31, 2018	\$ 655	9,550	-	10,205

(Continued)

Balance, January 1, 2017	\$	5	(8,105)	(8,100)
Unrealized losses on available-for-sale financial assets, net of tax:		-	-	31,313
Foreign currency translation differences (net of tax):		(222)	-	(222)
Balance, December 31, 2017	\$	<u>217</u>	<u>-</u>	<u>23,208</u>
				<u>22,991</u>

(w) Share-based payment

The Board of Directors' meeting on 24 March 2017, the Company decided to award 10,000 thousands new shares of restricted stock to those full-time employees who meet the Company's requirements. The unvested shares are authorized managing director to search specific people to pay at fair value.

As at 31 December 2017, the Group had share-based payment arrangements as follows:

	<u>Equity-settled</u>
	<u>Cash-settled share-based payment plan (reserved for employees to subscribe)</u>
Grant date	2017.7.28
Number of shares granted	4,338 thousand shares(Note)
Contract term	-
Recipients	full-time employees
Vesting conditions	Immediately vested

Note: The employees already claim un-vesting 5,662 thousands shares before grand date.

(i) Determining the fair value of equity instruments granted

The Group used market-based method in measuring the fair value of the share-based payment at the grant date. The measurement inputs were as follows:

	<u>2017</u>
	<u>Cash-settled share-based payment plan (reserved for employees to subscribe)</u>
Fair value at grant date	12.7
Share price at grant date	11.77~16.54
Exercise price	12.7
Expected volatility (%)	8.67%
Expected life (years)	0.1644
Expected dividend	-
Risk-free interest rate (%)	1.64%

Expected life is between grant date and pay date. The determination of fair value doesn't include service from the trade and non-market profitability condition.

(ii) Expense recognized in profit or loss

The Group incurred expenses and liabilities of share-based arrangements in 2017 as follows:

	<u>2018</u>
Expenses resulting from cash-settled share-based payment to employees	\$ <u>11,713</u>

(Continued)

(x) Earnings per share

The basic and diluted earnings per share for 2018 and 2017 were calculated as follows:

	2018	2017
Basic earnings per share:		
Profit of the Company for the year	\$ 753,611	917,282
Weighted-average number of ordinary shares at 31 December	808,305	808,305
Basic Earnings per share (in NT dollars)	\$ 0.93	1.13
Diluted earnings per share:		
Profit of the Company for the year	\$ 753,611	917,282
Weighted-average number of ordinary shares at 31 December	808,305	808,305
Effect of dilutive potential ordinary shares:		
Employee bonuses	5,581	6,069
Weighted-average number of ordinary shares (diluted) at 31 December	813,886	814,374
Diluted earnings per share (in NT dollar)	\$ 0.93	1.13

(y) Net interest income

	2018	2017
Interest income		
Discount and loans	\$ 3,087,609	3,047,018
Due from Banks	75,542	145,616
Short-term bills and bonds	231,045	115,803
Other	184,712	189,127
Sub-total	3,578,908	3,497,564
Interest expense		
Deposit	937,686	904,402
Due to other Central Bank and banks and call loans to banks	2,422	1,845
Financial bonds	62,686	84,125
Other	1,179	955
Sub-total	1,003,973	991,327
	\$ 2,574,935	2,506,237

(z) Service fee income

	2018	2017
Service fee income		
Insurance agency service fee	\$ 149,794	139,450
Fund service fee	30,261	31,086
Guarantee service fee	28,113	28,465
Consumer financial center service fee	13,064	14,759
Remittance service fee	11,884	11,850
Trust service fee	12,859	12,984
Other	26,186	27,183
Sub-total	272,161	265,777
Service fee expense	23,342	18,980
	\$ 248,819	246,797

(Continued)

(aa) Gains and losses on financial assets or liabilities measured at fair value through profit or loss

	2018	2017
Disposal gains (losses)		
Convertible bonds	\$ 11,733	22,400
Listed and OTC securities	(5,868)	(3,607)
Beneficiary certificates	(3,946)	6,353
Subtotal	1,919	25,146
Valuation(losses) gains		
Convertible bonds	(467)	(1,192)
Listed and OTC securities	(557)	870
Short-term bills	181	-
Beneficiary certificates	(3,404)	1,224
Derivative financial instruments	(4,331)	5,622
Subtotal	(8,578)	6,524
Dividend and interest income	3,434	3,911
	\$ (3,225)	35,581

(ab) Realized gains (losses) on financial assets measured at fair value through other comprehensive income.

	2018
Dividend income	\$ 6,212

(ac) Asset impairment (loss) revolving interest

	2018	2017
Investment property	\$ -	162,574
Financial assets measured at fair value through other comprehensive income	(1,040)	-
Financial assets at amortized cost	160	-
	\$ (880)	162,574

(ad) Other net non-interest income

	2018	2017
Rental income	\$ 20,235	20,046
Net gains (losses) on disposal of premises and equipments	131	(1,886)
Others revenue-net	1,551	2,927
Dividend income	-	6,588
	\$ 21,917	27,675

(ae) Bad debt expenses and provision for guarantee reserve

	2018	2017
Discounts and loans	\$ 82,272	(97,517)
Receivables	370	2,403
Guarantee reserve	-	2,000
Finance committed reserve	500	-
Other reserve	5,000	-
	\$ 88,142	(93,114)

(Continued)

(af) Employee compensation and directors' and supervisors' remuneration

In accordance with the Articles of incorporation, the Company should contribute no less than 6% of the profit as employee compensation and less than 2% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the board of directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

For the year ended December 31, 2018 and 2017, the Company estimated its employee remuneration amounting to \$58,665 thousands and \$69,305 thousands, and directors' and supervisors' remuneration amounting to \$19,555 thousands and \$23,102 thousands, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Group's articles. These remunerations were expensed under operating expenses during 2018 and 2017. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2018 and 2017.

(ag) Employee benefits expenses

	2018	2017
Salary expenses	\$ 1,097,574	1,133,859
Insurance expenses	80,519	80,365
Retirement expenses	48,337	49,166
Other employee benefits	95,556	90,363
	<u>\$ 1,321,986</u>	<u>1,353,753</u>

(ah) Depreciation and amortization expenses

	2018	2017
Depreciation of Property and equipment	\$ 47,536	44,808
Depreciation of investment Property	1,092	1,033
Amortization of intangible assets	2,712	3,611
	<u>\$ 51,340</u>	<u>49,452</u>

(ai) Other general and administrative expenses

	2018	2017
Taxes and fees	\$ 211,409	211,239
Insurance expense	52,380	59,233
Rental expense	58,148	57,974
Occupational group membership fee	19,207	28,451
Advertising and printing expense	28,459	29,522
Security fees	21,525	21,238
Other	141,056	139,334
	<u>\$ 532,184</u>	<u>546,991</u>

(aj) Financial instruments**(i) Fair value Measurement**

(Continued)

1) Overview

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments are measured at fair value on initial recognition, which, in most cases, refers to the entry price. Subsequent valuation is based on the fair value basis except for financial instruments measured at amortized cost. The optimal evidence in deciding fair value is the exit price of an active market. Considering those financial instruments without an active market, the Group adopts the valuation techniques or the references of the exit price offered by Bloomberg, Reuters and counterparties in fair value valuation.

2) Definition of three - level fair value hierarchy

a) Level 1

Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. The definition of active market has all of the following conditions: the products traded in the market are homogeneous, willing parties are available anytime in the market, and price information is available for the public. The Group's investments in listed and TPEX securities, beneficiary certificates, popular Taiwan central government bonds, and derivative financial instruments which had the quoted price in an active market, classified to Level 1.

b) Level 2

Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than quoted price in an active market including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The Group's investments in government bonds not in popular demand, corporate bonds, financial debentures, convertible bonds, and majority derivative instruments, are classified to Level 2.

c) Level 3

Input for a fair value measurement for a financial instrument classified in Level 3 is not based on obtainable data from the market (an unobservable input, such as volatility for a share option derived from the share's historical prices, as it does not generally represent current market expectations about future volatility).

3) Fair value hierarchy

a) The table below analyses recurring financial instruments carried at fair value

Fair value measurement for financial instruments	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Non-Derivative Financial Instruments				
Assets:				
Financial assets measured at fair value through profit or loss				
Investment in stocks	\$ 34,314	34,314	-	-
Investment in bonds	609,669	-	609,669	-
Short-term bills	767,075	767,075	-	-
Others	57,866	57,866	-	-
Financial assets at fair value through other comprehensive income				
Investment in stocks	103,012	-	-	103,012
Investment in bonds	7,392,785	7,392,785	-	-

(Continued)

Non-Derivative Financial Instruments**Assets:**

Financial assets at fair value through other comprehensive income

\$	2,404	-	2,404	-
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Liabilities:

Financial liabilities measured at fair value through profit or loss

360	-	360	-
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Financial assets measured at amortized cost

18,125,029	-	18,125,029	-
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December 31, 2017**Fair value measurement for financial instruments**

Total	Level 1	Level 2	Level 3
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Non-Derivative Financial Instruments**Assets:**

Financial assets measured at fair value through profit or loss

Investment in stocks

\$ 36,572	36,572	-	-
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Investment in bonds

737,036	4,500	732,536	-
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Others

40,000	40,000	-	-
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Available-for-sale financial assets - net

Investment in bonds

3,736,500	3,736,500	-	-
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December 31, 2017**Fair value measurement for financial instruments**

Total	Level 1	Level 2	Level 3
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Derivative Financial Instruments**Assets:**

Financial assets measured at fair value through profit or loss

\$ 6,392	-	6,392	-
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Liabilities:

Financial liabilities measured at fair value through profit or loss

16	-	16	-
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Non derivative held for trading financial assets

18,822,636	-	18,822,636	-
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b) Valuation techniques of financial assets and liabilities measured by fair value

If there is a quoted price in an active market for non-derivative financial assets and liabilities measured at fair value through profit or loss, financial assets at fair value through other comprehensive income(policy applicable after January 1,2018) and available-for-sale financial assets(policy applicable before January 1,2018), the quoted price is regarded as its fair value. Financial instruments with public market prices (except for stocks and depositary receipt), such as government bonds, use the latest trade price TPEX Electronic Bond Trading System (EBTS) or reference theory price under as fair value. Foreign currency bonds use the latest trade price as fair value. If no quoted price available, the fair value is estimated using the valuation techniques of which the assumptions and estimates are in conformity with the information (available for the Group) used in pricing the financial instruments. Financial derivative instruments with an active market price use the market value as fair value. When there is no active market price, the valuation model is mainly adopted in evaluation. Derivative instruments - non-option use the discounted cash flow method; Derivative instruments —options mainly use the Black - Scholes Model in evaluation.

(Continued)

c) Fair value adjustment

i) Limitations to Evaluation Models and uncertain inputs

The outputs of evaluation models are estimated, while the model is possibly incapable of reflecting all relevant factors relating to financial instruments held by the Group. In such circumstances, the estimates are hence adjusted according to suitable extra parameters, such as model risk or liquidity risk. The Group's operation process of financial instrument evaluation policy considers the adjustment to evaluation, which is adequate and necessary so as to fairly present the financial instrument's fair value in statement of financial position. In the evaluation process, the pricing information and parameters are deliberately assessed and modulated in light of market situation.

ii) Credit risk valuation adjustment

Credit risk valuation adjustment can be classified into Credit value adjustments and Debit value adjustments. The adjustments reflect the possibility of delayed repayment by the counterparty or the Group in fair value and of failure in transaction's entire market value collected (paid) by the Group.

d) Reconciliation of Level 3 fair values

account	2018						
	profit or loss			Increase		Decrease	
	Opening balance	In profit or loss	In other comprehensive income	Purchased or issued	Transfers in Level 3	Sell or Disposal	Transfers out of Level 3
Ending Balance							
Financial assets measured at fair value through profit or loss (note)	\$ 134,392	-	(16,380)	-	-	(15,000)	-
							103,012

Notes: For IAS30 to IFRS9, the amount of \$134,392 thousands was transferred from financial assets measured at cost.

e) Profit and loss for Level 3

For the years ended December 31, 2018 and 2017, the total gains and losses that were included in unrealized gains and losses from financial assets at fair value through other comprehensive income were as follows:

	2018
Recognized as "unrealized gains and losses from financial assets at fair value through other comprehensive income"	\$ (16,380)

f) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

	2018			
	fair value	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income				
Stocks unlist	\$ 103,012	Market Method Net Asset Value	value growth rate Net Asset Value	The estimated fair value would increase (decrease) if: · the value growth rate were higher · the Net Asset Value were higher

(Continued)

g) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions by 5% to reflect reasonably possible alternative assumptions would have the following effects:

i) Market method

	Profit or loss	
	Favour-able (5%)	Unfavour-able (5%)
December 31,2018		
financial assets at fair value through other comprehensive income		
Stocks unlist	\$ 3,600	(3,600)

ii) Net Asset Value

	Profit or loss	
	Favour-able (5%)	Unfavour-able (5%)
December 31,2018		
financial assets at fair value through other comprehensive income		
Stocks unlist	\$ 2,750	(2,800)

(ii) Methods and assumptions used by the Group for fair value evaluation of financial instruments were as follows:

- 1) Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since these instruments have short maturities, the book value is adopted as a reasonable basis in estimating the fair value. The method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, securities purchased under reverse repurchase agreements, receivables, current tax assets, other financial assets, deposits from Central Bank and other banks, due to Central Bank and other banks, securities sold under repurchase agreements, payables, current tax liabilities, remittances, and other financial liabilities.
- 2) If there is a quoted price in an active market for the financial asset, including financial instruments measured at fair value through profit or loss, financial assets at fair value through other comprehensive income (policy applicable after January 1,2018) available for sale (policy applicable before January 1,2018), financial assets at amortized cost (policy applicable after January 1,2018), held to maturity financial assets (policy applicable before January 1,2018), and investments in debt instruments without active market (policy applicable before January 1,2018), the quoted price is regarded as its fair value. If there is no quoted price in an active market for the financial asset, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices provided by financial institutions. The discounted cash flow technique is used to estimate the fair value of a debt instrument where an active market does not exist. The estimates and assumptions made by the Group using the valuation method are consistent with the information made by the market participants, in which the Group can obtain, to estimate and assume the financial instruments.
- 3) Loans and deposits are both classified as interest bearing financial assets; therefore, the book value of financial assets is equivalent to their fair value. The net book value of the nonaccrual account, after deducting provision for credit loss, is adopted as the fair value.
- 4) The book values of the Group's financial assets carried at cost and financial liabilities measured at amortized cost are similar to their fair values.
- 5) Financial Bonds Payable: It refers to the financial bonds issued by the Company. Their coupon rates are almost equal to the market interest rate, so it is reasonable to using the discounted present values of the expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.

(Continued)

- 6) Except those with quoted price in an active market, the fair values of the other financial instruments are attained by valuation techniques or quoted prices from countered parties. The fair value calculated using valuation techniques can refer to the present fair values of financial instruments with similar conditions and characteristics, the discounted cash flow method or other valuation techniques, including the modular valuation method of which the calculated values are computed using attainable market information (such as the commercial paper fixing rates of Reuters.)

(ak) Financial risk information

(i) Overview

The main risks that the Bank faced and the management strategies are as follows:

1) Management of capital adequacy ratio

The Group risk management considers the Bank as a continuous operation and is being based on the best practice of Basel III, to develop a complete risk management structure and capital adequacy management to ensure the Bank fulfills the minimum capital requirements and enable to bear pressure of capital shock.

2) Credit risk management

Credit strategy includes returns and risk diversification. The asset portfolio includes qualified retail bonds, corporate credit and mortgages. It is also distinguished based on the level of client risk to control the acceptable range of the overall credit risk. The Bank also made use of the risk transfer in credit guarantee fund to strengthen the collateral of small-and-medium enterprises, reduce breach of contract risk and accomplish benefits of risk capital at the same time. To effectively maintain the asset quality and risk return, the Bank has improved its credit investigation and review procedures. It has also managed its collateral and strengthened the development use of risk management instruments and credit risk management schemes.

3) Liquidity risk and market risk management

Assets and liabilities committee is responsible of the liquidity, security and profitability of assets and liabilities. The committee not only conducts regular assessment on the duration and the maturity analysis of assets and liabilities but also set limit structure and the related liquidity limits to control index, adjust capital gap in order to conform with the objective of risk appetite. Profitability is strengthened through the optimization of assets and liabilities structure. Market risk management includes investment in trading book and banking book. To prevent financial instruments from suffering from excessive fluctuations in market price, management measures and restrictions on investment are set, sensitivity index on market risk factors.

4) Operational risk management

In order to integrate risk management culture with employees, the Group not only restricts employees by undertaking regulations, discipline and incentive and penalty measures, but also adopts standard operating procedures and internal control systems to enhance capability of information systems control and the timeliness and accuracy of information on risk management. Risk is controlled and reviewed regularly through the risk appetite, key risk indicator and warning system of risk events for early planning to improve measures.

The Company has set the risk management policies and risk management procedures, which have been approved by the BOD for effective recognition, measurement, monitoring and control of credit risk, market risk and liquidity risk.

(ii) Organizational structure of risk management

The organizational structure of risk management includes BOD, Risk Committee, Risk Management Committee, Assets and Liabilities Committee, Loan Review Committee, Department of Risk Management, Department of Audit, Department of Law, Credit Management Headquarter and Department of Credit Analysis and Appraisal and other management departments, with BOD as the ultimate responsible unit. The risk committee is subordinated to the BOD, and the member

(Continued)

of risk committee is elected from the board of directors, who monitor risks on behalf of the BOD. The BOD and risk committee will delegate authorities to the general manager and committees in setting management rules as regards to risk identification, measurement, disclosure, report, monitoring and offsetting. The Group also established independent risk management department to monitor the credit risk, market risk, operational risk and liquidity risk. At the same time, the Group promotes the framework of new Basel capital agreement that identifies measures, discloses and reports management system and proposes each risk management report for management decision on a regular basis. Also, the law department is set up to carry out law risk management and procedures on review of legal compliance. The business units, which are subordinated to the general manager, ensure the coordination of each risk management policies; establish appropriate internal control and standard operating procedures and support the risk management project based on the business needs. The audit department is responsible for auditing the compliance of all internal and external business norms in all units, as well as the implementation of internal control in practice.

(iii) Credit risk

1) The source and definition of credit risk

Credit risk is the risk of financial loss to the Group if a creditor or counterparty fails to meet its contractual obligations. Credit risk management should be adopted in all operating activities that involved in credit risk, including loans, investment in banking book, financial derivatives, transactions in repurchase agreement and other operating activities in relation to the credit risk.

2) Management policy of credit risk

The Group has set standard control procedures on credit risk identification, measurement, and information on disclosures and reports to conduct rational identification, measurement, disclosures and effective control on credit risk. The Group also deliberates the fluctuation in economics and adjusts the credit risk structure accordingly to control the risks in credit portfolio within the risk appetite. These procedures include criteria for targeted client, credit investigation, credit approval or rejection, approval on exceptions, risk control and management, credit review, management on non-performing loans and requests and control of all related documents and information. Based on the risk management policies, the illustration of management process carried out by the competent authority is as follows:

a) Credit investigation

With respect to the criteria for targeted client, the Group should ask for all necessary documents from the clients in order to filter client accurately and control credit portfolio within the acceptable range.

b) Credit approval

Cases that have passed through the credit investigation are reviewed by the credit authority of each level. The credit authorities authorize credits in compliance with the credit limitation structure and authorization policies of the Group. The credit limitation structure and authorization policies of the Group are not only based on banking act and the rules stipulated by the authority, concerning the credit extended to same person or same affiliated enterprises/groups, stock collateral, industry and country, but also based on the professionalism of the credit authorities and the quality of asset control. The amounts of credit authorized are reviewed by the credit authorities on occasional basis.

c) Post-lending loan review mechanisms

The corporate banking business of the Group strengthens the tracking control of the financial and business conditions on creditors, carry out risk assessment report of credit asset portfolio on a regular basis, set-up warning system and adjust business development strategy to cope with economic conditions and changes in asset quality through the account management scheme and regular reassessment system. As regards to delinquent loans, the Group uses concentration management method, together with information systems and analysis model to conduct regular review to improve the performance on overdue to expedite the collection of nonperforming loans.

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d) Development, application and verification of risk information system

The Group has actively developed quantify risk assessment model as a reference for credit decision. The Bank develops the credit rating model based on products and characteristics of counterparties and use the results from the model to filter new clients, risk pricing and limit management, to analyze and develop overdue management strategy on overdue loans based on client behavior pattern. To improve the effectiveness of credit investigation and ensure the consistency with the investigation standards, the Company built a credit investigation operating system, which not only strengthen the effectiveness of the Group operation and information system, but also improve the development of model for quantifying risk. The Group conducts verification on the risk assessment model on a regular basis and evaluates the effectiveness of the model and made necessary amendments.

The methods of risk measurement in the main operating departments are as follows:

i) Loans (including credit commitment and guarantee)

Classifications in credit assets and level of credit quality are illustrated as follows:

1. Classification of credit assets

The credit assets are classified into 5 categories, where the normal credit assets are classified as Category 1. After nonperforming credit assets are evaluated by assessing the status of the loan collaterals and the length of time overdue, they are classified under Category 2 assets that require special mention. Assets that are substandard are classified as Category 3, assets that are doubtful are classified as Category 4 and assets for which incurred a loss are classified as Category 5. The Bank has set "Regulations Governing the Procedures to Evaluate Credit Assets, Set Aside Loss Reserves and Handle Non-performing Credit, Non-accrual Loans and Bad Debts" as management for doubtful loans and as a basis for handling overdue loans.

2. Level of credit quality

The level of credit quality is set to accommodate the characteristics and the scale of operating business, and conduct risk management.

ii) Due from the Central Banks and call loans to banks, investments in debt instruments and financial derivatives instruments

The Group always assesses the credit situation of the counterparty before entering into a transaction. The counterparty's rating and information on financial condition from domestic and international credit rating agency are being considered and different credit risk limits are set. The credit risk limits are approved by the BOD or the authority level. Overall, most of the investments are above investment grade ratings.

3) Determination that credit risk has increased significantly since the initial recognition

The Group assesses the change in the probability of default of loans during the lifetime on each reporting date to determine if the credit risk has increased significantly since the initial recognition. In order to make this assessment, the Group's considerations show the reasonable and supportable information that the credit risk has increased significantly since the initial recognition. The main considerations include: The borrowers of various types of credit assets that have not paid their principal and interest over the contract for more than 30 days and less than 90 days, and the recent credit rating of the debt instruments on the reporting date that has dropped by more than 3 grades (inclusive) from the original rating. Non-investment grades, financial guarantees, and letters of credit, not classified as reference indicators for significant increase in credit risk, are therefore, temporarily classified as a significant increase in credit risk.

4) Credit risk that has not increased significantly or is judged as low credit risk on the reporting date

The Group assesses that there is no significant increase in the risk of default in the expected renewal period of each type of credit assets or low credit risk on each reporting date. The 12-month expected credit loss is used as the risk

(Continued)

change if the credit risk of the credit asset is low on the reporting date. It is also assumed that the credit risk of the credit assets has not increased significantly since the original recognition. The credit assets of the low credit risk refer to the credit rating of the borrower's principal and interest and debt instruments as above than BBB-.

5) Reversal policy

The merger company shall determine the unrecoverable creditor's rights, report it to the board of directors for approval, and then resell it. Afterwards, the balance of the allowance will be adjusted.

6) Impairment of financial assets

If the financial assets are deducted from the objective evidence, the difference between the book value of the financial assets and the present value of the original effective interest rate of the estimated future cash flows should be recognized as the impairment loss. The impairment loss should be included in the current profit and loss. When determining the amount of the impairment, the estimated future cash flows are estimated to include the collateral and other credit enhancements.

The objective impairment certificate includes the following information:

- The issuer or the debtor's credit rating is reduced to the default level or the principal and interest are not settled.
- The loan has been overdue for 90 days or has been procured to the principal and clerk for the collateral, which is the overdue loan of Class A and Class B.

7) Measurement of expected credit losses

a) Assumption of adoption

After considering the factors, such as the attributes of financial assets and credit assets and the adequacy of default experience, the internal risk data or institutional information, such as external credit ratings, are used to estimate the credit risk component factors, such as the debtor's probability of default (PD), the loss given default (LGD), and the exposure at default (EAD).

For credit assets that have not significantly increased credit risk or low credit risk since the original recognition, the allowance loss is measured by the 12-month expected credit loss amount; the credit risk has been significantly increased or credit has been deducted since the original recognition production, expected credit losses during the existence of a measure of the amount.

The difference between all the cash flows expected to be received by the combined companies is based on all the contractual cash flows receivable during the expected period of the financial instrument and all the contractual terms of the consideration period (including the collateral held by the sale or other credit enhancements, etc.) The difference between all cash flows that are expected to be charged is the credit risk loss measured by the amount discounted at the original effective interest rate as follows:

- The amount that is determined to be unbiased and weighted by chance, as assessed by each possible outcome.
- Time value of money.
- Reasonable and corroborative information relating to past facts, current conditions and future economic forecasts.

b) Forward-looking information considerations

Forward-looking information is taken into account when determining whether credit risk has significantly increased after the original recognition of credit assets and measures expected credit losses. The Group performs analysis with historical data and adjusts the probability of default based on "Taiwan business indicators" issued regularly by National Development Council, in which five light signals are used to indicate the current economy. The analysis is further taken into account when the Group assesses the overall expected credit loss.

(Continued)

8) Mitigation or hedging of risk

Based on the risk assessment of the credit counterparty and transactions, the Bank requires high liquidity and sufficient collateral or transfer of credit guarantee and guarantee association (for instance, Small and Medium Enterprise Credit Guarantee Fund) to strengthen the guarantee of loans. In order to avoid and control risks, the Group not only requires the provision of necessary legal documents, but also conducts field survey on the status of collateral and determines whether to reassess the value of collateral and demand for additional collateral or adjust the credit amount. The lists of management conduct by the Group are as follows:

- a) Setting the value of collateral and management measures, including types of acceptable collateral, valuation process, frequency of revaluation, market assessment and law enforcement procedures.
- b) The liquidity and value of collateral and the degree of law enforcement should be assessed by independent party.
- c) The selection of appraise or appraisal institute, the requirements of appraisal and its related fees should be in compliance with the internal management procedures.
- d) Transfer of collateral, authority setting and other insurance procedures should be completed before being appropriated, and the amount set, insured and other legal aspects should be complied with the Group regulations.

9) Maximum exposure credit risk

Without taking collateral or other credit enhancement mitigation effect into account, the maximum exposure to credit risk of on-balance sheet financial assets is equal to their carrying values and the maximum exposure of credit risk of off-balance sheet financial instruments were as follows:

	December 31, 2018	December 31, 2017
Irrevocable loan commitment	\$ 16,385,011	18,494,208
Credit card commitment	22,726	20,168
Undrawn letters of credit	12,650	8,350
Guarantees	264,059	238,900
	\$ 16,684,446	18,761,626

The Group believes the adopting stringent selection processes and conducting regular review afterwards are the reasons why they can continuously control and minimize the credit risk exposure of their off-balance sheet items.

10) Concentrations of credit risk

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

Credit risk concentration can arise in a bank's assets, liabilities, or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. It includes credit, loan and deposits, call loan to banks, investment, receivables and derivatives. The Bank maintains a diversified portfolio, limits its exposure on a continuous basis. The Group's most significant concentrations of credit risk are summarized as follows:

a) By Industry

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Private enterprise	\$ 34,977,632	29.97	34,133,120	29.26
Public Sector	271,548	0.23	1,574,546	1.35

(Continued)

Non-profit organization	180,175	0.16	17,655	0.02
Individuals	81,045,320	69.45	80,626,756	69.11
Financial institutions	223,668	0.19	309,015	0.26
\$	116,698,343	100.00	116,661,092	100.00

b) By Area

Not applicable since the Group conducts its business domestically.

c) By Collateral

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Non-secured	\$ 14,046,657	12.04	17,318,412	14.85
Securities				
Stock	94,441	0.08	115,241	0.10
Bond	121,876	0.10	191,960	0.16
Real estate	77,021,231	66.00	72,893,572	62.48
Chattel	20,202,060	17.31	20,609,516	17.67
Notes receivables	34,998	0.03	34,111	0.03
Guarantee	5,051,910	4.33	5,373,335	4.60
Other	125,170	0.11	124,945	0.11
\$	116,698,343	100.00	116,661,092	100.00

11) Credit quality and overdue impairment loss of financial assets of the Bank

Part of the financial assets, such as cash and cash equivalent, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, bills and bonds purchased under resell agreement, guarantee deposits paid and operation guarantee deposits and settlement funds are considered of minimum credit risk due to the good credit ratings of the trade counterparties.

Expect for the abovementioned items, the credit quality analysis of the rest of the financial assets are as follows:

a) Credit Quality Analysis of Discounts and Loans as well as Receivables

December 31, 2018	Neither past due nor impaired (A)	Past due not impaired (B)	Impaired(C)		Total (A)+(B)+(C)	Impairment allowance (D)	Net (A)+(B)+(C)-(D)
			Individual	Group			
Receivables							
- Credit card	143,657	185	-	5,442	149,284	36,788	112,496
- Revenue	8,610	-	-	-	8,610	-	8,610
- Interest	236,446	2,185	1,572	2,994	243,197	-	243,197
- Others	28,651	8,738	-	-	37,389	8,820	28,569
Subtotal	417,364	11,108	1,572	8,436	438,480	45,608	392,872
Discounts and loans	114,471,859	288,752	895,993	1,041,739	116,698,343	1,715,676	114,982,667
Off balance sheet items							
- Guarantee	-	2,046,806	-	-	2,046,806	39,511	2,007,295
- Letter of credit	-	133,500	-	-	133,500	5,000	128,500
- Agreed financing amount	16,684,346	100	-	-	16,684,446	23,500	16,660,946

(Continued)

December 31, 2017	Neither past due nor impaired (A)	Past due not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowance (D)		Net (A)+(B)+(C)-(D)
					With objective evidence	Without objective evidence	
Receivables							
- Credit card	142,278	376	6,656	149,310	6,906	27,541	114,863
- Revenue	8,699	-	-	8,699	-	-	8,699
- Interest	217,809	-	3,511	221,320	301	1,011	220,008
- Promissory fare	627	-	-	627	-	-	627
- Others	37,222	-	9,331	46,553	3,063	2,514	40,976
Subtotal	406,635	376	19,498	426,509	10,270	31,066	385,173
Discounts and loans	114,987,453	301,369	1,372,270	116,661,092	938,582	920,082	114,802,428
Off balance sheet items							
- Guarantee	2,283,789	-	49,059	2,332,848	-	-	2,332,848
- Letter of credit	146,809	-	-	146,809	-	-	146,809

b) Client-credit-quality-based Credit Quality Analysis on None Past Due and None impaired Discount and Loans

December 31, 2018	Neither past due nor impaired				
	Very Good	Good	Medium	None	Total
Consumers' financing					
- Automobile	7,950,633	10,515,222	4,639	157,764	18,628,258
- Real estate	1,266,177	13,008,518	5,720,690	3,110,809	23,106,194
- Credit loans	71,558	5,603,289	413,779	51,041	6,139,667
- Deposit collateral	-	900	260	91,960	93,120
- Land as collateral	38,860	12,544,745	3,004,187	1,401,588	16,989,380
- Other secured	88,163	10,295,748	3,344,989	2,396,983	16,125,883
- Other non-secured	1,236	245,903	88,360	49,954	385,453
Corporate financing					
- Government	-	-	-	1,574,547	1,574,547
- PP&E as collateral	2,417,894	10,474,057	3,003,208	800,224	16,695,383
- Insurance policies as collateral	-	8,218	1,104	2,754	12,076
- Other secured	586,355	2,857,376	2,234,995	978,645	6,657,371
- Other non-secured	560,765	4,308,058	1,500,725	2,210,573	8,580,121
Total	12,981,641	69,862,034	19,316,936	12,826,842	114,987,453

c) Credit Quality Analysis of Security Investments

December 31, 2018	Neither past due nor impaired				Past due Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment Allowance (D)	Net (A)+(B)+(C)-(D)
	Very Good	Good	Normal	Total (A)					
Fair value through other comprehensive income									
- Bond	7,392,785	-	-	7,392,785	-	-	7,392,785	-	7,392,785
- Other	103,012	-	-	103,012	-	-	103,012	-	103,012
Amortized cost									
- Bond	18,062,563	-	61,466	18,124,029	-	-	18,124,029	8,250	18,115,779
- Other	1,000	-	-	1,000	-	-	1,000	-	1,000

(Continued)

December 31, 2017	Neither past due nor impaired				Past due Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment Allowance (D)	Net (A)+(B)+ (C)-(D)
	Very Good	Good	Normal	Total (A)					
Available for sale									
- Bond	3,736,500	-	-	3,736,500	-	-	3,736,500	-	3,736,500
Held-to-maturity									
- Bond	18,761,940	-	-	18,761,940	-	-	18,761,940	-	18,761,940
- Other	1,000	-	-	1,000	-	-	1,000	-	1,000
Other									
- Equity	129,892	-	-	129,892	-	-	129,892	-	129,892
- Bond	-	-	-	-	-	59,696	59,696	7,537	52,159

12) Ageing Analysis on Past Due but Not Impaired Financial Assets

Past due but not impaired loans might results from some temporary administration reasons so the customer is in the early stages of delinquency but no actual impairment occurs yet. According to the internal credit risk assets impairment evaluation guideline, unless there are other objective evidences shown the potential loss, a less than 90-day past due loan is typically not to be treated as impairment.

The aging analysis on past due but not impaired financial assets is as follows:

	December 31, 2017		Total
	Overdue within 1 month	Overdue Between 1 and 3 months	
Receivables			
- credit card	252	124	376
Discounts and loans			
Consumers			
- automobile	-	9,435	9,435
- real estate	2,029	33,168	35,197
- credit line	150	29,558	29,708
- land as collateral	-	740	740
- other secured	3,610	11,611	15,221
- other non-secured	-	1,162	1,162
Corporate			
- real estate		171,433	171,433
- credit line	-	6,985	6,985
- other secured	-	15,981	15,981
- other non-secured	-	15,507	15,507
Total	6,041	295,704	301,745

13) Analysis of Impairment for Financial Assets

Analysis of impairment for discounts, loans and receivables and accumulated impairment are as follows:

Item		Discounts and loans (Note1)
		December 31, 2017
With objective evidence of impairment	Individual impairment	434,557
	Collective impairment	937,713
Without objective evidence of impairment	Collective impairment	115,288,822
Total		116,661,092

(Continued)

Item		Allowance for doubtful accounts
		December 31, 2017
With objective evidence of impairment	Individual impairment	185,768
	Collective impairment	752,814
Without objective evidence of impairment	Collective impairment	920,082
Total		1,858,664

Item		Receivables (Note2)
		December 31, 2017
With objective evidence of impairment	Individual impairment	9,771
	Collective impairment	9,727
Without objective evidence of impairment	Collective impairment	407,011
Total		426,509

Item		Allowance for doubtful accounts
		December 31, 2017
With objective evidence of impairment	Individual impairment	542
	Collective impairment	9,728
Without objective evidence of impairment	Collective impairment	31,066
Total		41,336

Note 1: Total loan is the original amount without the adjustments of premium or discounts and the allowance for doubtful accounts.

Note 2: Total receivable is the original amount without the adjustments of the allowance for doubtful accounts.

14) Management of Foreclosed Collateral

Foreclosed collateral is recorded at cost, using lower-at-cost or market approach as at balance sheet date. If collateral is not disposed of within the statutory period, the Bank should apply for an extension of the disposal period and increase its provision for possible losses if necessary.

15) Disclosures required in the

a) Asset quality of nonperforming loan and overdue credits

Period			December 31, 2018				
Items			Nonperforming Loans (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate Banking	Secured		307,812	27,901,857	1.10%	419,311	136.22%
	Unsecured		40,687	7,751,165	0.52%	126,756	311.54%
Consumer Banking	Mortgage loans (Note 4)		55,702	18,359,739	0.30%	261,455	469.38%
	Cash card		-	566	- %	9	- %
	Small-scale credit loans (Note 5)		42,184	9,141,146	0.46%	168,668	399.84%
	Other (Note 6)	Secured	131,718	53,443,444	0.25%	733,037	556.52%
		Unsecured	2,078	100,426	2.07%	6,441	309.96%
Total loans			580,181	116,698,343	0.50%	1,715,676	295.71%
			Overdue Receivables	Receivables	Delinquency Ratio	Allowance for Possible Losses	Coverage Ratio
Credit cards			788	149,284	0.53%	36,788	4,668.53%
Accounts receivable factoring without recourse (Note 7)			-	-	- %	-	- %

(Continued)

			December 31, 2017				
Period			Nonperforming Loans (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Items							
Corporate Banking	Secured		91,349	25,391,978	0.36%	396,573	434.13%
	Unsecured		37,980	10,642,358	0.36%	186,676	491.51%
Consumer Banking	Mortgage loans (Note 4)		62,039	19,247,166	0.32%	297,037	478.79%
	Cash card		-	638	- %	12	- %
	Small-scale credit loans (Note 5)		42,828	10,139,866	0.42%	185,280	432.61%
	Other (Note 6)	Secured	42,908	51,127,171	0.08%	784,492	1,828.31%
		Unsecured	2,993	111,915	2.67%	8,594	287.14%
Total loans			280,097	116,661,092	0.24%	1,858,664	663.58%
			Overdue Receivables	Receivables	Delinquency Ratio	Allowance for Possible Losses	Coverage Ratio
Credit cards			472	149,310	0.32%	34,447	7,086.23%
Accounts receivable factoring without recourse (Note 7)			-	-	- %	-	- %

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming / Non-accrued Loans."

Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: NPL ratio= Nonperforming loans ÷ Total loan balance.

For credit card business: Delinquency ratio= Overdue credit card receivables ÷ Credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Overdue credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower or the spouse or the minor children of the borrower.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude mortgages, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factoring without recourse are reported as overdue receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

b) Exemption of nonperforming loans and overdue receivables

	December 31, 2018		December 31, 2017	
	Amount exempted from reporting as non-performing loans	Amount exempted from reporting as overdue account receivable	Amount exempted from reporting as non-performing loans	Amount exempted from reporting as overdue account receivable
Amounts of executed contracts on negotiated debts not reported (Note 1)	8,697	1,572	11,999	2,512
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	271,822	2,018	288,213	2,389
Total	280,519	3,590	300,212	4,901

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

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

(Continued)

c) Concentration of credit extensions

December 31, 2018			
Rank (Note 1)	Business Groups' Standard Industrial Classification and Symbol (Note 2)	Total Amount of Credit Endorsement or Other Transactions (note 3)	Percentage of the Bank's Equity (%)
1	n Company - Real Estate	811,840	7.49
2	i Company - Private Pulp, Paper and Paper Products Manufacturing	507,382	4.68
3	k Company - Private Food Products Manufacturing	349,000	3.22
4	s Company - Transport	339,630	3.13
5	o Company - Real Estate	302,000	2.79
6	l Company - Civil Engineering	298,605	2.75
7	r Company - Private Civil Engineering	265,006	2.44
8	p Company - Other Manufacturing	229,115	2.11
9	l Company - Electronic Parts and Components Manufacturing	221,220	2.04
10	b Company - Private Wholesales	210,097	1.94

December 31, 2017			
Rank (Note 1)	Business Groups' Standard Industrial Classification and Symbol (Note 2)	Total Amount of Credit Endorsement or Other Transactions (note 3)	Percentage of the Bank's Equity (%)
1	n Company - Real Estate	811,840	7.89
2	i Company - Private Pulp, Paper and Paper Products Manufacturing	387,835	3.77
3	k Company - Private Food Products Manufacturing	364,400	3.54
4	s Company - Transport	351,000	3.41
5	o Company - Real Estate	287,600	2.80
6	l Company - Civil Engineering	253,678	2.47
7	r Company - Private Civil Engineering	245,800	2.39
8	p Company - Other Manufacturing	233,123	2.27
9	l Company - Electronic Parts and Components Manufacturing	232,217	2.26
10	b Company - Private Wholesales	221,000	2.15

Note 1: The top ten enterprise groups other than government or state-owned enterprises are ranked according to their total outstanding credit amount. If the borrowers belong to an enterprise group, the aggregate credit balance of the enterprise should be calculated and disclosed as a code number for each such borrower together with an indication of the borrowers' line of business. In addition, if the borrowers are enterprise groups, the enterprise group's industry sector with the maximum exposure to credit risk in its main industry sector should be disclosed, along with the "class" of the industry, in compliance with the Standard Industrial Classification System of the R.O.C. posted by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C.

Note 2: Enterprise group is as defined in Article 6 of the "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings".

Note 3: Consists of loans (foreign currency imports financing, foreign currency export financing, notes discounted, customer overdrafts, short-term unsecured loans, short-term secured loans, receivables from securities lending, medium-term unsecured loans, medium-term secured loans, long-term unsecured loans, loan-term secured loans, non-performing loans), foreign currency long positions, accounts receivable-factoring discount, bankers' acceptance receivable, guarantees receivable.

(iv) Liquidity risk

1) Causes and definition of liquidity risk

The Group's definition for liquidity risk is the risk the Group encounter difficulty in meeting the obligations with its financial liabilities and cause the losses, for example, a saving account cancels its saving ahead of time, the ways or conditions to call loans to banks drop, creditors' credit become worsen and cause an exceptional

(Continued)

condition, financial instruments cannot be financed and etc. The situation mentioned above may reduce the money for lending, trading, and investing activities. In some extreme situation, the lack of liquidity may decrease the level of balance sheet, sale assets, or the possibility of could not fulfill the promise of loan. Liquidity risk is containing in the inherent risk of bank operating, and could be affected by every industry individual or whole market's incident, which are included but not only as: credit event, consolidation or merger and acquisition, system shock, and natural disaster.

2) Management policy of liquidity risk

The Group carries out its management procedures respectively and is monitored by their respective independent risk management department. The procedures include:

- a) Daily capital movement: monitoring future cash flows in order to ensure all requirements are fulfilled.
- b) Maintain adequate stock of liquid assets to buffer unexpected events that may interrupt cash flows.
- c) Monitor liquidity ratios of balance sheets in accordance with the internal management purposes and external regulatory requirements.

The monitoring and reporting procedures are based on the estimation of future 1 month, 1-3 months, 3-6 months, 6-12 months and one-year capital flow. The estimation of future cash flow is based on the contract maturity date of financial liabilities and the estimated collection date of financial assets. The Bank monitors the interest rate risk, structure of assets and liabilities, and the liquidity conditions based on the related report and indices in ALCO and set alert and limits or MAT based on the key indices.

Related information is regularly provided to the risk management committee and BOD.

3) To manage liquidity risk of financial assets hold and non-derivative financial liabilities maturity analysis

a) To manage liquidity risk of financial assets held

The financial assets include cash and assets that are of highly liquid and high quality for the purpose of paying liabilities and capital movement during emergency. The assets held for managing liquidity risk include cash and cash equivalents, due from the central bank and call loans to banks, financial assets at FVTPL, discounts and loans, financial assets at fair value through other comprehensive income(policy applicable after January 1,2018) available-for-sale financial assets (policy applicable before January 1,2018), financial assets at amortized cost (policy applicable after January 1,2018), and held-to-maturity financial assets (policy applicable before January 1,2018).

b) Maturity analysis for non-derivative financial liabilities

The Group's non-derivative financial liabilities are based both on the maturing of assets and liabilities, and the corresponding interest rate and controlled gaps that do not match. As the transaction conditions are uncertain and are of different types, the maturity of assets and liabilities usually does not match. This may result in gains or losses.

The following table shows the maturity analysis of liquidity based on liabilities.

December 31, 2018	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year	Total
Due to the Central Bank and call Loans from Banks	-	25,670	-	38,800	-	64,470
Payables	554,567	34,182	108,537	69,546	23,371	790,203
Current tax liabilities	-	-	50,525	-	-	50,525
Deposit and remittance	14,841,009	19,190,712	25,471,068	44,581,940	45,518,374	149,603,103
Financial debentures	-	-	-	-	3,000,000	3,000,000

(Continued)

December 31, 2017	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year	Total
Due to the Central Bank and call Loans from Banks	13,367	25,670	-	38,800	-	77,837
Payables	365,341	263,709	118,541	53,698	24,458	825,747
Current tax liabilities	-	-	82,787	-	-	82,787
Deposit and remittance	14,635,905	17,949,656	23,448,795	45,928,546	42,372,588	144,335,490
Financial debentures	-	1,500,000	-	-	1,800,000	3,300,000

4) The maturity analysis of lease agreement

Te derivative instruments of the Group's possession which are settled by net amount include foreign derivative instruments, such as non-delivery forward contracts, foreign exchange options settled by net amount. After evaluation the Groups concluded that the maturity date is the basic element to comprehend all the derivative financial instruments listed in the consolidated financial statement.

The maturity analysis of derivative financial liabilities settled by net amount is as follows:

	December 31, 2018					
	0-30 days	31-90 days	91-180 days	180-365 days	Over 365 days	Total
Financial assets measured at fair value through profit or loss, Derivative instruments						
Foreign exchange	\$ 360	-	-	-	-	360

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	180-365 days	Over 365 days	Total
Financial assets measured at fair value through profit or loss, Derivative instruments						
Foreign exchange	\$ 16	-	-	-	-	16

5) Maturity analysis for off balance sheet items

The table below shows the maturity analysis of the off-balance-sheet items of the Bank based on the remaining days from the consolidated financial statement date to the contract maturity date. For the financial guarantee contracts issued, the maximum amount of the guarantee is listed in the earliest time zone that the guarantee may be executed. The amount disclosed is based on the cash flows of the contracts and thus part of the amount disclosed may not correspond to the amount disclosed in the consolidated financial statement.

December 31, 2018	0~30 days	31~90 days	91~180days	181~365 days	Over 356 days	Total
Commitment of loans	2,470,933	4,879,766	7,210,840	1,823,472	-	16,385,011
Commitment for letter of credit card	-	15	517	559	21,635	22,726
Undrawn letters of credit	-	-	-	12,650	-	12,650
Guarantees	-	62,100	201,959	-	-	264,059

(Continued)

December 31, 2017	0~30 days	31~90 days	91~180 days	181~365 days	Over 356 days	Total
Commitment of loans	2,578,825	5,118,749	7,536,474	3,260,160	-	18,494,208
Commitment for letter of credit card	-	128	321	1,094	18,625	20,168
Undrawn letters of credit	-	-	-	8,350	-	8,350
Guarantees	-	38,900	200,000	-	-	238,900

6) The maturity analysis of lease agreement

The lease contracts of the Group are operating lease and financial lease. Operating lease commitment is the future minimum rental payment under irrevocable operating lease condition.

The maturity analysis of lease agreement is as follows:

December 31, 2018	Less than 1 year	1~5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	45,069	102,183	-	147,252
Operating lease income (Lessor)	13,327	32,134	2,600	48,061

December 31, 2017	Less than 1 year	1~5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	44,751	85,082	-	129,833
Operating lease income (Lessor)	19,987	33,687	2,000	55,674

7) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a) Maturity analysis of assets and liabilities in New Taiwan Dollars

(in thousands of New Taiwan dollars)

December 31, 2018							
	Total	Amount for each remaining period to maturity					
		0~10 days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Main capital inflow on maturity	\$ 163,500,839	21,914,559	10,724,343	4,135,074	6,739,801	13,005,878	106,981,184
Main capital outflow on maturity	179,444,551	6,963,856	9,718,758	23,967,223	32,961,156	46,253,290	59,580,268
Gap	(15,943,712)	14,950,703	1,005,585	(19,832,149)	(26,221,355)	(33,247,412)	47,400,916

(in thousands of New Taiwan dollars)

December 31, 2017							
	Total	Amount for each remaining period to maturity					
		0~10days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Main capital inflow on maturity	\$ 158,279,283	19,914,407	11,146,649	4,000,663	7,510,719	13,768,275	101,938,570
Main capital outflow on maturity	175,951,980	6,387,728	9,578,237	25,269,266	31,290,704	48,720,586	54,705,459
Gap	(17,672,697)	13,526,679	1,568,412	(21,268,603)	(23,779,985)	(34,952,311)	47,233,111

(Continued)

b) Maturity analysis of assets and liabilities in US Dollars

(in thousands of USD)

December 31, 2018						
	Total	Amount for each remaining period to maturity				
		0~30 days	31~90 days	91~180 days	181 days~1 year	Over 1 year
Main capital inflow on maturity	\$ 102,030	36,850	26,594	5,130	3,937	29,519
Main capital outflow on maturity	102,030	80,662	8,894	5,218	6,668	588
Gap	-	(43,812)	17,700	(88)	(2,731)	28,931

(in thousands of USD)

December 31, 2017						
	Total	Amount for each remaining period to maturity				
		0~30 days	31~90 days	91~180 days	181 days~1 year	Over 1 year
Main capital inflow on maturity	\$ 98,654	27,631	41,961	2,704	3,439	22,919
Main capital outflow on maturity	98,654	79,580	6,705	4,188	7,744	437
Gap	-	(51,949)	35,256	(1,484)	(4,305)	22,482

(v) Financial risk information

1) Market risk

Market risk means the changes in market price that lead to the fair value and future cash flow volatility risk of the held financial instruments, even if it is not included in the financial statements. The risk factors usually refer to interest rate, exchange rate, equity investment and price. When the factors change, the Group's net operating income and the value of investment portfolio will have volatility risk.

The main market risks of the Group and its subsidiary are interest rate risk, exchange rate risk and equity investment risk. The main position of interest rate risk includes transactions with conditions, bonds, securities investments, interest rate swaps and so on. The main position of exchange risks includes forward exchange, foreign exchange swaps, and FX options and so on. The main position of equity investment risk includes stocks, funds, and stock market index futures and so on.

The major objective of the risk management of the Group is to control the risk under the scope approved by the board of directors by using effective management methods to utilize resource and create maximum economic profit. For major risks, the Group had established the risk management policies to serve as its primary principle, which covers managerial objective, organizational structure, accountability, and risk management procedures, and by implementing these mechanisms, operational risks can be controlled at an acceptable level.

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rate (including credit spread), foreign exchange rate, securities price and commodity price. The market correlation and liquidity of these types of instruments are also covered.

The Group divides market risk exposures into either trading or non-trading portfolios. The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making. The non-trading portfolio includes positions not held for the purpose of earning capital gains.

(Continued)

Sensitivity analysis for exchange rate risk, interest rate risk and equity security price risk is as follows:

December 31, 2018			
Main risk	Range	Amount influence	
		Equity	Gain or loss
Exchange rate risk	USD/NTD, EUR/NTD increase 3%, other currency/NTD decrease 5%	-	22,737
Exchange rate risk	USD/NTD, EUR/NTD decrease 3%, other currency/NTD decrease 5%	-	(22,737)
Interest rate risk	Interest rate curve rise 100BPS	-	(80,407)
Interest rate risk	Interest rate curve fall 100BPS	-	80,407
Price of equity stock risk	Price of equity stock rise 15%	-	13,827
Price of equity stock risk	Price of equity stock fall 15%	-	(13,827)

December 31, 2017			
Main risk	Range	Amount influence	
		Equity	Gain or loss
Exchange rate risk	USD/NTD, EUR/NTD increase 3%, other currency/NTD decrease 5%	-	21,944
Exchange rate risk	USD/NTD, EUR/NTD decrease 3%, other currency/NTD decrease 5%	-	(21,944)
Interest rate risk	Interest rate curve rise 100BPS	-	(71,934)
Interest rate risk	Interest rate curve fall 100BPS	-	71,934
Price of equity stock risk	Price of equity stock rise 15%	-	12,161
Price of equity stock risk	Price of equity stock fall 15%	-	(12,161)

2) Exchange rate risk concentration information

All held foreign financial assets and liabilities are classified by currencies and represented using the carrying amounts.

(in thousands of New Taiwan dollars)

December 31, 2018	USD	JPY	CNY	EUR	ZAR	Total
Foreign currency Financial assets						
Cash and cash equivalents	39,205	19,766	13,246	9,925	-	82,142
Due from Central Bank and call loans to bank	1,075,587	51,163	1,242	42,750	163	1,170,905
Available-for-sale financial assets	295,827	-	-	-	-	295,827
Discounts and loans	904,900	-	-	2,816	-	907,716
Receivables	91,581	-	-	12	-	91,593
Others	728,583	28,463	165,549	7,469	59,688	989,752
Total assets	3,135,683	99,392	180,037	62,972	59,851	3,537,935
Foreign currency Financial liabilities						
Deposits and remittances	1,894,510	99,392	154,869	62,971	54,038	2,265,780
Payables	107,210	-	20,749	1	5,716	133,676
Others	1,115,900	-	4,419	-	97	1,120,416
Total liabilities	3,117,620	99,392	180,037	62,972	59,851	3,519,872

Note: As of December 31, 2018, USD/TWD: 30.7330; JPY/TWD: 0.2784; CNY/TWD: 4.4742; EUR/TWD: 35.2047; ZAR/TWD: 2.1286.

(Continued)

(in thousands of New Taiwan dollars)

December 31, 2017	USD	NZD	ZAR	AUD	CAD	Total
Foreign currency Financial assets						
Cash and cash equivalents	23,769	-	-	-	-	23,769
Due from Central Bank and call loans to bank	999,126	968	445	198,844	960	1,200,343
Available-for-sale financial assets	171,551	-	-	-	-	171,551
Discounts and loans	1,026,573	-	-	-	-	1,026,573
Receivables	29,745	-	-	341	-	30,086
Others	1,474,413	70,789	154,104	288,620	17,753	2,005,679
Total assets	3,725,177	71,757	154,549	487,805	18,713	4,458,001
Foreign currency Financial liabilities						
Deposits and remittances	2,020,775	70,585	64,026	211,016	18,574	2,384,976
Payables	11,148	82	195	10,552	35	22,012
Others	1,680,200	1,090	90,328	266,237	104	2,037,959
Total liabilities	3,712,123	71,757	154,549	487,805	18,713	4,444,947

Note: As of December 31, 2017, USD/TWD: 29.8480; NZD/TWD: 21.2010; ZAR/TWD: 2.4191; AUD/TWD: 23.2635; CAD/TWD: 23.7795.

3) Disclosure required by the Regulations Governing the Preparation of Financial Reports by Public Banks.

a) The analysis table of interest rate sensitivity in New Taiwan Dollars

December 31, 2018

(in thousands of New Taiwan dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 117,745,429	5,391,054	1,738,381	31,220,213	156,095,077
Interest-rate-sensitive liabilities	58,519,538	70,141,900	16,053,978	2,979,648	147,695,064
Interest rate sensitivity gap	59,225,891	(64,750,846)	(14,315,597)	28,240,565	8,400,013
Net worth					10,843,057
Ratio of interest-rate-sensitive assets to liabilities (%)					105.69
Ratio of interest rate sensitivity gap to net worth (%)					77.47

December 31, 2017

(in thousands of New Taiwan dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 116,337,615	5,092,077	1,387,938	28,831,348	151,648,978
Interest-rate-sensitive liabilities	27,841,929	74,515,917	37,013,834	3,218,425	142,590,105
Interest rate sensitivity gap	88,495,686	(69,423,840)	(35,625,896)	25,612,923	9,058,873
Net worth					10,291,053
Ratio of interest-rate-sensitive assets to liabilities (%)					106.35
Ratio of interest rate sensitivity gap to net worth (%)					88.03

Note 1: The above amount included only new Taiwan dollar amounts held by the Bank, and excluded contingent assets and contingent liabilities.

Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues and costs affected by interest rate changes.

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

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets/Interest-rate-sensitivity liabilities.

(Continued)

b) The analysis table of interest rate sensitivity in US Dollars

December 31, 2018

(in thousands of USD)

Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 38,490	2,122	3,937	29,519	74,068
Interest-rate-sensitive liabilities	49,793	5,201	6,650	-	61,644
Interest rate sensitivity gap	(11,303)	(3,079)	(2,713)	(29,519)	12,424
Net worth					588
Ratio of interest-rate-sensitive assets to liabilities (%)					120.15
Ratio of interest rate sensitivity gap to net worth (%)					2,112.93

December 31, 2017

(in thousands of USD)

Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 44,562	2,697	3,437	22,919	73,615
Interest-rate-sensitive liabilities	55,645	4,178	7,729	-	67,552
Interest rate sensitivity gap	(11,083)	(1,481)	(4,292)	22,919	6,063
Net worth					437
Ratio of interest-rate-sensitive assets to liabilities (%)					108.98
Ratio of interest rate sensitivity gap to net worth (%)					1,387.41

Note 1: The above amount included only new Taiwan dollar amounts held by the Bank, and excluded contingent assets and contingent liabilities.

Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues and costs affected by interest rate changes.

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

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets/Interest-rate-sensitivity liabilities.

(a) Capital management**(i) Introduction**

In accordance with the “Regulations Governing the Capital Adequacy and Capital Category of Banks” announced by FSC, regular calculation and preparation of related reports and report to the authorities for review are required in order to perform financial disclosures and conduct internal capital adequacy management. In accordance with the operation plans and budget targets, also considering the Group’s development strategy, capital adequacy, liabilities ratios, and increased of return on equity.

(ii) Regulatory capital

Based on the “Regulations Governing the Capital Adequacy and Capital Category of Banks” announced by FSC, self-owned capital is classified into Tier 1 capital and Tier 2 capital:

1) Tier 1 capital: includes common equity and other Tier 1 capital.

a) Common equity: Common equity includes common stock, capital surplus (excluding premium on preference shares issuance), accumulated surplus and equity adjustments, less the following items: intangible assets (including goodwill), unamortized loss on disposal of non-performing loans, major investments, deferred tax assets, deferred pension costs and the items originally deducted from Tier 1 capital and Tier 2 capital.

b) Other Tier 1 capital including non-cumulative perpetual preferred stock and non-cumulative perpetual subordinated debts.

2) Tier 2 capital: includes cumulative perpetual preferred stock, cumulative perpetual subordinated debts, revaluation appreciation, convertible debt, operational provisions and loan-loss reserves

(Continued)

(iii) Capital adequacy ratio:

Item		Year	December 31, 2018	December 31, 2017
Eligible Capital	Common stock capital		10,542,187	9,950,751
	Other tier 1 capital		574,247	-
	Tier 2 Capital		3,435,395	3,112,248
	Eligible capital		14,551,829	13,062,999
Risk-weighted Assets	Credit risk	Standardized approach	103,195,398	98,167,383
		Internal-rating-based approach	-	-
		Secularization	671,320	-
	Operational risk	Basic indicator approach	5,217,355	5,118,685
		Standardized approach / Alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	3,604,702	4,918,013
		Internal model approach	-	-
	Total Risk-weighted assets		112,688,775	108,204,081
Capital adequacy ratio			12.91%	12.07%
Ratio of common stock equity to risk-weighted assets (%)			9.36%	9.20%
Ratio of tier 1 capital to risk-weighted assets (%)			9.86%	9.20%
Leverage Ratio%			6.00%	5.51%

Note 1: Eligible capital, risk-weighted assets and risk exposure are calculated under the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks."

Note 2: Formulas used were as follows:

- 1) Eligible capital = Common equity capital + Other tier 1 capital excluding common stock equity + Tier 2 capital
- 2) Risk-weighted assets = Risk-weighted assets for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 4) Ratio of common equity to risk-weighted assets = Common equity ÷ Risk-weighted assets.
- 5) Ratio of tier 1 capital to risk-weighted assets = (Common equity capital + additional tier 1 capital) ÷ Risk-weighted assets.
- 6) Leverage = Tier 1 capital ÷ Exposure measurement.

(7) Related-party transactions:

(a) Relations parties of Name and Relationship

Relations parties of Name	Relationship
Other	Director, supervisors, managers of the Company and their relatives.

(b) Significant transactions with related parties

(i) Loans

December 31, 2018							
Type	Account Volume (Number of Names)	Highest Balance	Ending Balance	Loan classification		Collateral (note2)	Differences in Transaction Terms from Those for Unrelated Parties
				Normal Loans	Non-performing loans		
Consumer loans for employees	2	\$ 848	-	-	-	Credit etc	None
Private housing mortgage loan	3	13,066	8,510	8,510	-	Real estate	None
Other loans	17	119,889	81,990	81,990	-	Time deposits etc.	None

(Continued)

December 31, 2017

Type	Account Volume (Number of Names)	Highest Balance	Ending Balance	Loan classification		Collateral (note2)	Differences in Transaction Terms from Those for Unrelated Parties
				Normal Loans	Non-performing loans		
Consumer loans for employees	2	\$ 1,024	141	141	-	Credit etc	None
Private housing mortgage loan	3	9,585	4,876	4,876	-	Real estate	None
Other loans	14	74,998	56,599	56,599	-	Time deposits etc.	None

Loans for related parties are 90,500 thousands and 61,616 thousands on December 31, 2018 and 2017, and the ratio of it to total loan is 0.08% and 0.05%, respectively. Interest income from related parties is 1,159 thousands and 1,034 thousands for 2018 and 2017, and the ratio of it to total interest income is the same as 0.03%, respectively. The range for related parties' loan interest rate is 1.60%~2.98% and 1.60%~2.75% for 2018 and 2017, respectively.

Loans for main management are 1,350 thousands and 1,970 thousands on December 31, 2018 and 2017, and the ratio of it to total loan is 0.001% and 0.002%, respectively. Interest income from main management is the same as 32 thousands for 2018 and 2017 respectively, and the ratio of it to total interest income is the same as 0.001%. The range for related parties' loan interest rate is the same as 1.60%.

(ii) Deposits

December 31, 2018			
Name of related parties	Ending Balance	%	The range of interest rate
The sum of separate accounts balances related parties' is lower than 1% of total deposits.	\$ 266,127	0.18	0.09%~1.14%

December 31, 2017			
Name of related parties	Ending Balance	%	The range of interest rate
The sum of separate accounts balances related parties' is lower than 1% of total deposits.	\$ 208,297	0.14	0.08%~1.29%

Interest resulting from such deposits was \$1,245 thousands and \$3,910 thousands for 2018 and 2017. The range for employee demand savings deposits interest rate was approximately the same as 8.87%.

(c) Compensation information for main management

	2018	2017
Salary and other short-term employee benefits	\$ 49,194	52,573
Post-employment benefits	489	509
Termination benefits	-	-
Other long-term employee benefits	-	-
Share-based payment	-	290
	<u>\$ 49,683</u>	<u>53,372</u>

(8) Pledged assets:

Government bonds provided and deposited as trust compensation and placed as deposits in courts please refer to note 6(g) and 6(h).

(Continued)

(9) Significant commitments and contingencies:

	December 31, 2018	December 31, 2017
Collections received	\$ 9,432,756	10,016,346
Handled several guarantees	2,046,806	2,332,848
Entrusted with the sale of travelers checks	3,150	3,332
Letter of credit	133,500	146,809
Undrawn loan commitments	16,684,446	18,761,626

The plaintiff Xiandeng International Co., Ltd. re-elected the eighth director of the company in the first shareholders' meeting in the Republic of China in 2017, arguing that the company will handle the cash increase, because the original shareholders and employees waived the shares of the shares, and the board of directors authorized the regular board to meet the specific person. (Including the directors and their interested parties), according to the issue price, they filed a lawsuit with the Taichung District Court in Taiwan, requesting the cancellation of the resolution of the shareholders' meeting. The company has commissioned a lawyer's lawsuit and is still being tried by the court. The Company assesses that the operations are all normal and does not cause major changes to the Company's business policies and decisions.

(10) Significant Disaster Loss: None**(11) Significant Subsequent Events: None****(12) Other:**

(a) Personnel expenses, depreciation, and amortization for the years ended December 31, 2018 and 2017, were summarized as follows:

Function	2018			2017		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel Expenses:						
Salaries	-	1,097,574	1,097,574	-	1,133,859	1,133,859
Labor and health insurance	-	80,519	80,519	-	80,365	80,365
Pension	-	48,337	48,337	-	49,166	49,166
Remuneration of directors	-	35,527	35,527	-	38,380	38,380
Others	-	95,556	95,556	-	90,363	90,363
Depreciation expenses	-	48,628	48,628	-	45,841	45,841
Amortization expenses	-	2,712	2,712	-	3,611	3,611

The Group had 1,124 and 1,155 employees, respectively, as of December 31, 2018 and 2017.

(b) Balance sheet and trust property under the Group's trust accounts are disclosed as follows:

Trust Balance Sheets
December 31, 2018

Trust Assets		Trust Liabilities	
Cash in bank	\$264,042	Trust capital - money	\$4,783,638
Investment in mutual fund	4,540,292	Trust capital - PP&E	397,801
Land	377,105		
Total trust assets	\$ 5,181,439	Total trust liabilities	\$ 5,181,439

(Continued)

December 31, 2017

Trust Assets		Trust Liabilities	
Cash in bank	\$ 217,343	Trust capital - money	\$ 4,429,504
Investment in mutual fund	4,212,161	Trust capital - PP&E	203,010
Land	203,010		
Total trust assets	<u>\$ 4,632,514</u>	Total trust liabilities	<u>\$ 4,632,514</u>

Trust Property list of trust account
December 31, 2018

Trust Assets	Trust Liabilities
Cash in bank	\$ 264,042
Investment in mutual fund	4,540,292
Land	377,105
	<u>\$ 5,181,439</u>

December 31, 2017

Trust Assets	Trust Liabilities
Cash in bank	\$ 217,343
Investment in mutual fund	4,212,161
Land	203,010
	<u>\$ 4,632,514</u>

Trust Income Statement
December 31, 2018

Trust Assets	Trust Liabilities
Trust Income	
Interest income	\$ 168
Trust Expense	
Management fees	(635)
Income loss before income taxes	(467)
Income tax expense	-
Net loss	<u>\$ (467)</u>

December 31, 2017

Trust Assets	Trust Liabilities
Trust Income	
Interest income	\$ 78
Trust Expense	
Management fees	(1,079)
Income loss before income taxes	(1,001)
Income tax expense	-
Net loss	<u>\$ (1,001)</u>

(Continued)

(c) Profitability:

Unit: %

Items		December 31, 2018	December 31, 2017
Return on assets ratio	Before income tax	0.55	0.68
	After income tax	0.46	0.59
Return on equity ratio	Before income tax	8.51	11.31
	After income tax	7.13	9.75
Net Income ratio		26.05	31.40

Note 1: Return on assets ratio = Net income before/after income tax ÷ average total assets.

Note 2: Return on equity ratio = Net income before/after income tax ÷ average total stockholders' equity.

Note 3: Net income ratio = Net income after income tax ÷ Net revenue.

(d) Seasonality of operations

The group is not affected by seasonal or cyclical factors

(13) Other disclosures:**(a) Information on significant transactions: None**

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

- (i) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 10% of the capital stock: None
- (ii) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock: None
- (iii) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock: None
- (iv) Service charge discounts on transactions with related parties in an aggregate amount of NT\$5 million or more: None
- (v) Receivables from related parties with amounts exceeding the lower of NT\$300 million or 10% of the capital stock: None
- (vi) Information on NPL disposal transaction: None
- (vii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None
- (viii) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No	Transaction Company	Counterparty	Nature of Relationship (Note 2)	2017 Description of Transactions			
				Financial Statement Account	Transaction Amount	Transaction Item	Percentage of Consolidated Revenue/Assets
0	COTA Commercial Bank	COTA Bank Insurance Brokers	1	Service fees	44,539	Same as regular transaction	1.52%
1	COTA Bank Insurance Brokers	COTA Commercial Bank	2	Commission expenses	44,539	Same as regular transaction	1.52%

- (ix) Other significant transactions that may have substantial influence upon the decisions made by financial report users: None

(b) Information on investees: None**(c) Information on investment in mainland China: None**

(Continued)

(14) Segment information:

(a) The Group has three segments need to be disclosed (consumers' financing, branches, and others). Each department provides different services and products, and managed separately based on their diverse techniques and marketing tactic. The higher level managements of the Group review each department's internal management report every quarter. The information of asset and income disclose by segments all follow the significant accounting policies stated above.

(b) The operation businesses of the segments which need to be disclosed were as follow:

2018	Consumers' financing	Branches	Others	Subtotal	Elimination	Total
Revenue						
Net interest income	\$ 1,138,931	986,183	450,494	2,575,608	(673)	2,574,935
Net service income	10,503	54,902	183,415	248,820	(1)	248,819
Other income-net	-	117	69,536	69,653	(218)	69,435
Income between segments	(381,524)	579,687	(198,163)	-	-	-
Total	767,910	1,620,889	505,282	2,894,081	(892)	2,893,189
Expenses						
Bad debt	79,791	113,313	(104,962)	88,142	-	88,142
Operating expenses	302,184	788,898	814,517	1,905,599	(89)	1,905,510
Total	381,975	902,211	709,555	1,993,741	(89)	1,993,652
Income before tax	\$ 385,935	718,678	(204,273)	900,340	(803)	899,537
December 31, 2018						
Assets	\$ 33,833,377	80,987,684	51,500,165	166,321,226	(1,273,032)	165,048,194
Liabilities	\$ 33,447,442	80,268,007	41,762,644	155,478,093	(1,272,956)	154,205,137

2017	Consumers' financing	Branches	Others	Subtotal	Elimination	Total
Revenue						
Net interest income	\$ 1,164,719	969,282	372,236	2,506,237	-	2,506,237
Net service income	11,869	141,041	93,887	246,797	-	246,797
Other income-net	-	52	273,749	273,801	(105,917)	167,884
Income between segments	(378,258)	433,489	(55,231)	-	-	-
Total	798,330	1,543,864	684,641	3,026,835	(105,917)	2,920,918
Expenses						
Bad debt	82,115	113,396	(288,625)	(93,114)	-	(93,114)
Operating expenses	320,436	802,253	818,500	1,941,189	9,007	1,950,196
Total	402,551	915,649	529,875	1,848,075	9,007	1,857,082
Income before tax	\$ 395,779	628,215	154,766	1,178,760	(114,924)	1,063,836
December 31, 2016						
Assets	\$ 34,805,811	80,188,252	45,604,831	160,598,894	(979,027)	159,619,867
Liabilities	\$ 34,410,033	79,546,984	36,357,325	150,314,342	(985,528)	149,328,814

(c) Service segment information

Services	2018	2017
Interest income for loans	\$ 3,087,609	3,047,018
Other interest income	491,299	450,546
Service income	272,161	265,777
	\$ 3,851,069	3,763,341

(d) Geographic segment information:

The Group's interest income and service fee income are both from the customers in Taiwan. The Group's non-current assets are all located in Taiwan.

(e) Information on major customers:

For the years ended December 31, 2018 and 2017, no individual customer of the Group accounted for 10% or more of the Bank and its subsidiaries' revenue in the statements of income.



7

Financial Status Analysis, Operation Performance Analysis and Risk Management

7 Financial Status Analysis, Operation Performance Analysis and Risk Management

7-1. Financial Status

Unit: TWD thousand

Item \ Year	2018	2017	Difference	
			Amount	%
Total Asset	165,048,194	159,619,867	5,428,327	3.40
Total Liability	154,205,137	149,328,814	4,876,323	3.27
Total Equity	10,843,057	10,291,053	552,004	5.36

Remarks: Equity increased was due to Capital Increased by earnings.

7-2. Operation Performance

Unit: TWD thousand

Item \ Year	2018	2017	Increase/Decrease Amount	Increase/Decrease Ratio (%)
Interest income	3,578,908	3,497,564	81,344	2.33
Interest expense	1,003,973	991,356	12,617	1.27
Non-interest income, net	318,254	404,313	(86,059)	(21.29)
Net revenue	2,893,189	2,910,521	(17,332)	(0.60)
Bad debt expense	88,142	(93,114)	181,256	(194.66)
Operating expense	1,905,510	1,940,954	(35,444)	(1.83)
Income before income tax	899,537	1,062,681	(163,144)	(15.35)
Net income	753,611	917,282	(163,671)	(17.84)

Remarks of Ratio Changes analysis:

1. Net non-interest income decreased by TWD86,059 thousand was due to gain on asset reversal of impairment loss in 2017 TWD162,574 thousand.
2. Bad debt expense increased was due to the quality decrease on loan.

7-3. Cash Flow

7-3-1. Cash Flow Analysis for the Past Year and Remedy for Shortage of Liquidity:

Unit: TWD thousand

Initial Cash Residual (1)	Yearly Operating Cash Flow (2)	Yearly Cash Inflow (3)	Residual Cash Amount (deficiency) (1)+(2)+(3)	Cash Deficiency Contingency Plan	
				Investment Plan	Financial Plan
4,994,850	1,017,166	(534,175)	5,477,841	-	-

Remarks:

1. Cash Flow Analysis
 - (1) Operating activities: The net cash inflow from operating activities due primarily to loans, deposits remittances and investment in financial products
 - (2) Investing activities: The net cash inflow from investing activities due primarily to purchase or sell property or equipment.
 - (3) Financial activities: The net cash outflow from financial activities due issuing and repaying financial bonds or cash dividend distribution.
2. Improvement plan on shortage of liquidity: Not applicable as an occurrence of shortage.

7-3-2. Cash Flow Analysis for Coming Year

Unit: TWD thousand

Initial Cash Residual (1)	Estimated Yearly Operating Cash Flow (2)	Estimated Yearly Cash Inflow (3)	Estimated Residual Cash Amount (deficiency) (1)+(2)+(3)	Cash Deficiency Contingency Plan	
				Investment plan	Financial Plan
5,477,841	(365,317)	67,633	5,180,157	-	-

Remarks:

The Bank predicts that the net cash outflow from operating activities will be TWD 365,317 thousand in 2019. In addition, the Bank estimates the cash inflow from investment and financial activities will be TWD 67,633 thousand due to property and equipment purchase, issuing financial bonds, and cash dividend distribution.

7-4. Impact of Major Capital Expenditures in Recent Year

7-4-1. Utilization of major capital expenditures and sources of Funds: None

7-4-2. Expected potential benefit: None

7-5. Reinvestment Policy, Improvement Plan and Investment Plan in Next Year

7-5-1. Reinvestment Policy

The reinvestment items major in financial business of COTA Bank and the goal of holding long-term earned dividends. Regarding new reinvestment, the authorized unit shall submit proposal to "Asset, Liability and Risk Management Committee" for discussion and then get approval from standing committee of board. The authorized unit shall closely monitor operation and financial condition of invested companies and report to "Asset, Liability and Risk Management Committee" in timely basis to ensure investment performance.

7-5-2. Source of Profit

The cash dividend from reinvest companies:

Taiwan depository and clearing corporation; Taiwan Financial Asset Service Corp.; Taiwan Asset Management Corp.; Sunny Asset Management Corp.

7-5-3. Improvement Plan

Establishment Insurance Agency Department in 2017.5.1, the Bank will merge COTA Bank Insurance Broker Co., Ltd. to the Bank's Insurance Agency Department. The Bank will actively cooperate with major insurance companies to introduce appropriate products to meet customers' needs. The Bank will provide proper training to employees that may help customers to realize their actual demands, to perform the function of the insurance, to bring safety feeling to customers, and to increase the Bank's insurance premium income.

7-5-4. Investment Plan in Next Year

The Bank sets its main operation target in banking business, therefore no new reinvestment plan undertaking for coming year.

7-6. Risk Management

7-6-1. Financial Risk Information

7-6-1-1. Credit Risk

Credit Risk Management System

Year 2017

Items	Contents
1. Strategies, Objectives, Policies, and Processes	<p>The Bank's credit risk policies and processes comply with Basel II and supervisory regulations. The Bank also created credit risk guidelines in written form such as the code of credit, the bylaws of credit information, the law of the credit responsibility and accountability, the bylaws of handle collateral, the business strategy and law of financial derivatives and all kinds of operation handbooks. They provide strict standard on loans, monitor credit risk, and manage non-performing loans. At the same time, since the change in economic cycle will affect the quality of the loan portfolio, the Bank will execute credit policies to ensure credit exposures under control.</p> <p>The Bank will consider developing the internal credit scoring system. The system will identify and estimate risks from all credit exposures.</p> <p>The Bank established a framework for managing credit risk. The framework may execute risk analysis and monitor risk process. It also may discover potential risks that the Bank may response adequately. In addition, it may assess the relation between risk and return to ensure the goal of the Bank's business.</p>
2. The Structure, and Organization of the Risk Relevant Management Function	<p>(1) The Board of Directors: The Bank's board of directors is the supervisor of credit risk management. The board is responsible for the Bank's business strategies and operation guidelines, and is responsible for reviewing credit risk framework and policies. It also authorizes management to execute credit risk management.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee executes the board's risk policies and reports risk profile to the board.</p> <p>(3) Credit Reviewing Committee: The committee reviews the large amount of loans, specific non-performing loans, and the appointed loans.</p> <p>(4) Risk Management Center: The subcommittee integrates credit risk strategies, designs processes, and introduces credit identification, measurement, monitor, and reporting systems.</p> <p>(5) Other Bank's Units: They should understand credit risks under any circumstances, should deal with the assignment of risk management, and should assist risk management subcommittee in risk monitor.</p> <p>(6) Audit Office: The office should establish audit plan and process, and should review the Bank's credit and investment risks at least once a year.</p>
3. The Scope and Nature of the Risk Reporting and/or Measurement Systems	<p>The Bank adjusts credit risk system to produce enough information according as the change of loan portfolio. The information includes: statistics of pass due loans, evaluation of non-performing loans, and statistics of large amount credit exposure. The board and senior management will receive the information periodically, and will make appropriate business and credit risk decision. In addition, the credit risk measurement to the Bank considers the following factors:</p> <p>(1) Loan characteristics, contract contents, and customers' financial conditions</p> <p>(2) The possible effect of the exposures from market change</p> <p>(3) Collateral and guarantee</p> <p>(4) The possible future risk change of the customers or counterparties</p> <p>(5) Besides specific trading risks, measuring loan portfolio risks</p> <p>The Bank gradually establishes internal rating framework and measures and analyzes loan risks through quantitative indexes and qualitative methods.</p>

Items	Contents
4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations	<p>The Bank follows the diversified principal on loans and complies with loan limit regulations such as the same person, the same party, relative corporation, stakeholder, and stocks as collateral for the loan. To avoid credit concentration risk, the Bank reviews and adjusts credit exposures regularly. For controlling the quality of the loan assets and mitigating credit risks, the Bank depends on the credit condition of the borrowers and uses a number of techniques to mitigate the credit risks. For example, the Bank demands collateral and guarantee...etc.</p> <p>The Bank had formulated "The Directions of lending rate pricing". The standard of lending rate considered the market rate, capital cost, operating cost, risk expected loss cost, reasonable profit. For market competition, the customer integral contribution will be the factor of lending pricing.</p> <p>The Bank had formulated "The Directions of the Loan Reviewing Operation" which reviews and follows the cases of the loan and strengthens after-loan management. If the Bank discovers the doubtful loans in the process, it should take necessary measures to protect debt obligations. In order to maintain an effectively monitors hip over credit risk, the Bank had established the indexes of the risk evaluation that regularly monitor the change of them and help to estimate the potential reasons of the future risk occurrence.</p>
5. Approach for calculating the Bank's capital requirement	Standardized approach

Exposure amount after risk mitigation and capital requirement of the standard approach
Dec. 31, 2018

Unit: TWD thousand

Category	Exposure amount after risk mitigation	Capital Requirement
Sovereigns	25,078,033	11,274
Non central government public sector entities	273,437	5,400
Banks (multilateral development banks)	2,339,887	65,119
Corporate (Securities firm and insurance companies)	25,209,826	2,349,834
Regulatory retail portfolios	81,676,115	6,484,290
Secured by residential property	17,257,238	994,380
Equities investment	0	0
Other assets	2,586,641	279,952
Total	154,421,177	10,190,249

7-6-1-2. Assets Securitization Risk**Assets Securitization Risk Management System**

Year 2017

Items	Contents
1. Strategies and Processes	<p>The Bank does not play the role such originator, service, credit enhance agency, or financial liquidity provider and expects to be an investor. The internal regulations for securitizations concentrate on the investor field. If there is necessary on originator field, it will be created in the future.</p> <p>Not only the Bank obeys article 74-1 of the Banking Act, but also it had formulated some investment limits such as total position limit, underlying instrument limit, and internal authorized limit.</p>

Items	Contents
2. The Structure, and Organization of the Risk Relevant Management Function	<p>(1) The Board of Directors: The Bank's board of directors is the supervisor for securitization risk management. The board is responsible for the Bank's business strategies, and is responsible for reviewing securitization decisions. It also monitors effective operation for managing framework.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee reviews the guidelines and policies of the securitization, controls indicators, and coordinates assignments relative to risk management.</p> <p>(3) Investment Subcommittee: For strengthening portfolio management and trading quality of the securitization, the subcommittee depends on the market condition to plan investment strategies.</p> <p>(4) Risk Management Center: The subcommittee draws strategies and processes of the securitization, designs and introduces risk identification, measurement, monitor, and reporting system.</p> <p>(5) Audit Office: The office should establish audit plan and process, and should review the Bank's risk management at least once a year.</p>
3. The Scope and Nature of the Risk Reporting and/or Measurement Systems	The Bank reports the periodic information of the securitization exposures to the senior management. It also disclosures in the annual report and on the website. The principal of the valuation should confirm the criteria of methodology and the fairness of the data. Furthermore, the managing reports should effectively control exposure positions and should provide appropriate measurement results to assist risk management processes.
4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations	The Bank regularly accesses the effectiveness of the strategies of the hedge positions and reviews the limits of the securitizations investment according to the volatility of the market prices. Both of the strategies and limits will report to Investment Subcommittee and make decision. Mitigations such as collaterals, guarantee, and credit derivatives apply to the standardized approach of the credit risk.
5. Approach for calculating the Bank's capital requirement	Standardized approach
6. General periodic disclosures including : (1) The purpose of securitization and the types of risks borne and retained by the Bank for re-securitization (2) Other risks associated with securitized assets(e. g. liquidity risk) (3) The different roles played by the Bank Asset securitization and the level of participation in every stage (4) Describe the monitoring procedures adopted for credit risk and market risk exposures associated with asset securitization (5) Risk management policies adopted by the Bank to mitigate credit risks associated with securitization and re-securitization	Not applicable
7. Provide an overall description of the Bank's accounting policies on securitization	Not applicable

Items	Contents
8. The name of the external Credit Assessment Institution(ECAI) engaged for asset securitization within the Banking book and the ECAI's involvement in every type of securitized asset	Not applicable
9. Describe any material changes of quantitative information since the last reporting period (e.g. shift of asset balances between the Banking book and the trading book)	Not applicable

Remarks:

Item6-9 only applicable to Originating Banks which there is flow in the external position

The undertaking of securitization: None

The original cost of the investing securitization product over TWD300 million in single deal: None

The holding positions due to credit enhancement purpose as an originator: None

As a credit enhancement agency or liquidating assets agency: None

As a guarantee agency or financial liquidity provider: None

Assets securitization exposures and capital requirements Dec. 31, 2018

Unit: TWD thousand

Type of Exposures		Type of Assets	Traditional				Synthetic		TOTAL			
			Risk Exposures				Capital Requirements (2)	Risk Exposures Purchasing or Holding (3)	Capital Requirements (4)	Risk Exposures (5)=(1)+(3)	Capital Requirements (6)=(2)+(4)	prior to Securitization Capital Requirements
			Purchasing or Holding	Provide Liquidity Facility	Provide credit enhancement	Sub-Total (1)						
Non-Originating Bank	Banking	Asset-based securities	Purchasing	-	-	53,706	53,706	-	-	53,706	53,706	-
	Book											
	Trading	-	-	-	-			-	-	-	-	-
	Book											
Originating Bank	Sub-Total	-	-	-	-			-	-	-	-	-
	Banking	-	-	-	-			-	-	-	-	-
	Book											
	Trading	-	-	-	-			-	-	-	-	-
	Book											
TOTAL	Sub-Total	-	-	-	-			-	-	-	-	-
		-	-	-	-	53706	53706	-	-	53706	53706	0

7-6-1-3. Operational Risk

Operational Risk Management System

Year 2018

Items	Contents
1. Strategies and Processes	The Bank's operational strategies and processes are restrained the division of labor, employees training, effective control framework, and internal control procedure of each level. In aspect of internal control, the Bank had fully formulated the system of the internal audit, self-audit, law obedience, and business operational rules that may to search on the internal website for employees' real time operation. The Bank reduces operational loss by internal and external audit to monitor and trace the risks. In order to assist all employees executing the processes of the operational risk, Risk Management Center is developing applied implements for managing operational.

Items	Contents
2. The Structure and Organization of the Relevant Risk Management Function	<p>(1) The Board of Directors: The Bank's board of directors is the supervisor for risk management. The board is responsible for the Bank's business strategies, and is responsible for reviewing significant decisions.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee follows risk management policies and procedures that the board of directors had approved. In addition, the committee is responsible to review the guidelines and policies of the operational risk, controls indicators, and coordinates assignments relative to risk management.</p> <p>(3) Risk Management Center: The subcommittee draws strategies and processes of the operational risk, designs and introduces risk identification, measurement, monitor, and reporting system. Moreover, the subcommittee develops the loss event databases of operational risk, gathers risk information from all Banks' units, and reports to ALM committee and the board of the directors regularly.</p> <p>(4) Headquarters' Units They should totally understand the risk that they are facing. When they codify operational regulations, they should consider operational risk management. They also should assist risk management subcommittee to accomplish all kinds of risk monitor.</p> <p>(5) Other Bank's Units: Everyone should comply with the Bank's regulations and should control operational risk. If risk event occurs, everyone should deal with the event immediately and should report to management.</p> <p>(6) Audit Office: The office should execute auditing processes independently and should provide improvement suggestion timely.</p>
3. The Scope and Nature of the Risk Reporting and/or Measurement Systems	The Bank had established the operational processes for business practices. The processes have been executed on daily operation management and to reduce the occurrence of the operational risk. The executive circumstance of the internal and external audit, self-audit, and the system of law obedience regularly reports to the board. The Bank adopts Supervisory regulation to classify loss event types and executes reporting system of the loss data of the operational risk and establishes whole bank's loss database of the operational risk. The Bank reports the periodic information of the operational risk to the Asset and Liability Management Committee and The Board of Directors. The Bank conducts the self-assessment of the operational events before the end of May every year, compliance system, internal audit system, and self-inspection system to manage and reduce operational risk.
4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations	The Bank hedges and mitigates risks through strengthening internal control system, implementing operational risk monitor, training employees, insurance, and outsourcing. The Bank's emergency center and crisis subcommittee had formulated the strategic manual of the disasters and the contingency measures of the operating crisis to ensure every business that may continue to operate normally when the crisis occurs and to protect significant loss of the Bank.
5. Approach for calculating the Bank's capital requirement	Basic indicator approach

The Operational Risk Capital Charge
Dec. 31, 2018

Unit: TWD thousand

Year	Annual Gross Income	Capital Charge
2016	2,694,665	
2017	2,759,163	
2018	2,893,939	
Total	8,347,767	417,388

7-6-1-4. Market Risk

Market Risk Management System

Year 2018

Items	Contents
1. Strategies and Processes	<p>In order to establish effective market risk management system, the Bank formulated market risk managing standard and other related regulations for the benchmark of the market risk management. To ensure the Bank's market risk under control, the functional responsibility divides into trading and settlement, and will involve in risk control system. The system is responsible for the risk identification, measurement, monitor, and reporting procedure.</p> <p>The strategies of the Bank's market risk are as follows: considering the characteristic of each instrument and market condition, regularly measuring endurable risks, expecting balance of returns and risks, optimizing investment allocation. The purpose of all strategies is to improve performance. On the other hand, the Bank formulated a limit system to effectively control risks and reduce exposures.</p>
2. The Structure and Organization of the Relevant Risk Management Function	<p>(1) The Board of Directors: The Bank's board of directors is the supervisor for risk management. The board is responsible to review market risk management system and market risk strategies, and to ensure the system reflects the Bank's business strategies.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee executes risk management strategies and frameworks that the board of directors had approved. In addition, the committee is responsible to review the principals, strategies, and monitoring indexes of the risk managing system and to coordinate and monitor each risk management relative to matters.</p> <p>(3) Investment Subcommittee: The subcommittee plans investment strategies and makes decision what the positions should be sold or hold.</p> <p>(4) Risk Management Center: The subcommittee draws strategies and processes of the market risk management, designs and introduces risk identification, measurement, monitor, and reporting system.</p> <p>(5) Related Units: They execute necessary duties of the risk management such monitoring traders and cooperate with Risk Management Center to finish each item of the risk monitor.</p> <p>(6) Audit Office: The office should establish audit plan and process, and should review the Bank's risk management at least once a year.</p>
3. The Scope and Nature of the Risk Reporting and/or Measurement Systems	<p>Market risk information system should be able to control exposures and provide appropriate risk measurement results. For the purpose of the evaluation, the positions divide into trading book and banking book. The banking book positions evaluate once a month, the trading book positions evaluate on a daily basis. The information about gain/loss and exposures will deliver to management which includes market risk management reporting, derivative financial instruments gain/loss assessment. As close to gain/loss the stop-loss warning of pointers would keep attention to the market changes and take measure to avoid over-limit. Related Units monitor the position of TWD and foreign currency assets, gain/loss and stop-loss alert system for keep the market risk within the limits of the bank strength. In 2015, the Bank will use the PIRS system established by TEJ to pricing Bonds, CBAS, Option to reflect the real market price and compliance with regulations.</p>
4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations	<p>The Bank's hedging strategy of the financial products include to use spots or derivatives to evade market price risks and to review each risk limit regularly such as trading position limits, traders' position limits, and stop loss limits. If the assessment indicates the risk overloaded, the Bank will transfer risks and reduce exposures. If dealers exceed their position limits, Risk Management Center should inform the facts and procedures to management and report daily until under limits. If dealers exceed their stop loss limits, they are required to execute positions.</p>
5. Approach for calculating the Bank's capital requirement	Standardized approach

The Market Risk Capital Charge
Dec. 31, 2018

Unit: TWD thousand

Risk Category	Capital Charge
Interest Rate Risk	212,436
Equity Position Risk	14,749
Foreign Exchange Risk	61,191
Option Position	0
Total	288,376

7-6-1-5. Liquidity Risk

According to operating cash flow, market movement, and minimum requirement of the liquidity reserves ratio, the Bank diversifies funding resources and maintains funding stability. Short-term investment considers the safety of the underlying assets, marketable on the secondary market, and lower liquidity risk such as NCDs, treasury bonds, corporate bonds, and bank debentures. The Bank takes some steps to manage liquidity, for example, monitoring the structural change of assets and liabilities in each period, editing "The Gapping Report of the TWD Cash Flow" weekly, making the reporting sheets of the risk management every month and reporting to Asset and Liability Management Committee, and transferring and operating funds effectively.

According to "Standards Implementing the Liquidity Coverage Ratio of Banks" promulgated on Dec. 29, 2014, our bank Liquidity Coverage Ratio (LCR) was 553.69% that achieved the minimum required 100%.

NSFR had formally implemented in 2018. Our Bank conducted the fourth quarter calculation was 136.51% in 2018, accord with the requirement that its rate must not be less than 100%.

Analysis for Time-to-Maturity of the Bank's TWD Assets and Liabilities
as of Dec. 31, 2018

Unit: TWD thousand

	Total	Volumes during the period prior to the due date					
		0~10 Days	11~30 days	31~90 days	91~180 days	181 days~1 year	Over 1 year
Major inflows of matured funds	163,500,839	21,914,559	10,724,343	4,135,074	6,739,801	13,005,878	106,981,184
Major outflows of Matured funds	179,444,551	6,963,856	9,718,758	23,967,223	32,961,156	46,253,290	59,580,268
Maturity Gap	(15,943,712)	14,950,703	1,005,585	(19,832,149)	(26,221,355)	(33,247,412)	47,400,916

Note: The bank portion refers to the amount of TWD in the whole bank.

Analysis for Time-to-Maturity of the Bank's USD Assets and Liabilities
as of Dec. 31, 2018

Unit: USD thousand

	Total	Volumes during the period prior to the due date				
		0~30 days	31~90 days	91~180 days	181 days -1 year	Over 1 year
Major inflows of matured funds	102,030	36,850	26,594	5,130	3,937	29,519
Major outflows of Matured funds	102,030	80,662	8,894	5,218	6,668	588
Maturity Gap	0	(43,812)	17,700	(88)	(2,731)	28,931

Note: The bank portion refers to the amount of USD in the whole bank.

7-6-2. Impact of Alterations in Domestic and Foreign Major Policies and Laws on the Bank's Financial Operations and Adopting Measures

7-6-2-1. Financial Supervisory Commission revised "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries"

- Change in Regulations

Financial Supervisory Commission revised "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" on March 22, 2017 and March 31, 2018.

- Impact and Response Measures

1. On December 22, 105, The bank established a code of practice for three lines of defense in internal control system, ensuring each of the three lines of defense to perform their own duties.
2. The bank revised "Implementation Rules for Compliance System" and executed related rules.
3. To establish rules for handling internal reporting cases, and deal with them quickly before the degree of the case is too big to avoid damage to goodwill.
4. Set up an information security unit and supervisor and the unit staffs may not concurrently conduct information or other businesses that have conflicts of interest with the position. Configure appropriate human resources and equipment.

7-6-2-2. The impact of the General Data Protection Regulation (hereinafter referred to as GDPR)

- Change in Regulations

With the development of digital economy technology and the impact of globalization, the issue of personal data protection has brought many new challenges. On May 24, 2016 The EU passed The General Data Protection Regulation (GDPR) to upgrade the thickness of regulations on protecting personal data and establish an applicable management standard in the EU. GDPR, which was implemented on May 25, 2018, replaces the European Union's 1995 Data Protection Directive.

- Impact and Adopting Measures

The bank has not established branches or subsidiaries in the EU. After reviewing the Bank's business development policies and actual business conditions, the Bank has revised the Bank's guideline for personal data maintenance and management.

7-6-2-3. Impact on Procedures for reporting the scope of major contingencies by financial institutions and other matters to be observed

- Change in Regulations

Financial Supervisory Commission announced Procedures for reporting the scope of major contingencies by financial institutions and other matters to be observed on Mar. 22, 2017. It includes the major contingencies reporting institution, scope, procedure, addition the check account occurred per bounce check amount exceeding TWD100 million, Financial Holding company or the head office of domestic bank get the information of foreign subsidiaries or branches that descended rating by the local authorities or the audit report mentioned about "not rule out taking counter measures" or "will retain the power of administrative sanctions", and subsumed the reporting mechanism under the financial institution internal control and check system.

- Impact and Adopting Measures

The bank had subsumed the above compliance matters under the financial institution internal control and check system.

7-6-2-4. Complying "Directions Governing Anti-Money Laundering and Countering the Financing of Terrorism of Banking Sector"

- Change in Regulations

As a result of "The Money Laundering Control Act", "Countering the Financing of Terrorism Act", and the anti-money laundering and countering the financing of terrorism act revised and amended by the Financial Supervisory Commission and Financial

Related Associations, The Bank established a special unit for anti-money laundry and countering terrorism financing under the Compliance and Legal Affairs Department; and ,pursuant the law, revised internal system of anti-money laundry and countering terrorism financing. Directors and senior management and staffs are required to participate in on-job trainings for education on anti-money laundry and countering terrorism financing. Information system is adopted to strengthen internal monitoring system so that compliance is ensured.

- Impact and Adopting Measures

The bank, pursuant the law, has to verify clients' identity and keep transaction records, and has to continuously monitor customer accounts and transactions, including ongoing review of the business relationship with customers and detailed review of transaction process with customers, to ensure that the transactions with customers are reasonably consistent with customers' identity and risk; the bank should be aware of the source of customers' money if necessary; regularly review the adequacy of the information obtained by identifying the customers and the actual beneficiaries and ensure that such information is updated, in particular High-risk customers.

7-6-2-5. Financial Supervisory Commission encourages FinTech and other innovations

- Change in Regulations

In recent years, financial technology such as block-chain, artificial intelligence and big data and other related technologies and business models have developed rapidly. Innovative applications have become popular with mobile devices such as mobile phones, prompting financial institutions to substantially increase their investment in financial technology. Through the development of financial technology to enhance competitiveness, the FSC has successively promoted the establishment of a digital financial environment 3.0, relaxed regulations governing financial institutions investing in financial technology industry, established financial technology development funds, promoted the development of electronic payment, and promoted the experimental mechanism of Fintech innovation. To setup financial technology innovation parks, lifted the ban on Direct Banking. The FSC will promote various incentive and innovation measures, and continue to guide the industry to actively invest in scientific and technological innovation to achieve inclusive financial goals.

- Impact and Adopting Measures

The digitalization of finance has become the future of the financial industry. Cota bank continued to strengthen and carry out the education and training for employees to enhance their skills in financial technology and make employees a boost to the development of financial technology.

7-6-2-6. Impact on Basel III

- Change in Regulations

Financial Supervisory Commission and Central Bank of the Republic of China promulgated "Standards Implementing the Liquidity Coverage Ratio of Banks" on Dec. 29, 2014.

- Impact and Adopting Measures

The Basel III made a great impact on Asian banks is the strict regulations on liquidity assets. The reason is parts of banks to lack of the high-quality current assets, the operator must also adopt new science and technology or upgrade the internal system to manage the mobility risk and obey the mobility new standard. The Basel III and before inspect institutional of the main difference is a banking to want with the Liquidity Coverage Ratio (LCR) and the net stable funding ratio (NSFR) quantification mobility risk.(LCR) requires the banks should own high-quality liquidity assets to meet net cash outflow under severe situation within 30 days. The (NSFR) encouragement bank uses more stable funds source and strengthens the tenacity for banking to face long-term pressure and make use of medium and long-term margin strategy, rather than use more short-term assets. Cota bank LCR is 553.69% based on January 2019 data which has already passed the minimum requirement of the 100%. The (NSFR) formal implementation carry out in 2018, the Bank's trial result is 136.51% based on 4th quarter 2018 which has already passed the minimum requirement of the 100%.

7-6-3. Impact of Technological and Industrial Changes on the Bank's Financial Operations and Adopting Measures

The Bank had provided e-bank service to reduce cost and enhance business efficiency. Although it brings convenience and cost-down, it still had some risks of the information safety such as program errors, system crashes, or hacker attacks. They will therefore create unpredictable losses and operational risks. To avoid the occurrence of the loss events, the Bank will train employees to recognize the information safety and to deal with emergent events. This will reduce the probability of the risk occurrence. In order to enhance the Bank's assets quality and reduce loan risks, the related loan departments provide industrial research reports without a fix schedule and observe the industrial changes at any time.

7-6-4. Impact on the Bank of Changes in the Bank's Image and Adopting Measures

The Bank holds the spirit of "take resource from society and contribute to community" to take the responsibility of the enterprise citizen. Participating active social welfare activities through founded "COTA Culture and Education Foundation". Facing keen competition, the Bank still maintains the spirit of "being respectful to customers" to provide the professional financial services to customers. The Bank hopes to maintain long-term stable relationship with customers by clear and professional image and to create a win-win situation between enterprise and clients.

7-6-5. Expected Benefits and Potential Risks of Mergers and Acquisitions and Adopting Measures

Currently, no merger or acquisition plan.

7-6-6. Expected Benefits and Potential Risks of Branches Location Expansion and Adopting Measures

To expand the scale of customer service, increase business efficiency, and create brand awareness and market share, the Bank cautiously evaluates to expand business location every year cause of the business unit might create operating risk and credit risk.

7-6-7. Risk Arising from the Concentration of Business and Adopting Measures

The Bank had formulated risk limit regulations such as the same person, the same party, affiliates and all kind of industries on loan and investment businesses. In addition, the Bank controls concentration of all bank's business lines through information management system. This can diversify risk, keep assets' quality and assured operating moderate.

7-6-8. The Influence and Risk Posed by Changes in Operating Control Rights and Adopting Measures

There have been no changes in operating control.

7-6-9. The Influence and Risk Posed by Mass Shares Transfer of Directors, Supervisors or Major Shareholders with Shares holding over 1% and Adopting Measures: None

7-6-10. Lawsuits: None

7-6-11. Other Significant Risks and Adopting Measures

Other risks such as strategically risk, goodwill risk, and the risk of the obedience of laws, the Bank will adjust the business policy in accordance with the change of the market condition and the modification of the laws to enhance business flexibility and competition.

7-7. Crisis Handling System:

7-7-1. In order to manage crisis handling system, the Bank formulated some related rules, taking measures, and adopting manual of disasters to effectively reduce damage and protect customers' rights. The Bank also established contingent task team to execute contingency solving measures.

7-7-2. In order to rapidly deal with disasters, the Bank established the emergency call and reporting system in the ordinary time. The managers of each unit charges with contact assignment.

7-7-3. In the event of significant and unforeseeable contingencies, the Bank will report the event to competent authority in addition to inform police department or related institution to take emergency remedy approaches.

7-7-4. In the event of natural disasters, the Bank will obey "The operating directions of the averting disasters for financial institutions" and "The operating directions of closed business as disasters occurring for financial institutions" formulated by competent authority. For check cleaning and dishonored check information filing, the Bank will obey "The operating directions of check cleaning and dishonored check information filing for partly office terminate area" formulated by the Taiwan Cleaning House.

7-8. Other Significant Matters: None



8-1. Data of Affiliated Company

8-1-1. Organization Chart of Affiliated Company: None

8-1-2. Profile of Affiliated Company: None

8-1-3. Infer Controller and Subsidiary Own the Same Shareholders' Data: None

8-1-4. Data of Affiliated Company's Director and Supervisor: None

8-1-5. Business Operation of Affiliated Company: None

8-1-6. Consolidated Financial Statement of Affiliated Company Details: N/A

8-1-7. Affiliated Statement: N/A

8-2. Private Placement of Securities: None

8-3. Holdings or Disposal the Stock of COTA Bank by Subsidiaries: None

8-4. Other Matters for Supplementary Explanation: None

8-5. Pursuant to Item2, Paragraph 3, Article 36 of Security and Exchange Act, the Incidence Exerting Material Influence on Shareholders' Rights or Security Prices: As of press time, none



Chronological Highlights

2014.03.04	Held 2014 shareholder's extraordinary meeting.
2014.04.22	COTA Bank have registered with the IRS and obtained GIINs.
2014.05.15	Held 2014 shareholder's regular meeting
2014.05.16	Launched Pre-Construction Real Estate Trust
2014.05.26	Daya Branch opened
2014.07.01	Launched business of Gold Passbook
2014.12.17	Obtained approval of foreign exchange licenses for branches of Banking Dept., Chenggong, Xinzhuang, Xinzhu and Fengshan.
2014.12.22	COTA Bank was conferred "Golden Security Award" from Joint Credit Information Center.
2014.12.29	Held 2014 shareholder's 2nd extraordinary meeting for voting directors.
2015.01.08	Mr. Liao Song-Yie and Chuan Cheng Hat Co., Ltd. were elected as managing directors in board of directors of the 7th Session of 1st extraordinary meeting.
2015.01.23	Mr. Kun-Hsien Lin, Mr. Kuo-Chao Hsiao and Ying-Che Chang-Corporation Representative of Deng Heng Enterprise Co., Ltd. were elected as managing directors in board of directors, Mr. Liao Sung-Yie was elected as Chairman in board of directors of the 7th Session of 3rd extraordinary meeting.
2015.02.07	Legal & Compliance Department founded
2015.04.01	Obtained approval of foreign exchange licenses for branches of Guoguang, Linsen, Nanmen, Jinhua and Beitun.
2015.04.20	Qiaotou Branch opened
2015.04.29	Received 'The best performance of creative industries loan' recognized by FSC
2015.05.06	Gift cards advance payment trust and dealing trust launched
2015.06.10	Held 2015 shareholder's regular meeting.
2015.06.13	For celebrating COTA Bank 100 years of history, 'Living in affluence forever - COTA 100' a hiking event held
2015.07.01	Mobile banking foreign exchange business approved by CBC Foreign Bureaus
2015.07.21	Fengdong Mini-Branch upgraded to Fengdong Branch at the same address as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10400174980.
2015.08.27	Publically announced cash capital increase issuance of new shares in 2015.
2015.09.01	Trust business online account opened for common customer / wealth management customer launched
2015.10.01	Fengdong Mini-Branch upgraded to Fengdong Branch
2015.10.24	For celebrating COTA Bank 100 years of history, 'Love connection Hot blood - COTA 100' a blood donation charitable event held at SKM Hui-An Parking lot
2015.10.27	Dadu Branch opened
2015.11.27	Fengdong Branch moved to Taiping Dist., Taichung and renamed Taiping Branch as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10400282100, which self-executing from 2015.11.27
2015.12.01	Electronic Banking Department founded
2016.03.29	New revision website launched.
2016.04.15	A new function added about applying for credit card on line.
2016.04.18	A new function added about account closing with limited amount on line.
2016.06.07	Held 2016 shareholder's regular meeting.
2016.06.08	The Book Donation Project be initiated from TCCE Foundation and COTA donated TWD 0.5 million.
2016.07.27	Publically announced capital increase by earnings in 2016 and cash dividend in 2015.
2016.09.08	Longjing Branch opened
2016.09.26	Fongdong Branch moved and renamed Taiping Branch and reopened for business.
2016.10.28	Provided new currency service that A UD added for FISC domestic clearing platform.
2016.11.08	Tianzhong Branch opened
2016.12.17	Held blood donation charitable event.

2016.12.27	Chairman attended "Golden Security Award" held from JCIC.
	Provided foreign currency ACH.
2017.01.09	New revision mobile banking launched.
2017.03.15	Fengyuan Branch moved to 330 Xiangyang Rd., Fengyuan Dist., Taichung as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10600057500, which self-executing from 2017.03.15.
2017.04.20	Received Performance rank A of 'Domestic Banks strengthen SME loan'.
2017.05.01	Mr. Jung-Hsien Chiu as President. Insurance Agent Department founded and merged with COTA Bank Insurance Broker Co Ltd.
2017.05.10	B2b banking launched.
2017.05.19	Fengyuan Branch new building started using.
2017.06.16	Held 2017 shareholder's regular meeting.
2017.09.01	IC ATM Card cross border withdrawal/debit launched.
2017.09.15	Publically announced capital increase issuance of new shares in 2017.
2017.09.21	Fengyuan Branch provide Number Taking online service.
2017.09.23	A sponsor of EDEN Social Welfare Foundation '2017 Touching Life'.
2017.10.10	A sponsor of '106 th National Day Celebration Taichung Float Festivals'.
2017.11.09	Publically announced capital increase issuance of new shares by cash in 2017.
2017.11.20	A sponsor of Credit Union League of the Republic of China 'Flying dreams for driving bicycles'.
2017.12.16	A sponsor of GLSF'10 th Bicycles sending Love'
2017.12.22	Held 2017 shareholder's 1 st extraordinary meeting for voting 8 th directors.
2017.12.23	Held blood donation charitable event.
2017.12.26	According to Taiwan Ratings Corp, COTA Bank Debt Rating Data: Long-term: twBBB+, Short-term: twA-2, Outlook: Stable.
2018.01.12	Mr. Ying-Che Chang, Mr. Xian-De Lai, Mr. Min-Chang Lin-Corporation Representative of Chuan Cheng Hat Co., Ltd. and Mr. Kun-Hsien Lin were elected as managing directors in board of directors, Mr. Liao Sung-Yie was elected as Chairman in board of directors of the 8th Session of 2rd extraordinary meeting.
2018.03.12	Issued commemoration passbook of Taichung World Flora EXPO 2018
2018.04.13	Received Performance rank A of 'Starup key industry loan'.
2018.05.02	Lunched accessible interface web ATM and get version 2.0 conformance level A
2018.05.22	Issued commemoration debit card of Taichung World Flora EXPO 2018
2018.05.30	Lunched mobile banking cardless withdrawal
2018.06.22	Held 2018 shareholder's regular meeting.
2018.07.03	Obtained approval of foreign exchange licenses for branches of Fengxin, Zhongshan, Daya, Qiaotou and Taiping.
2018.09.13	Publically announced capital increase issuance of new shares by cash in 2018.
2018.10.01	Obtained approval of foreign exchange licenses for branches of Dadu, Longjing and Tianzhong.
2018.10.04	A sponsor of Asialink Sketchwalk Taichung 2018
2018.10.12	Held Leopard cat for one day of clerk at Taichung branch
2018.10.13	A sponsor of EDEN Social Welfare Foundation '2018 Touching Life'.
2018.11.03	A sponsor of Credit Union League of the Republic of China '3 on 3 basketball game'.
2018.11.19	Be honored of FISC E-Cash Flow Services Innovation Awards
2018.12.15	A sponsor of GLSF'11 th Bicycles sending Love'
2018.12.15	Held blood donation charitable event.
2018.12.20	The MOU Signing Ceremony on Financial Supply Chain Blockchain with Tradevan
2018.12.26	According to Taiwan Ratings Corp, COTA Bank Debt Rating Data: Long-term: twBBB+, Short-term: twA-2, Outlook: Stable.

Head Office and Branches

Unit	Address	Tel	Fax
Head Office	59 Shihfu Road, Central District, Taichung City 400, Taiwan	886-4-22245171	886-4-22275237
Trusts Dept.	2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22807366	886-4-22809021
International Banking Dept.	2F., 246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87533599	886-2-87533573
Offshore Banking Branch	2F., 246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87533599	886-2-87533573
Consumer Banking Center	10F, 580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22384596	886-4-22378150
SME Banking Center	11F, 580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22370028	886-4-22372595
Wealth Management Center	2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22800361	886-4-22809747
Credit Card Center	2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22805288	886-4-22807688
Taichung Branch	59 Shihfu Road, Central District, Taichung City 400, Taiwan	886-4-22245161	886-4-22234491
Banking Dept.	32-1 Gongyuan Road, Central District, Taichung City 400, Taiwan	886-4-22211186	886-4-22229536
Chenggong Branch	580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22304100	886-4-22304701
Xitun Branch	458 Sec. 2, Henan Road, Xitun District, Taichung City 407, Taiwan	886-4-27062968	886-4-27063816
Guoguang Branch	333 Sec. 3, Fusing Road, South District, Taichung City 402, Taiwan	886-4-22245111	886-4-22229281
Dazhi Branch	339 Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22815998	886-4-22815977
Linsen Branch	99 Linsen Road, West District, Taichung City 403, Taiwan	886-4-23725151	886-4-23723024
Nanmen Branch	75 Nanmen Road, South District, Taichung City 402, Taiwan	886-4-22871146	886-4-22862412
Jinhua Branch	255 Jinhua North Road, North District, Taichung City 404, Taiwan	886-4-22333550	886-4-22335164
Nantun Branch	410 Nantun Road, Nantun District, Taichung City 408, Taiwan	886-4-24718500	886-4-24758522
Beitun Branch	751 Sec. 4, Wunsin Road, Beitun District, Taichung City 406, Taiwan	886-4-22426565	886-4-22417153
Fengyuan Branch	330 Xiangyang Road, Fengyuan District, Taichung City 420, Taiwan	886-4-25151788	886-4-25151895
Zhanghua Branch	181 Sec. 2, Zhongzheng Road, Zhanghua City, Zhanghua County 520, Taiwan	886-4-7298686	886-4-7298585
Yuanlin Branch	189 Sec. 1, Datong Road, Yuanlin Town, Zhanghua County 510, Taiwan	886-4-8383888	886-4-8383666
Taipei Branch	246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87512588	886-2-87512788
Taoyuan Branch	9 Sec. 2, Chenggong Road, Taoyuan City, Taoyuan County 330, Taiwan	886-3-3470505	886-3-3357373
Panchiao Branch	260 Minzu Road, Panchiao City, New Taipei City 220, Taiwan	886-2-89536001	886-2-89536011
Fengxin Branch	353, Zhongshan Road, Fengyuan District, Taichung City 420, Taiwan	886-4-25261181	886-4-25269540
Zhongshan Branch	36, Daming Road, Fengyuan District, Taichung City 420, Taiwan	886-4-25277155	886-4-25269553
Kaohsiung Branch	1, Wenfu Road, Zuoying District, Kaohsiung City 813, Taiwan	886-7-3505685	886-7-3506711
Tainan Branch	438, Sec 2, Datung Road, South District, Tainan City 702, Taiwan	886-6-2130966	886-6-2149088
Xinzhuang Branch	287, Chung Ping Road, Xinzhuang District, New Taipei City 242, Taiwan	886-2-22768887	886-2-22768611
Xinzu Branch	196, Minsheng Road, East District, Hsinchu City 300, Taiwan	886-3-5313225	886-3-5323611
Fengshan Branch	478, Wenheng Road, Fengshan District, Kaohsiung City 830, Taiwan	886-7-7676772	886-7-7678719
Daya Branch	336, Yahuan Road, Daya District, Taichung City 428, Taiwan	886-4-25692549	886-4-25693431
Qiaotou Branch	55, Chenggong Road, Qiaotou District, Kaohsiung City 825, Taiwan	886-7-6116860	886-7-6112208
Dadu Branch	426-7, Sec.1, Shatian Road, Dadu District, Taichung City 432, Taiwan	886-4-26930289	886-4-26930293
Longjing Branch	196, Sec. 1, Zhongyang Rd., Longjing Dist., Taichung City 434, Taiwan	886-4-26397699	886-4-26397106
Tianzhong Branch	136, Sec. 2, Yuanji Rd., Tianzhong Township, Changhua County 520, Taiwan	886-4-8750886	886-4-8751268
Taiping Branch	233, Huantai E. Rd., Taiping Dist., Taichung City 411, Taiwan	886-4-23915189	886-4-23915255

COTA Commercial Bank Code of Ethical Conduct

Article 1

The Code of Ethics of COTA Commercial Bank (the "COTA") was established for the directors and managers of the COTA, as well as persons with the power of signature and managing matters for the COTA, so that they can comply with ethical standards.

Article 2

Directors, managers and persons with the power of signature and managing matters for the COTA must be objective and effective in handling COTA business and must not use their role in the COTA to allow themselves, their spouses, parents, children or close second-level relatives to obtain inappropriate benefits. The COTA must avoid any conflict of interest when providing capital loans or guarantees, or conducting major asset trading or buying (selling) transactions for enterprises related to the aforementioned personnel. These persons must voluntarily explain if there is any potential conflict of interest between themselves and the COTA.

Article 3

Directors, managers and persons with the power of signature and managing matters for the COTA must not:

- (1) plan to obtain personal gains by using COTA assets, COTA information, or their role in the COTA;
- (2) compete with the COTA. When opportunities for the COTA to obtain profits arise, directors, managers and persons with the power of signature and managing matters for the COTA have the responsibility to increase the legitimate and legal benefits the COTA may possibly gain.

Article 4

Directors, managers and persons with the power of signature and managing matters for the COTA must uphold the principles of fairness, integrity and transparency in the commercial process and shall not offer, promise, demand or receive any improper benefits directly or indirectly, nor commit unethical acts that violate the ethics, laws or their duties to obtain or maintain the benefit.

Article 5

Directors, managers and persons with the power of signature and managing matters for the COTA are obligated to not divulge information of the COTA or its buying (selling) clients unless otherwise authorized or required by law. Information to be concealed includes all unpublished information that, if leaked, may be used by competitors or cause damage to the COTA or its clients.

Article 6

Directors, managers and persons with the power of signature and managing matters for the COTA must treat buying (selling) clients, competitors and staff fairly, and must not gain benefits inappropriately by manipulating, concealing or abusing information obtained as part of their role in the COTA; or by misrepresenting important facts or employing other unfair trading practices.

Article 7

Directors, managers and persons with the power of signature and managing matters for the COTA have the responsibility to protect the assets of the COTA and ensure their effective and legal use in the business.

Article 8

Directors, managers and persons with the power of signature and managing matters for the COTA must comply with the Financial Holding COTA Act and the Securities and Exchange Act, follow other rules and regulations, and enforce the publicity of ethical values.

Article 9

The COTA encourages staff to report to the board of directors, managers, Chief of Internal Audit or other appropriate personnel in the event that they suspect or discover behavior contrary to the laws and regulations or the Code of Ethics, and to provide sufficient information for the COTA to take appropriate follow-up action.

To encourage employees to report violations, the COTA should set up a specific report system and let employees know that the COTA will make every effort to protect the safety of the reporter from suffering retaliation.

Article 10

If there is a situation where a director, manager or a person with the power of signature and managing matters for the COTA breaches the Code of Ethics, the COTA shall take disciplinary action in accordance with the COTA Act, the Articles of Incorporation, international regulations or other related laws and regulations, and the COTA shall immediately disclose the information regarding the violation on the Market Observation Post System, including the title and name of the offender, violation date and reason, code of violation, processing status, etc. The COTA should also establish a corresponding appeals system to provide assistance for personnel accused of breaching the Code of Ethics.

Article 11

The approval of the board of directors is required if an exemption to follow the Code of Ethics by directors, managers or persons with the power of signature and managing matters for the COTA is necessary. Details of the exemption, including exempt person, title, date approved by the board, independent directors' opposing or reserved opinions, period of the exemption, reason for the exemption and the code applicable, must be posted on MOPs in a timely manner. This allows shareholders to assess if the decision of the board was appropriate and should suppress suspicious exemptions or exemptions requested at will from happening. It also ensures that a proper control and management system exists for any exemption in order to protect the interests of the COTA.

Article 12

Code of the chairman and general manager of a bank hold a concurrent post of non-financial enterprise:

- (1) Internal management of representative holds a concurrent
The chairman, general manager or as well as persons with the power of non-financial enterprise whom must not hold a concurrent head post of COTA.
- (2) As chairman and general manager hold a concurrent post of non-financial enterprises who must sign a letter of undertaking including:
 - (2-1) Must not hold a chairman, general manager or as well as persons with the power.
 - (2-2) Must comply with interested party control of COTA
 - (2-3) Must comply with the duty of loyalty of COTA

Article 13

The COTA should publish its Code of Ethics on annual report, public information booklet and the Open Information observatory; it should do so whenever the Code of Ethics is revised.

Article 14

The Code of Ethics of the COTA will be implemented after being approved by the board of directors, audit committee and will be presented in shareholders' meetings; and the same shall apply whenever it is revised.



COTA Commercial Bank

2018