

KGI Bank Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2023 and 2022 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

KGI Bank Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of KGI Bank Co., Ltd. (the "Bank") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of December 31, 2023 and 2022, and their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, guidelines issued by authority, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China (ROC).

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants and the Standards on Auditing of the ROC. 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 Bank and its subsidiaries in accordance with The Norm of Professional Ethics for Certified Public Accountant of the ROC, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. 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.

The key audit matters for the consolidated financial statements of the Bank and its subsidiaries for the year ended December 31, 2023 are stated as follows:

Impairment of Discounts and Loans

The management assesses the impairment of discounts and loans according to the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans (the “Procedures”) issued by the FSC of the ROC and IFRS 9, respectively, and then recognizes the higher estimated amount as a reserve for asset impairment. Under the Procedures, impairment is based on the length of time overdue and the status of the collateral, and under IFRS 9, impairment is assessed by considering the probability of default and loss given default, estimated based on historical experience, the present market situation and forward-looking information. Since the important assumptions and input values used in revisions and adjustments involve critical judgments and estimates, the impairment of discounts and loans is deemed to be a key audit matter for the year ended December 31, 2023.

Refer to Notes 4, 5 and 45 for material accounting policy information, critical judgment, estimation uncertainty and related disclosures of the impairment of discounts and loans.

Our key audit procedures performed with respect to the above matter included the following:

We obtained an understanding of the accounting policies and internal controls related to the recognition of impairment. We verified that the impairment assessment procedures, including the classification of the credit assets, the length of time overdue and the status of the collaterals complied with the Procedures. We understood the methodology, main assumptions and parameters adopted by the management in accordance with the IFRS9 impairment model, as well as the important assumptions and input values considered in its revision and adjustment. We selected samples of discounts and loans and evaluated the reasonableness of measuring expected credit losses.

Other Matter

We have also audited the parent company only financial statements of the Bank as of and for the years ended December 31, 2023 and 2022, 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 the Regulations Governing the Preparation of Financial Reports by Public Banks, guidelines issued by authority, IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of the ROC, 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 ability of the Bank and its subsidiaries to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the financial reporting process of the Bank and its subsidiaries.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the ROC will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Standards on Auditing of the ROC, 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 internal control of the Bank and its subsidiaries.
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 ability of the Bank and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank and its subsidiaries 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 and appropriate audit evidence regarding the financial information of entities or business activities within the Bank and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank and its subsidiaries audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2023, and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Yi-Chun Wu and Jr-Shian Ke.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 27, 2024

Notice to Readers

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

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

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars)

ASSETS	2023		2022	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 41)	\$ 20,073,593	3	\$ 13,127,228	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Note 7)	29,682,480	4	54,451,552	7
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 41)	42,955,118	5	34,166,455	5
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 9, 11, 16 and 42)	133,347,230	17	140,684,441	18
DEBT INVESTMENTS MEASURED AT AMORTIZED COST (Notes 4, 10 and 42)	68,412,429	9	58,985,476	8
FINANCIAL ASSETS FOR HEDGING (Notes 4 and 11)	598,459	-	2,025,601	-
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4 and 12)	42,097,729	5	15,467,689	2
RECEIVABLES, NET (Notes 4, 13, 41 and 42)	27,964,091	3	30,356,155	4
ASSETS HELD FOR SALE, NET (Notes 4 and 18)	286,530	-	-	-
DISCOUNTS AND LOANS, NET (Notes 4, 14 and 41)	396,926,437	50	394,572,818	51
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Notes 4 and 15)	8,618,704	1	5,139,359	1
OTHER FINANCIAL ASSETS, NET (Notes 4, 17 and 42)	8,746,140	1	1,102,250	-
PROPERTY AND EQUIPMENT, NET (Notes 4, 18 and 42)	5,309,179	1	5,834,074	1
RIGHT-OF-USE ASSETS, NET (Notes 4, 19 and 41)	2,966,664	-	3,337,470	-
INVESTMENT PROPERTY, NET (Notes 4, 20 and 42)	1,644,478	-	1,496,998	-
INTANGIBLE ASSETS, NET	1,155,953	-	1,072,532	-
DEFERRED TAX ASSETS (Notes 4 and 39)	514,773	-	750,316	-
OTHER ASSETS, NET (Notes 21, 41 and 42)	<u>4,190,738</u>	<u>1</u>	<u>7,374,410</u>	<u>1</u>
TOTAL	\$ 795,490,725	100	\$ 769,944,824	100
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from the Central Bank and banks (Note 22)	\$ 7,027,312	1	\$ 11,972,428	2
Financial liabilities at fair value through profit or loss (Notes 4, 8 and 41)	29,320,808	4	35,628,311	5
Financial liabilities for hedging (Notes 4 and 11)	610,323	-	526,268	-
Notes and bonds issued under repurchase agreements (Notes 4, 8, 9, 10 and 23)	42,580,979	5	28,360,984	4
Payables (Notes 24 and 41)	7,807,633	1	10,003,507	1
Current tax liabilities (Notes 4, 39 and 41)	928,340	-	1,051,106	-
Deposits and remittances (Notes 25 and 41)	558,443,269	70	543,685,203	71
Bank debentures payable (Notes 11 and 26)	24,747,803	3	24,753,007	3
Principal received on structured notes	40,405,562	5	39,096,143	5
Other financial liabilities (Note 27)	6,933,027	1	6,424,638	1
Provisions (Notes 4 and 28)	367,586	-	295,926	-
Lease liabilities (Notes 4, 19 and 41)	3,131,695	-	3,493,402	-
Deferred tax liabilities (Notes 4 and 39)	238,817	-	64,214	-
Other liabilities (Notes 30 and 41)	<u>3,728,413</u>	<u>1</u>	<u>3,124,236</u>	<u>-</u>
Total liabilities	<u>726,271,567</u>	<u>91</u>	<u>708,479,373</u>	<u>92</u>
EQUITY (Note 31)				
Capital				
Common stock	<u>46,061,623</u>	<u>6</u>	<u>46,061,623</u>	<u>6</u>
Capital surplus				
Additional paid-in capital	7,245,723	1	7,245,723	1
Other capital surplus	<u>186,355</u>	<u>-</u>	<u>128,808</u>	<u>-</u>
Total capital surplus	<u>7,432,078</u>	<u>1</u>	<u>7,374,531</u>	<u>1</u>
Retained earnings				
Legal reserve	10,373,364	1	8,998,877	1
Special reserve	3,417,873	-	210,736	-
Unappropriated earnings	<u>5,498,633</u>	<u>1</u>	<u>4,581,624</u>	<u>1</u>
Total retained earnings	<u>19,289,870</u>	<u>2</u>	<u>13,791,237</u>	<u>2</u>
Other equity	<u>(3,564,413)</u>	<u>-</u>	<u>(5,761,940)</u>	<u>(1)</u>
Total equity	<u>69,219,158</u>	<u>9</u>	<u>61,465,451</u>	<u>8</u>
TOTAL	\$ 795,490,725	100	\$ 769,944,824	100

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

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2023		2022		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUE (Notes 4, 32 and 41)	\$ 23,369,283	172	\$ 15,856,822	120	47
INTEREST EXPENSE (Notes 4, 19, 32 and 41)	<u>(15,669,313)</u>	<u>(115)</u>	<u>(6,316,103)</u>	<u>(48)</u>	148
NET INTEREST	<u>7,699,970</u>	<u>57</u>	<u>9,540,719</u>	<u>72</u>	(19)
NET REVENUE OTHER THAN INTEREST					
Service fee income, net (Notes 4, 33 and 41)	1,831,142	14	1,828,536	14	-
Gain on financial assets or liabilities measured at fair value through profit or loss, net (Notes 4 and 34)	1,909,265	14	2,032,279	15	(6)
Realized gain (loss) on financial assets measured at fair value through other comprehensive income (Notes 4 and 35)	296,584	2	(1,217,332)	(9)	124
Foreign exchange gain, net	996,059	7	815,152	6	22
Reversal of impairment loss (impairment loss) on assets, net (Notes 4 and 36)	(8,659)	-	(3,970)	-	118
Share of the profit of associates accounted for using equity method (Notes 4 and 15)	712,653	5	122,291	1	483
Other non-interest gain, net (Note 41)	<u>127,564</u>	<u>1</u>	<u>140,929</u>	<u>1</u>	(9)
Total net revenue other than interest	<u>5,864,608</u>	<u>43</u>	<u>3,717,885</u>	<u>28</u>	58
TOTAL NET REVENUE	<u>13,564,578</u>	<u>100</u>	<u>13,258,604</u>	<u>100</u>	2
REVERSAL (PROVISION) OF ALLOWANCE FOR BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION (Note 4)	<u>(179,017)</u>	<u>(1)</u>	<u>209,186</u>	<u>1</u>	(186)

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KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2023		2022		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
OPERATING EXPENSES (Notes 4, 19, 29, 37, 38 and 41)					
Employee benefits expense	\$ (4,226,079)	(31)	\$ (3,989,804)	(30)	6
Depreciation and amortization expense	(899,798)	(7)	(902,375)	(7)	-
Other general and administrative expenses	<u>(2,079,686)</u>	<u>(15)</u>	<u>(1,923,908)</u>	<u>(14)</u>	8
Total operating expenses	<u>(7,205,563)</u>	<u>(53)</u>	<u>(6,816,087)</u>	<u>(51)</u>	6
INCOME BEFORE INCOME TAX	6,179,998	46	6,651,703	50	(7)
INCOME TAX EXPENSE (Notes 4 and 39)	<u>(784,667)</u>	<u>(6)</u>	<u>(636,692)</u>	<u>(5)</u>	23
NET INCOME	<u>5,395,331</u>	<u>40</u>	<u>6,015,011</u>	<u>45</u>	(10)
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4 and 39)					
Items that will not be reclassified subsequently to profit or loss, net of tax					
Gain (loss) on remeasurement of defined benefit plans	(11,039)	-	124,241	1	(109)
Gain (loss) on equity instruments measured at fair value through other comprehensive income	323,827	2	(2,142,202)	(16)	115
Share of other comprehensive income (loss) of associates accounted for using equity method	79,459	1	(141,787)	(1)	156
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	8,602	-	180,358	1	(95)

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KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2023		2022		Percentage
	Amount	%	Amount	%	Increase (Decrease) %
Items that will be reclassified subsequently to profit or loss, net of tax					
Exchange differences on translation of foreign financial statements	\$ (242,314)	(2)	\$ 185,514	1	(231)
Share of other comprehensive income (loss) of associates accounted for using equity method	(1,889)	-	89,943	1	(102)
Gain (loss) on debt instruments measured at fair value through other comprehensive income	2,259,643	17	(5,508,951)	(42)	141
Impairment loss (reversal of impairment loss) on debt instruments measured at fair value through other comprehensive income	8,392	-	4,059	-	107
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>(123,852)</u>	<u>(1)</u>	<u>197,284</u>	<u>2</u>	(163)
Other comprehensive income (loss), net of tax	<u>2,300,829</u>	<u>17</u>	<u>(7,011,541)</u>	<u>(53)</u>	133
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	<u>\$ 7,696,160</u>	<u>57</u>	<u>\$ (996,530)</u>	<u>(8)</u>	872
NET PROFIT ATTRIBUTABLE TO:					
Owners of parent	\$ 5,395,331	40	\$ 6,000,010	45	(10)
Non-controlling interests	<u>-</u>	<u>-</u>	<u>15,001</u>	<u>-</u>	(100)
	<u>\$ 5,395,331</u>	<u>40</u>	<u>\$ 6,015,011</u>	<u>45</u>	(10)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of parent	\$ 7,696,160	57	\$ (1,013,031)	(8)	860
Non-controlling interests	<u>-</u>	<u>-</u>	<u>16,501</u>	<u>-</u>	(100)
	<u>\$ 7,696,160</u>	<u>57</u>	<u>\$ (996,530)</u>	<u>(8)</u>	872

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KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2023		2022		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 40)					
Basic	\$ 1.17		\$ 1.30		

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

(Concluded)

KGI BANK CO., LTD. AND SUBSIDIARIES
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of Parent					Other Equity		Total Equity Attributable to Owners of the Parent	Non-controlling Interests	Total Equity
	Common Stock	Capital Surplus	Retained Earnings			Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Financial Assets at Fair Value through Other Comprehensive Income			
			Legal Reserve	Special Reserve	Unappropriated Earnings					
BALANCE AT JANUARY 1, 2022	\$ 46,061,623	\$ 7,258,874	\$ 7,333,228	\$ 42,319	\$ 5,552,163	\$ (120,064)	\$ (48,353)	\$ 66,079,790	\$ 208,826	\$ 66,288,616
Appropriation of earnings										
Legal reserve	-	-	1,665,649	-	(1,665,649)	-	-	-	-	-
Special reserve	-	-	-	168,417	(168,417)	-	-	-	-	-
Cash dividends - common stock	-	-	-	-	(3,718,097)	-	-	(3,718,097)	-	(3,718,097)
Change in equity of associates accounted for using equity method	-	32,447	-	-	-	-	-	32,447	-	32,447
Net income for the year ended December 31, 2022	-	-	-	-	6,000,010	-	-	6,000,010	15,001	6,015,011
Other comprehensive income (loss) for the year ended December 31, 2022, net of income tax	-	-	-	-	99,459	275,457	(7,387,957)	(7,013,041)	1,500	(7,011,541)
Total comprehensive income (loss) for the year ended December 31, 2022	-	-	-	-	6,099,469	275,457	(7,387,957)	(1,013,031)	16,501	(996,530)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	4,978	-	-	-	-	1,132	6,110	(214,497)	(208,387)
Share-based payments	-	78,232	-	-	-	-	-	78,232	-	78,232
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(10,830)	(10,830)
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(1,517,845)	-	1,517,845	-	-	-
BALANCE AT DECEMBER 31, 2022	46,061,623	7,374,531	8,998,877	210,736	4,581,624	155,393	(5,917,333)	61,465,451	-	61,465,451
Appropriation of earnings										
Legal reserve	-	-	1,374,487	-	(1,374,487)	-	-	-	-	-
Special reserve	-	-	-	3,207,137	(3,207,137)	-	-	-	-	-
Change in equity of associates accounted for using equity method	-	2,623	-	-	-	-	-	2,623	-	2,623
Net income for the year ended December 31, 2023	-	-	-	-	5,395,331	-	-	5,395,331	-	5,395,331
Other comprehensive income (loss) for the year ended December 31, 2023, net of income tax	-	-	-	-	(8,630)	(244,203)	2,553,662	2,300,829	-	2,300,829
Total comprehensive income (loss) for the year ended December 31, 2023	-	-	-	-	5,386,701	(244,203)	2,553,662	7,696,160	-	7,696,160
Share-based payments	-	54,924	-	-	-	-	-	54,924	-	54,924
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	111,932	-	(111,932)	-	-	-
BALANCE AT DECEMBER 31, 2023	\$ 46,061,623	\$ 7,432,078	\$ 10,373,364	\$ 3,417,873	\$ 5,498,633	\$ (88,810)	\$ (3,475,603)	\$ 69,219,158	\$ -	\$ 69,219,158

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

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 6,179,998	\$ 6,651,703
Adjustments for:		
Depreciation expense	642,276	664,579
Amortization expense	257,522	237,796
Provision (reversal) of allowance for bad debts expense, commitments and guarantee liability provisions	179,017	(209,186)
Net gain on financial assets and liabilities measured at fair value through profit or loss	(1,908,790)	(2,029,997)
Interest expense	15,669,313	6,316,103
Interest income	(23,369,283)	(15,856,822)
Dividend income	(171,209)	(772,459)
Share-based payments	54,924	78,232
Share of profit of associates accounted for using equity method	(712,653)	(122,291)
Impairment loss on financial assets	8,659	3,970
Others	(2,411)	(6,802)
Changes in operating assets and liabilities		
Due from the Central Bank and call loans to banks	684,374	(3,061,543)
Financial assets at fair value through profit or loss	37,912,142	40,492,617
Financial assets at fair value through other comprehensive income	11,427,216	47,361,647
Debt investments measured at amortized cost	(9,427,287)	(45,875,258)
Securities purchased under resell agreements	(1,343,890)	(459,488)
Receivables	3,544,855	(2,495,122)
Discounts and loans	(2,467,313)	(20,875,454)
Other financial assets	(7,643,590)	(15,375)
Other assets	3,045,147	(3,436,805)
Deposits from the Central Bank and banks	(4,945,116)	(8,851,118)
Financial liabilities at fair value through profit or loss	(51,099,518)	(33,404,078)
Notes and bonds issued under repurchase agreements	14,219,995	(14,420,185)
Payables	(576,959)	1,177,247
Deposits and remittances	14,758,066	41,071,446
Other financial liabilities	2,462,752	21,726,059
Other liabilities	648,151	(2,069,277)
Cash flows generated from operations	8,026,388	11,820,139
Interest received	22,178,490	14,857,869
Dividends received	169,158	803,722
Interest paid	(17,282,284)	(4,737,773)
Income taxes paid	(611,771)	(315,927)
Net cash flows generated from operating activities	<u>12,479,981</u>	<u>22,428,030</u>

(Continued)

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars)

	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using equity method	\$ (2,806,103)	\$ -
Acquisition of property and equipment	(197,247)	(213,080)
Proceeds from disposal of property and equipment	11,280	49,295
Acquisition of intangible assets	<u>(340,201)</u>	<u>(350,890)</u>
Net cash flows used in investing activities	<u>(3,332,271)</u>	<u>(514,675)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	374,000	706,000
Decrease in due to the Central Bank and banks	-	(129,490)
Increase (decrease) in commercial paper payable	(1,619,030)	119,680
Proceeds from (repayments of) long-term borrowings	600,086	(360,117)
Payments of lease liabilities	(351,919)	(350,321)
Cash dividends paid	-	(3,718,097)
Acquisition of ownership interests in subsidiaries	-	(208,387)
Changes in non-controlling interests	<u>-</u>	<u>(10,830)</u>
Net cash flows used in financing activities	<u>(996,863)</u>	<u>(3,951,562)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(2,730)</u>	<u>1,627</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,148,117	17,963,420
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>64,496,856</u>	<u>46,533,436</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 72,644,973</u>	<u>\$ 64,496,856</u>

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of December 31, 2023 and 2022:

	December 31	
	2023	2022
Cash and cash equivalents in the consolidated balance sheets	\$ 20,073,593	\$ 13,127,228
Due from the Central Bank and call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	12,331,755	36,416,453
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	<u>40,239,625</u>	<u>14,953,175</u>
Cash and cash equivalents in the consolidated statements of cash flows	<u>\$ 72,644,973</u>	<u>\$ 64,496,856</u>

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

(Concluded)

KGI BANK CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

KGI Bank Co., Ltd. (the “Bank”) engages in banking operations regulated by the Banking Act of the Republic of China (the “Banking Act”).

As of December 31, 2023, the Bank had an international banking department, a trust department, an insurance department, various major departments, an offshore banking unit (OBU), and 51 domestic branches.

On April 8, 2014, the Bank’s extraordinary shareholders’ meeting resolved to the exchange 0.2 share of China Development Financial Holding Corporation (CDFH) and NT\$13.4 for one share of the Bank. On August 11, 2014, the Bank’s board of directors approved September 15, 2014 as the date of the share swap after this transaction was approved by the Financial Supervisory Commission (FSC). Upon completion of the share swap, the Bank became CDFH’s wholly owned subsidiary and the trading of the Bank’s shares on the Taiwan Stock Exchange was terminated.

On October 9, 2014, under the approval of the board of directors, who were authorized to exercise the functions of the shareholders’ meeting, Cosmos Bank’s name became KGI Bank Co., Ltd since January 2015. The FSC approved the name change on November 10, 2014.

On March 2, 2015 and April 13, 2015, the Bank’s board of directors again exercised the functions of the shareholders’ meeting and approved the transfer to the Bank from CDIB Capital Group (formerly China Development Industrial Bank) of (a) the assets and liabilities associated with the commercial banking business of CDIB Capital Group and (b) CDIB Capital Group’s holdings of shares in leasing subsidiaries and in the Taiwan Financial Asset Service Corporation. On April 16, 2015, the transaction was approved by the FSC, and the chairman was authorized by the board of directors to approve the date of transfer of business on May 1, 2015.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Bank’s board of directors and authorized for issue on February 27, 2024.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRS Accounting Standards”), and the Regulations Governing the Preparation of Financial Reports by Public Banks endorsed and issued into effect by the FSC

The initial application of the amendments to the IFRS Accounting Standards and the Regulations Governing the Preparation of Financial Reports by Public Banks endorsed and issued into effect by the FSC did not have any material impact on the Bank and its subsidiaries’ accounting policies.

- b. The IFRS Accounting Standards endorsed by the FSC for application starting from 2024

New, Amended and Revised Standards and Interpretations	Effective Date Announced by IASB
Amendments to IFRS 16 “Leases Liability in a Sale and Leaseback”	January 1, 2024 (Note 1)
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2024
Amendments to IAS 1 “Non-current Liabilities with Covenants”	January 1, 2024
Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”	January 1, 2024 (Note 2)

Note 1: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

Note 2: The amendments provide some transition relief regarding disclosure requirements.

As of the date the consolidated financial statements were authorized for issue, the Bank and its subsidiaries assess the application of the aforementioned standards and interpretations will not have a material impact on the Bank and its subsidiaries’ financial position and financial performance.

- c. The IFRS Accounting Standards in issue but not yet endorsed and issued into effect by the FSC

New, Amended and Revised Standards and Interpretations	Effective Date Announced by IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 - Comparative Information”	January 1, 2023
Amendments to IAS 21: Lack of Exchangeability	January 1, 2025 (Note)

Note: An entity shall apply those amendments for annual reporting periods beginning on or after January 1, 2025. Upon initial application of the amendments, the entity recognizes any effect as an adjustment to the opening balance of retained earnings. When the Bank and its subsidiaries use a presentation currency other than its functional currency, it shall, at the date of initial application, recognize any effect as an adjustment to the cumulative amount of translation differences in equity.

As of the date the consolidated financial statements were authorized for issue, the Bank and its subsidiaries are continuously assessing the possible impact of the application of the aforementioned standards and interpretations on the Bank and its subsidiaries’ financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, guidelines issued by authority and IFRS Accounting Standards as endorsed and issued into effect by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values and net defined benefit liabilities (assets) which are measured at the present value of the defined benefit obligation less the fair value of plan assets. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The operating cycle in the banking industry cannot be reasonably identified; thus, asset and liability accounts were not classified as current or noncurrent. Nevertheless, these accounts were properly categorized in accordance with the nature of each account and sequenced according to their liquidity. Please refer to Note 45 for the maturity analysis of assets and liabilities.

Principles for Preparing Consolidated Financial Statements

The consolidated financial statements include the financial statements of the Bank and its subsidiaries. All significant intra-group transactions, balances, income and expenses have been eliminated in full upon consolidation.

The consolidated entities were as follows:

Investor	Subsidiary	Main Business	Percentage of Ownership (%)	
			December 31, 2023	December 31, 2022
The Bank	CDIB Management Consulting Corporation	Management and consulting	100.00	100.00
CDIB Management Consulting Corporation	CDC Finance & Leasing Corporation	Leasing	100.00	100.00
	CDIB International Leasing Corporation	Leasing	100.00	100.00

Foreign Currencies

The Bank recognizes foreign-currency transactions in the respective currencies in which they are denominated, while the subsidiaries recognize transactions at the rates of exchange prevailing at the dates of the transactions. Foreign-currency gains or losses of the Bank are recorded in New Taiwan dollars using rates prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Bank and its subsidiaries' foreign operations are translated into New Taiwan dollars using the exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e., a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Bank are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, time deposits that can be terminated on demand without reduction in principal, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Investments in Associates

An associate is an entity over which the Bank and its subsidiaries have significant influence and that is not a subsidiary.

The Bank and its subsidiaries uses the equity method to account for their investments in associates.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Bank and its subsidiaries' share of profit or loss and other comprehensive income of the associate. The Bank and its subsidiaries also recognize the changes in the Bank and its subsidiaries' share of equity of associates.

Any excess of the cost of acquisition over the Bank and its subsidiaries' share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Bank and its subsidiaries' share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Bank and its subsidiaries subscribe for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Bank and its subsidiaries' proportionate interest in the associate. The Bank and its subsidiaries records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Bank and its subsidiaries' share of equity of associates. If the Bank and its subsidiaries' ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Bank and its subsidiaries' share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Bank and its subsidiaries' net investment in the associate), the Bank and its subsidiaries' discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Bank and its subsidiaries has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is also a part of the carrying amount of investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Bank and its subsidiaries discontinue the use of the equity method from the date on which it ceases to have significant influence over the associate. Any retained investment is measured at fair value at that date. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Bank and its subsidiaries account for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Bank and its subsidiaries transact with its associate, profits and losses resulting from the transactions with the associate are recognized in the Bank and its subsidiaries' consolidated financial statements only to the extent of interests in the associate that are not related to the Bank and its subsidiaries.

Financial Instruments

Financial assets and financial liabilities are recognized when the Bank and its subsidiaries become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All regular way transactions of financial assets are recognized and derecognized on a trade date basis. Regular way transactions are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a. Classification and measurement

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, investments in debt instruments at FVTOCI and investments in equity instruments at FVTOCI.

1) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria. A financial asset may be designated as at FVTPL upon initial recognition, if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are subsequently measured at fair value, with any dividends and remeasurement gains or losses on the financial assets are recognized in net revenues other than interest. Fair value is determined in the manner described in Note 44.

2) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

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

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals the gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Except for interest income of financial assets have subsequently become credit-impaired is calculated by multiplying the effective interest rate to the amortized cost of a financial asset, others are calculated by multiplying the effective interest rate to the gross carrying amount of the financial asset.

3) Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

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

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

4) Investments in equity instruments at FVTOCI

On initial recognition, the Bank and its subsidiaries may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Bank and its subsidiaries' right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b. Impairment of financial assets

The Bank and its subsidiaries recognize a loss allowance for expected credit losses on financial assets at amortized cost, investments in debt instruments at FVTOCI, installment accounts and lease receivables.

For the financial assets, the Bank and its subsidiaries recognize lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank and its subsidiaries measure the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance or accumulated impairment account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of the financial assets are not reduced.

In addition to the analysis of impairment mentioned above, based on the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual loans, credit assets classified as normal (this balance should be net of the balance of borrowings by ROC government agencies from the Bank), special mention, substandard, with doubtful collectability and uncollectable or loss incurring are evaluated on the basis of the borrowers'/clients' financial condition and delinquency record on interest and principal payments, and these assets have allowances at 1%, 2%, 10%, 50% and 100%, respectively, of outstanding credit. The doubtful accounts of credit cards receivables are evaluated on the basis of the Regulations Governing Institutions Engaging In Credit Card Business. The above is listed the minimum allowance for credit assets on or off balance sheet.

Based on Order No. 10300329440 issued by the FSC, for the Bank to have an enhanced risk coverage, the minimum provision for the loan loss reserve is 1.5% of the mortgage and construction loans that have been classified as normal assets, excluding policy-based loan, effective from January 1, 2011. Based on Order No. 10410001840 issued by the FSC, for the Bank to have an enhanced control on the exposure to the risk in mainland China, the minimum provision for credit loss reserve is 1.5% of the credit, which includes short-term trade financing that were granted to companies based in mainland China and classified as normal assets.

Writing off bad debts involves assessing the possibility of recovering overdue credit and evaluating the value of collateral. After approval by the board of directors, they are written off.

c. Derecognition of financial assets

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

Equity instruments

Debt and equity instruments issued by the Bank and its subsidiaries are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Bank and its subsidiaries are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Bank's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Bank's own equity instruments.

Financial liabilities

a. Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

- Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or are designated as at FVTPL.

A financial liability may be designated as at FVTPL upon initial recognition when doing so results in more relevant information and if:

- 1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- 2) The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Bank and its subsidiaries' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- 3) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at FVTPL.

Financial liabilities held for trading are stated at fair value, and remeasurement gains or losses on such financial liabilities are recognized in net revenue other than interest. For a financial liability designated as at FVTPL, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income and will not be subsequently reclassified to profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liability is derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in the fair value of the liability are presented in profit or loss.

b. Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument; in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g., financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at FVTPL.

Modification of financial instruments

When a financial instrument is modified, the Bank and its subsidiaries assess whether the modification will result in derecognition. If modification of a financial instrument results in derecognition, it is accounted for as derecognition of financial assets or liabilities. If the modification does not result in derecognition, the Bank and its subsidiaries recalculate the gross carrying amount of the financial asset or the amortized cost of the financial liability based on the modified cash flows discounted at the original effective interest rate with any modification gain or loss recognized in profit or loss. The cost incurred is adjusted to the carrying amount of the modified financial asset or financial liability and amortized over the modified remaining period.

For the changes in the basis for determining contractual cash flows of financial assets or financial liabilities resulting from the interest rate benchmark reform, the Bank and its subsidiaries elect to apply the practical expedient in which the changes are accounted for by updating the effective interest rate at the time the basis is changed, provided the changes are necessary as a direct consequence of the reform and the new basis is economically equivalent to the previous basis. When multiple changes are made to a financial asset or a financial liability, the Bank and its subsidiaries first apply the practical expedient to those changes required by interest rate benchmark reform, and then applies the requirements of modification of financial instruments to the other changes that cannot apply the practical expedient.

Hedge Accounting

The Bank and its subsidiaries designate certain hedging instruments as fair value hedges.

At the start of a hedge relationship, the Bank and its subsidiaries document the relationship between the hedging instrument and the hedged item, along with their risk management objectives and their strategy for undertaking various hedge transactions. Further, at the start of the hedge and on an ongoing basis, the Bank and its subsidiaries document whether the hedging instrument is highly effective in offsetting the exposure to adverse changes in fair value of hedged item. Note 11 sets out the details of the fair value of the derivative instruments used for hedging purposes.

Fair value hedges

The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

The Bank and its subsidiaries discontinue hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

Securities Purchased and Sold Under Resell and Repurchase Agreements

For securities purchased or sold under resell or repurchase agreements, the payment to or by a counterparty is treated as a financing transaction and the related interest revenue or interest expense are recognized on the accrual basis.

Property and Equipment

Property and equipment are stated at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation on property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Assets Held for Sale

The assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, and the sale should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

The assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Such assets classified as held for sale are not depreciated.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

Nonfinancial Asset Impairment

The Bank and its subsidiaries evaluate the possibility of impairment loss on nonfinancial assets as of the balance sheet date. If there is sufficient objective evidence of asset impairment, the Bank and its subsidiaries recognizes impairment whenever the recoverable amount of the asset or the cash-generating unit is below the carrying amount of an asset, and this impairment loss either is charged to accumulated impairment or reduces the carrying amount of an asset directly. After the recognition of an impairment loss, the depreciation (amortization) charged to the assets should be adjusted in future years at the revised asset carrying amount (net of accumulated impairment), less its salvage value, on a systematic basis over its remaining service life. If asset impairment loss is reversed, the increase in the carrying amount resulting from reversal is credited to current income and debited to accumulated impairment or is used to increase the carrying amount of the asset. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

Provisions and Contingent Liabilities

Provisions are recognized when the Bank and its subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank and its subsidiaries will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Employee Benefits

a. Short-term employee benefits

The undiscounted amount of benefits expected to be paid in respect of service rendered by employees in an accounting period is recognized in that period.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Bank and its subsidiaries defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that remeasurement is recognized in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

Income tax payable (recoverable) of the Bank and its subsidiaries is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Act of the ROC, an additional tax on unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Since 2015, the Bank has used the linked-tax system for income tax filings. Under this system, the Bank adjusts the current/deferred income tax assets (liabilities), income tax payable (receivable) and income tax expense (profit) on a systematic and consistent basis. Related payables and receivables are recorded in each book of the CDFH's qualified subsidiaries.

Based on the "Basic Income Tax Act," if the basic income tax is greater than the amount of regular income tax, the income tax payable should be the basic income tax. The incremental tax payable is recorded as current income tax expense.

b. Deferred tax

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits acquisition to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Bank and its subsidiaries are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Bank and its subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the period

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

Revenue Recognition

Interest revenue arising 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 collected.

Service fee income is recognized when collected or when the majority of project is completed. Service fee income is received when loans and receivables are recognized. The service fee income which is 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.

Leasing

At the inception of a contract, the Bank and its subsidiaries assess whether the contract is (or contains) a lease.

For a contract that contains a lease component and non-lease components, the Bank and its subsidiaries allocate the consideration in the contract to each component on the basis of the relative stand-alone price and accounts for each component separately.

a. The Bank and its subsidiaries as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Under finance leases, the net investment in a lease is measured at (a) the present value of the sum of the lease payments receivable by a lessor and any unguaranteed residual value accrued to the lessor plus (b) initial direct costs and is presented as the installment account and lease receivable. Finance lease income is allocated to the relevant accounting periods so as to reflect a constant, periodic rate of return on the Bank and its subsidiaries' net investment outstanding in respect of leases.

Lease payments less any lease incentives payable from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

b. The Bank and its subsidiaries as lessee

The Bank and its subsidiaries recognize right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Bank and its subsidiaries by the end of the lease terms or if the costs of right-of-use assets reflect that the Bank and its subsidiaries will exercise a purchase option, the Bank and its subsidiaries depreciate the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank and its subsidiaries use the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Bank and its subsidiaries remeasure the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

The Bank and its subsidiaries reduce with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2022, that results in the revised consideration for the lease less than the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Bank and its subsidiaries elect to apply the practical expedient to all of these rent concessions and, therefore, do not assess whether the rent concessions are lease modifications. Instead, the Bank and its subsidiaries recognize the reduction in lease payment in profit or loss in the period in which the events or conditions that trigger the concession occur and make a corresponding adjustment to the lease liability.

5. MATERIAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed by the management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Impairment of Discounts and Loans

The Bank and its subsidiaries review loans portfolios in accordance with IFRS 9 to assess impairment periodically. To determine whether an impairment loss should be recognized, the management exercises its judgments on whether there has been a significant increase in credit risk or there is any indication of credit impairment. For the purpose of impairment assessment, the management determines the expected future cash flows based on past events, present conditions and future economic circumstances of the assets with similar credit risks. The management also reviews periodically the methodology and assumptions adopted for both expected future cash flow and its timing to decrease the difference between estimated and actual amount of impairment. Also, the management should consider the specifications of the Procedures to make sure that it is in compliance with the minimum eligibility criteria. Furthermore, interest rate fluctuations impacted on financial assets credit risk, lead the uncertainty of estimating default probability and default loss rate to increase.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2023	2022
Due from banks	\$ 17,657,401	\$ 9,047,945
Cash on hand	1,477,316	2,075,575
Checks for clearing	386,363	1,416,128
Excess margin from futures	371,599	387,908
Cash in banks	<u>180,914</u>	<u>199,672</u>
	<u>\$ 20,073,593</u>	<u>\$ 13,127,228</u>

Reconciliations of cash and cash equivalents between the consolidated statements of cash flows and the consolidated balance sheets as of December 31, 2023 and 2022 are shown in the consolidated statements of cash flows.

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

	December 31	
	2023	2022
Call loans to banks	\$ 9,485,620	\$ 30,930,435
Deposit reserve - demand accounts	12,306,162	12,357,783
Deposit reserve - checking accounts	4,068,943	7,449,871
Due from the Central Bank - interbank settlement funds	3,606,610	3,513,861
Deposit reserve - foreign currencies	<u>215,145</u>	<u>199,602</u>
	<u>\$ 29,682,480</u>	<u>\$ 54,451,552</u>

Under a directive issued by the Central Bank of the ROC, New Taiwan dollar - denominated deposit reserves are determined monthly at prescribed rates based on average balance of the Bank's deposits. Deposit reserve - demand account should not be used, except for adjusting the deposit reserve monthly.

In addition, separate foreign-currency deposit reserves are determined at prescribed rates based on balances of foreign-currency deposits. These reserves may be withdrawn anytime at no interest.

The Bank and its subsidiaries had not pledged any of the due from the Central Bank and call loans to banks as collateral.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
<u>Financial assets mandatorily classified as at FVTPL</u>		
Derivative instruments		
Currency swap contracts	\$ 24,230,089	\$ 19,508,899
Interest rate swap contracts	3,156,153	3,303,096
Option contracts	1,605,803	802,203
Others	<u>421,209</u>	<u>598,040</u>
	<u>29,413,254</u>	<u>24,212,238</u>
Non-derivative financial assets		
Commercial papers	11,909,838	6,990,203
Stocks	724,873	202,500
Bank debentures	231,795	473,700
Others	<u>675,358</u>	<u>789,883</u>
	<u>13,541,864</u>	<u>8,456,286</u>
	<u>42,955,118</u>	<u>32,668,524</u>
<u>Financial assets designated as at FVTPL</u>		
Government bonds	<u>-</u>	<u>1,497,931</u>
Financial assets at FVTPL	<u>\$ 42,955,118</u>	<u>\$ 34,166,455</u>
<u>Financial liabilities held for trading</u>		
Derivative instruments		
Currency swap contracts	\$ 23,700,220	\$ 18,770,791
Interest rate swap contracts	3,063,430	4,015,030
Option contracts	1,830,732	1,164,183
Others	<u>726,426</u>	<u>648,718</u>
	<u>29,320,808</u>	<u>24,598,722</u>
<u>Financial liabilities designated as at FVTPL</u>		
Bank debentures payable	<u>-</u>	<u>11,029,589</u>
Financial liabilities at FVTPL	<u>\$ 29,320,808</u>	<u>\$ 35,628,311</u>

As of December 31, 2022, bank debentures issued by the Bank and designated as at FVTPL were as follows:

Name	December 31, 2022	Issuance Period	Method of Paying Principal and Interests	Interest Rate
P18KGIB1	\$ 6,141,600	2018.01.30-2048.01.30 (Note)	Principal due on maturity	0%
P18KGIB2	<u>4,913,280</u>	2018.02.27-2048.02.27 (Note)	Principal due on maturity	0%
	11,054,880			
Valuation adjustments	<u>(25,291)</u>			
	<u>\$ 11,029,589</u>			

Note: Based on 100% of the carrying value of each bond principal plus the interest, the Bank may redeem all the debentures after five years from the issue date (inclusive).

The contract (notional) amounts of the Bank and its subsidiaries' outstanding derivative financial instruments as of December 31, 2023 and 2022 were summarized as follows:

	<u>Contract Amount</u>	
	<u>December 31</u>	
	2023	2022
Currency swap contracts	\$ 1,806,692,674	\$ 1,554,176,760
Interest rate swap contracts	365,909,808	359,625,021
Option contracts	196,673,586	88,287,033
Forward exchange contracts	26,584,064	15,627,151
Non-deliverable forward contracts	25,768,136	7,464,993
Futures contracts	6,596,349	562,890
Cross-currency swap contracts	4,417,470	9,850,066
Commodity swap contracts	208,051	227,291

As of December 31, 2023 and 2022, financial assets at FVTPL with aggregate carrying values of \$1,510,123 thousand and \$1,079,721 thousand, respectively, were sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

The Bank and its subsidiaries had not pledged any of financial assets at FVTPL as collateral.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31</u>	
	2023	2022
Investments in debt instruments at FVTOCI	\$ 128,589,501	\$ 138,785,275
Investments in equity instruments at FVTOCI	<u>4,757,729</u>	<u>1,899,166</u>
	<u>\$ 133,347,230</u>	<u>\$ 140,684,441</u>

a. Investments in debt instruments at FVTOCI

	<u>December 31</u>	
	2023	2022
Corporate bonds	\$ 54,089,488	\$ 46,534,714
Government bonds	53,215,841	51,934,307
Bank debentures	16,997,557	11,884,566
Negotiable certificates of deposit	2,433,259	26,424,348
Others	<u>1,853,356</u>	<u>2,007,340</u>
	<u>\$ 128,589,501</u>	<u>\$ 138,785,275</u>

As of December 31, 2023 and 2022, investments in debt instruments at FVTOCI, with aggregate carrying values of \$40,142,911 thousand and \$26,483,687 thousand, respectively, were sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

There was no significant increase in the credit risk of investments in debt instruments at FVTOCI of the Bank and its subsidiaries; therefore, the impairment loss was assessed based on 12 months expected credit losses. An adjustment in the investment portfolio resulted in the recognition of impairment loss of \$41,633 thousand and \$33,240 thousand on December 31, 2023 and 2022, respectively.

b. Investments in equity instruments at FVTOCI

	December 31	
	2023	2022
Listed and OTC stocks	\$ 3,833,897	\$ 948,104
Unlisted stocks	<u>923,832</u>	<u>951,062</u>
	<u>\$ 4,757,729</u>	<u>\$ 1,899,166</u>

For the years ended December 31, 2023 and 2022, the Bank and its subsidiaries sold its shares in order to manage its investment portfolio. The sold shares had a fair value of \$3,452,500 thousand and \$13,509,777 thousand and the Bank and its subsidiaries transferred gain of \$124,867 thousand and loss of \$1,504,842 thousand from other equity related-unrealized gain (loss) on financial assets at FVTOCI to retained earnings.

For the years ended December 31, 2023 and 2022, dividend income were \$170,734 thousand and \$770,177 thousand, respectively, and those related to investments held as of December 31, 2023 and 2022 were \$63,661 thousand and \$69,381 thousand, and those related to investments derecognized as of December 31, 2023 and 2022 were \$107,073 thousand and \$700,796 thousand, respectively.

For the information on financial assets at FVTOCI pledged as collateral for the Bank and its subsidiaries, please refer to Note 42.

10. DEBT INVESTMENTS MEASURED AT AMORTIZED COST

	December 31	
	2023	2022
Negotiable certificates of deposit	\$ 47,930,000	\$ 38,775,000
Bank debentures	14,447,380	15,506,044
Corporate bonds	5,094,908	4,401,545
Others	<u>945,630</u>	<u>308,040</u>
	68,417,918	58,990,629
Accumulated impairment	<u>(5,489)</u>	<u>(5,153)</u>
Net amount	<u>\$ 68,412,429</u>	<u>\$ 58,985,476</u>

As of December 31, 2023 and 2022, debt investments measured at amortized cost, with aggregate carrying values of \$927,945 thousand and \$797,576 thousand were sold respectively under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

For the information on the debt investments measured at amortized cost pledged as collateral for the Bank and its subsidiaries, please refer to Note 42.

There was no significant increase in the credit risk of debt investments measured at amortized cost of the Bank and its subsidiaries; therefore, the impairment loss was assessed based on 12 months expected credit losses. The recognition of impairment loss of \$5,489 thousand and \$5,153 thousand on December 31, 2023 and 2022, respectively.

11. FINANCIAL INSTRUMENTS FOR HEDGING

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
<u>Financial assets for hedging</u>		
Fair value hedge - interest rate swap	\$ <u>598,459</u>	\$ <u>2,025,601</u>
<u>Financial liabilities for hedging</u>		
Fair value hedge - interest rate swap	\$ <u>610,323</u>	\$ <u>526,268</u>

Fair Value Hedges

The Bank and its subsidiaries are exposed to the risk of adverse fair value fluctuations due to changes in interest rates for the debt instruments and bank debentures issued. Since the risk is considered material, the Bank and its subsidiaries enter into interest rate swap contracts to hedge against this risk.

The following tables summarize the information relating to the hedges for interest rate risk.

December 31, 2023

Hedging Instrument	Notional Amount	Maturity	Line Item in Balance Sheet	Carrying Amount		
				Asset	Liability	
Fair value hedge						
Interest rate swap contracts	\$ 36,284,878	2024.05.18- 2033.09.21	Financial assets and liabilities for hedging	\$ 598,459	\$ 610,323	
Hedged Items			Carrying Amount		Accumulated Amount of Fair Value Adjustments	
			Asset	Liability	Asset	Liability
Fair value hedge						
Financial assets at FVTOCI			\$ 18,915,262	\$ -	\$ (490,346)	\$ -
Bank debentures payable			-	15,297,803	-	(502,197)

December 31, 2022

Hedging Instrument	Notional Amount	Maturity	Line Item in Balance Sheet	Carrying Amount		
				Asset	Liability	
Fair value hedge						
Interest rate swap contracts	\$ 45,764,866	2024.05.18- 2032.09.08	Financial assets and liabilities for hedging	\$ 2,025,601	\$ 526,268	
Hedged Items			Carrying Amount		Accumulated Amount of Fair Value Adjustments	
			Asset	Liability	Asset	Liability
Fair value hedge						
Financial assets at FVTOCI			\$ 26,415,169	\$ -	\$ (1,996,813)	\$ -
Bank debentures payable			-	15,303,007	-	(496,993)

12. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	December 31	
	2023	2022
Commercial papers	\$ 16,916,433	\$ 7,710,865
Corporate bonds	14,036,162	887,421
Negotiable certificates of deposit	9,380,121	1,200,945
Government bonds	891,249	5,047,989
Bank debentures	<u>873,764</u>	<u>620,469</u>
	<u>\$ 42,097,729</u>	<u>\$ 15,467,689</u>
Agreed-upon resell amounts	<u>\$ 42,163,925</u>	<u>\$ 15,494,368</u>
Last maturity date	March 2024	March 2023

13. RECEIVABLES, NET

	December 31	
	2023	2022
Accounts receivable factoring without recourse	\$ 10,262,998	\$ 11,472,457
Installment accounts and lease receivables	6,177,528	6,742,665
Interest receivable	5,463,397	4,318,054
Credit card	3,603,911	3,521,739
Accounts receivable - forfeiting	1,617,130	3,521,111
PEM receivable	856,575	923,887
Rental deposits	467,748	467,748
Others	<u>1,262,869</u>	<u>1,189,133</u>
	29,712,156	32,156,794
Less: Unrealized interest	(350,298)	(359,317)
Allowance for bad debts	<u>(1,397,767)</u>	<u>(1,441,322)</u>
Net amount	<u>\$ 27,964,091</u>	<u>\$ 30,356,155</u>

As of December 31, 2023 and 2022, the rental deposits receivable amounting to \$467,748 thousand and the allowance for bad debts was \$409,848 thousand, resulted from the relocation to Bank-owned property, of which, deposits from Prince Motors and Cosmos Construction Management Corporation amounted to \$101,901 thousand, and the allowance for bad debts on these deposits was \$44,001 thousand.

On February 14, 2014, the Taipei District Court had judged that the Bank lost the lawsuit against the third party who claimed that the Bank had fraudulently infringed the rights of the creditors regarding property rights of Dun Nun Building, and the Bank then filed an appeal. The court has revoked the original adjudication and rejected the third-party appeal on July 26, 2017. The third party then filed an appeal for third trial. The Supreme Court decided in the third instance and the case was sent back to the High Court on November 9, 2018. The High Court made a verdict on August 17, 2021. Please refer to Note 43 for details.

From May 2007 to February 2008, the Bank sold structured notes, which were issued by GVEC Resource Inc. (GVEC), amounting to US\$48,920 thousand through a specific trust fund. PEM Group, which GVEC was subordinate to, was found to have committed fraud by the U.S. Securities and Exchange Commission (SEC). In view of its social responsibility, the Bank's board of directors decided to buy back the structured notes before March 31, 2010 and ask for compensation from PEM Group.

PEM Group had invested in life insurance policy products, etc. In order to recover its creditor's rights effectively and to protect shareholders' equity, the Bank's board of directors adopted a resolution on December 21, 2010, to take over all the insurance policies and hold these policies in the form of trust. The Bank completed the transfer of the life insurance policies from PEM Group on March 7, 2011. The Bank measured the policies' cost based on an actuarial report less administration fees, and then recognized the cost amounting to \$218,386 thousand (US\$7,423 thousand). At the same time, the Bank wrote off the initial cost and provision for life insurance policies amounting to \$433,061 thousand (US\$14,721 thousand).

As of December 31, 2023, the PEM receivable amounting to \$856,575 thousand (US\$27,870 thousand) was measured as the abovementioned PEM receivable plus premiums paid thereon, less any recovery amount. After assessing the possibility of recovery based on the latest information provided by the trust entity, the balance of the PEM receivable and its allowance for bad debts were as follows:

	(In Thousands of USD/NTD)	
	December 31, 2023	
	USD	NTD
Life insurance policies	\$ 12,309	\$ 378,329
Non-life insurance policies	<u>15,561</u>	<u>478,246</u>
	27,870	856,575
Less: Allowance for bad debts	<u>(16,724)</u>	<u>(513,989)</u>
Net amount	<u>\$ 11,146</u>	<u>\$ 342,586</u>
	December 31, 2022	
	USD	NTD
Life insurance policies	\$ 14,525	\$ 446,061
Non-life insurance policies	<u>15,561</u>	<u>477,826</u>
	30,086	923,887
Less: Allowance for bad debts	<u>(17,008)</u>	<u>(522,281)</u>
Net amount	<u>\$ 13,078</u>	<u>\$ 401,606</u>

Changes in Loss Allowance on Receivables

The reconciliation statements of loss allowance for receivables of the Bank and its subsidiaries were as follows:

For the year ended December 31, 2023

	Stage 1	Stage 2		Stage 3		Impairment in Accordance with IFRS 9	The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing /Non-accrual Loans	Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)			
Balance at January 1	\$ 48,035	\$ 23,846	\$ -	\$ 1,146,937	\$ -	\$ 1,218,818	\$ 222,504	\$ 1,441,322
Changes due to financial instruments that have been identified at the beginning of the period:								
Transferred to lifetime ECL	(7,475)	7,857	-	(382)	-	-	-	-
Transferred to credit - impaired financial assets	(3,131)	(6,183)	-	9,314	-	-	-	-
Transferred to 12 months ECL	1,259	(1,107)	-	(152)	-	-	-	-
Derecognizing financial assets during the current period	(71,342)	(15,313)	-	(24,428)	-	(111,083)	-	(111,083)
Purchased or originated new financial assets	75,625	2,873	-	5,776	-	84,274	-	84,274
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans	-	-	-	-	-	-	(45,798)	(45,798)
Write-off	-	-	-	(36,356)	-	(36,356)	-	(36,356)
Recovery of written-off	-	-	-	5,881	-	5,881	-	5,881
Effects of exchange rate changes and others	7,560	16,513	-	35,454	-	59,527	-	59,527
Balance at December 31	\$ 50,531	\$ 28,486	\$ -	\$ 1,142,044	\$ -	\$ 1,221,061	\$ 176,706	\$ 1,397,767

For the year ended December 31, 2022

	Stage 1	Stage 2		Stage 3		Impairment in Accordance with IFRS 9	The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing /Non-accrual Loans	Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)			
Balance at January 1	\$ 48,561	\$ 18,939	\$ -	\$ 1,061,897	\$ -	\$ 1,129,397	\$ 194,566	\$ 1,323,963
Changes due to financial instruments that have been identified at the beginning of the period:								
Transferred to lifetime ECL	(327)	1,882	-	(1,555)	-	-	-	-
Transferred to credit - impaired financial assets	(157)	(551)	-	708	-	-	-	-
Transferred to 12 months ECL	1,044	(748)	-	(296)	-	-	-	-
Derecognizing financial assets during the current period	(58,371)	(791)	-	(3,917)	-	(63,079)	-	(63,079)
Purchased or originated new financial assets	67,235	932	-	3,380	-	71,547	-	71,547
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans	-	-	-	-	-	-	27,938	27,938
Write-off	-	-	-	(1,225)	-	(1,225)	-	(1,225)
Recovery of written-off	-	-	-	8,024	-	8,024	-	8,024
Effects of exchange rate changes and others	(9,950)	4,183	-	79,921	-	74,154	-	74,154
Balance at December 31	\$ 48,035	\$ 23,846	\$ -	\$ 1,146,937	\$ -	\$ 1,218,818	\$ 222,504	\$ 1,441,322

Changes in total carrying amount of receivables of the Bank and its subsidiaries were as follows:

For the year ended December 31, 2023

	Stage 1	Stage 2		Stage 3		Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	
Balance at January 1	\$ 29,763,221	\$ 281,421	\$ -	\$ 1,752,835	\$ -	\$ 31,797,477
Conversion from individual financial instruments to lifetime ECL	-	-	-	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	(4,449)	-	-	4,449	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Receivables based on collective assessment	(307,710)	142,421	-	165,289	-	-
Purchased or originated new receivables	21,982,919	30,201	-	15,511	-	22,028,631
Write-off	-	-	-	(36,356)	-	(36,356)
Derecognition	(23,933,754)	(170,456)	-	(162,671)	-	(24,266,881)
Effects of exchange rate changes and others	(161,917)	(8)	-	912	-	(161,013)
Balance at December 31	\$ 27,338,310	\$ 283,579	\$ -	\$ 1,739,969	\$ -	\$ 29,361,858

For the year ended December 31, 2022

	Stage 1	Stage 2		Stage 3		Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	
Balance at January 1	\$ 26,298,634	\$ 213,353	\$ -	\$ 1,630,372	\$ -	\$ 28,142,359
Conversion from individual financial instruments to lifetime ECL	-	-	-	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	-	-	-	-	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Receivables based on collective assessment	(88,054)	65,451	-	22,603	-	-
Purchased or originated new receivables	25,142,563	13,171	-	11,479	-	25,167,213
Write-off	-	-	-	(1,225)	-	(1,225)
Derecognition	(22,947,167)	(53,241)	-	(30,752)	-	(23,031,160)
Effects of exchange rate changes and others	1,357,245	42,687	-	120,358	-	1,520,290
Balance at December 31	\$ 29,763,221	\$ 281,421	\$ -	\$ 1,752,835	\$ -	\$ 31,797,477

For the impairment loss analysis of receivables, please refer to Note 45.

For the information on receivables pledged as collateral for the Bank and its subsidiaries, please refer to Note 42.

14. DISCOUNTS AND LOANS, NET

	December 31	
	2023	2022
Short-term loans	\$ 61,520,084	\$ 67,245,686
Medium-term loans	234,899,351	233,598,502
Long-term loans	104,738,023	98,419,210
Overdue loans	974,615	520,522
Export negotiations	<u>5,449</u>	<u>21,719</u>
	402,137,522	399,805,639
Less: Allowance for bad debts	(5,155,174)	(5,180,607)
Less: Discounts on discounts and loans	<u>(55,911)</u>	<u>(52,214)</u>
Net amount	<u>\$ 396,926,437</u>	<u>\$ 394,572,818</u>

Changes in Loss Allowance on Discounts and Loans

The reconciliation statements of loss allowance for discounts and loans of the Bank and its subsidiaries were as follows:

For the year ended December 31, 2023

	Stage 1		Stage 2		Stage 3		Impairment in Accordance with IFRS 9	The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing /Non-accrual Loans	Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)				
Balance at January 1	\$ 702,059	\$ 99,224	\$ -	\$ 617,242	\$ -	\$ 1,418,525	\$ 3,762,082	\$ 5,180,607	
Changes due to financial instruments that have been identified at the beginning of the period:									
Transferred to lifetime ECL	(2,401)	8,053	-	(5,652)	-	-	-	-	
Transferred to credit - impaired financial assets	(5,583)	(19,226)	-	24,809	-	-	-	-	
Transferred to 12 months ECL	5,038	(2,751)	-	(2,287)	-	-	-	-	
Derecognizing financial assets during the current period	(989,388)	(19,313)	-	(35,724)	-	(1,044,425)	-	(1,044,425)	
Purchased or originated new financial assets	910,211	645	-	66	-	910,922	-	910,922	
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							(355,295)	(355,295)	
Write-off	-	-	-	(924,654)	-	(924,654)	-	(924,654)	
Recovery of written-off	-	-	-	770,967	-	770,967	-	770,967	
Effects of exchange rate changes and others	<u>169,074</u>	<u>101,651</u>	<u>-</u>	<u>346,327</u>	<u>-</u>	<u>617,052</u>	<u>-</u>	<u>617,052</u>	
Balance at December 31	<u>\$ 789,010</u>	<u>\$ 168,283</u>	<u>\$ -</u>	<u>\$ 791,094</u>	<u>\$ -</u>	<u>\$ 1,748,387</u>	<u>\$ 3,406,787</u>	<u>\$ 5,155,174</u>	

For the year ended December 31, 2022

	Stage 1	Stage 2		Stage 3		Impairment in Accordance with IFRS 9	The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing /Non-accrual Loans	Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)			
Balance at January 1	\$ 856,760	\$ 102,498	\$ -	\$ 499,580	\$ -	\$ 1,458,838	\$ 3,415,417	\$ 4,874,255
Changes due to financial instruments that have been identified at the beginning of the period:								
Transferred to lifetime ECL	(2,450)	13,890	-	(11,440)	-	-	-	-
Transferred to credit - impaired financial assets	(5,478)	(19,301)	-	24,779	-	-	-	-
Transferred to 12 months ECL	11,521	(2,583)	-	(8,938)	-	-	-	-
Derecognizing financial assets during the current period	(664,852)	(14,119)	-	(104,981)	-	(783,952)		(783,952)
Purchased or originated new financial assets	1,049,379	52,865	-	68	-	1,102,312		1,102,312
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans	-	-	-	(453,270)	-	(453,270)	346,665	346,665
Write-off	-	-	-	676,735	-	676,735		(453,270)
Recovery of written-off	-	-	-	(5,291)	-	(5,291)		676,735
Effects of exchange rate changes and others	(542,821)	(34,026)	-	-	-	(582,138)		(582,138)
Balance at December 31	\$ 702,059	\$ 99,224	\$ -	\$ 617,242	\$ -	\$ 1,418,525	\$ 3,762,082	\$ 5,180,607

Changes in total carrying amount of discounts and loans of the Bank and its subsidiaries were as follows:

For the year ended December 31, 2023

	Stage 1	Stage 2		Stage 3		Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	
Balance at January 1	\$ 395,967,373	\$ 1,533,963	\$ -	\$ 2,304,303	\$ -	\$ 399,805,639
Conversion from individual financial instruments to lifetime ECL	-	-	-	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	(516,704)	-	-	516,704	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Discounts and loans based on collective assessment	(1,578,452)	618,735	-	959,717	-	-
Purchased or originated new discounts and loans	529,875,162	7,831	-	448	-	529,883,441
Write-off	-	-	-	(924,654)	-	(924,654)
Derecognition	(526,461,714)	(390,759)	-	(132,726)	-	(526,985,199)
Effects of exchange rate changes and others	157,893	(3,953)	-	204,355	-	358,295
Balance at December 31	\$ 397,443,558	\$ 1,765,817	\$ -	\$ 2,928,147	\$ -	\$ 402,137,522

For the year ended December 31, 2022

	Stage 1	Stage 2		Stage 3		Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	
Balance at January 1	\$ 375,003,104	\$ 1,441,474	\$ -	\$ 2,152,294	\$ -	\$ 378,596,872
Conversion from individual financial instruments to lifetime ECL	-	-	-	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	(127,836)	-	-	127,836	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Discounts and loans based on collective assessment	(834,838)	339,060	-	495,778	-	-
Purchased or originated new discounts and loans	609,844,338	129,671	-	1,021	-	609,975,030
Write-off	-	-	-	(453,270)	-	(453,270)
Derecognition	(594,783,697)	(376,774)	-	(273,656)	-	(595,434,127)
Effects of exchange rate changes and others	6,866,302	532	-	254,300	-	7,121,134
Balance at December 31	\$ 395,967,373	\$ 1,533,963	\$ -	\$ 2,304,303	\$ -	\$ 399,805,639

For the impairment loss analysis of discounts and loans, please refer to Note 45.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET

Immaterial associates:

	December 31			
	2023		2022	
	Carrying Amount	%	Carrying Amount	%
Suyin KGI Consumer Finance Co., Ltd.	\$ 7,768,118	37.63	\$ 4,459,742	36.17
CDIB & Partners Investment Holding Corporation	<u>850,586</u>	4.95	<u>679,617</u>	4.95
	<u>\$ 8,618,704</u>		<u>\$ 5,139,359</u>	

Aggregate information of associates that are not individually material.

	For the Year Ended December 31	
	2023	2022
The Bank and its subsidiaries' share of:		
Net income	\$ 712,653	\$ 122,291
Other comprehensive income	<u>77,570</u>	<u>(51,844)</u>
Total comprehensive income	<u>\$ 790,223</u>	<u>\$ 70,447</u>

The above investments accounted for using the equity method and the Bank and its subsidiaries' share of earnings and other comprehensive income have been calculated on the basis of the audited financial statements.

The Bank and its subsidiaries had not pledged any of the investments accounted for using equity method as collateral.

16. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

- a. The Bank and its subsidiaries have asset securitization products in which the Bank and its subsidiaries do not have significant influence but rights and obligations in accordance with the contract. The funds of unconsolidated structured entities are from the Bank and its subsidiaries and external third parties.
- b. The carrying amounts of the Bank and its subsidiaries' involvement with the structured entities, which were recognized in the consolidated balance sheet were as follows:

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
<u>Asset securitization</u>		
Financial assets at FVTOCI	\$ 310,961	\$ 305,942

The amount of the maximum exposure to loss is the carrying amount of the assets held by the Bank and its subsidiaries.

- c. The Bank and its subsidiaries did not provide any financial support to the unconsolidated structured entities until December 31, 2023.

17. OTHER FINANCIAL ASSETS, NET

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Due from banks except for cash and cash equivalents	\$ 8,745,840	\$ 1,101,950
Overdue receivables	29,987	15,447
Pledged time deposits	<u>300</u>	<u>300</u>
	8,776,127	1,117,697
Less: Allowance for bad debts - overdue receivables	<u>(29,987)</u>	<u>(15,447)</u>
Net amount	<u>\$ 8,746,140</u>	<u>\$ 1,102,250</u>

For the information on other financial assets pledged as collateral by the Bank and its subsidiaries, please refer to Note 42.

18. PROPERTY AND EQUIPMENT, NET

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Land	\$ 3,263,551	\$ 3,347,375
Buildings and facilities	1,172,614	1,280,617
Machinery and computer equipment	390,778	651,459
Leasehold improvements	384,270	431,390
Miscellaneous equipment	88,340	102,698
Transportation equipment	869	11,723
Prepayments for acquisition of equipment	<u>8,757</u>	<u>8,812</u>
	<u>\$ 5,309,179</u>	<u>\$ 5,834,074</u>

	Land	Buildings and Facilities	Machinery and Computer Equipment	Leasehold Improvements	Transportation Equipment	Miscellaneous Equipment	Prepayments for Acquisition of Equipment	Total
<u>Cost</u>								
Balance at January 1, 2022	\$ 3,344,047	\$ 2,322,441	\$ 1,008,907	\$ 382,929	\$ 183,056	\$ 117,532	\$ 231,332	\$ 7,590,244
Additions	-	32,878	85,938	46,198	-	21,337	26,729	213,080
Deduction	(408)	(17,553)	(36,563)	(18,555)	(147,452)	(23,478)	-	(244,009)
Reclassification	7,993	8,832	11,034	208,615	-	29,176	(249,249)	16,401
Effects of exchange rate changes	-	-	38	8	-	23	-	69
Balance at December 31, 2022	<u>3,351,632</u>	<u>2,346,598</u>	<u>1,069,354</u>	<u>619,195</u>	<u>35,604</u>	<u>144,590</u>	<u>8,812</u>	<u>7,575,785</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2022	(4,257)	(1,003,585)	(337,458)	(152,727)	(113,090)	(43,886)	-	(1,655,003)
Depreciation	-	(73,893)	(116,962)	(53,507)	(18,007)	(21,457)	-	(283,826)
Deduction	-	14,504	36,563	18,437	107,216	23,474	-	200,194
Reclassification	-	(3,007)	-	-	-	-	-	(3,007)
Effects of exchange rate changes	-	-	(38)	(8)	-	(23)	-	(69)
Balance at December 31, 2022	<u>(4,257)</u>	<u>(1,065,981)</u>	<u>(417,895)</u>	<u>(187,805)</u>	<u>(23,881)</u>	<u>(41,892)</u>	<u>-</u>	<u>(1,741,711)</u>
Balance at December 31, 2022, net	<u>\$ 3,347,375</u>	<u>\$ 1,280,617</u>	<u>\$ 651,459</u>	<u>\$ 431,390</u>	<u>\$ 11,723</u>	<u>\$ 102,698</u>	<u>\$ 8,812</u>	<u>\$ 5,834,074</u>
<u>Cost</u>								
Balance at January 1, 2023	\$ 3,351,632	\$ 2,346,598	\$ 1,069,354	\$ 619,195	\$ 35,604	\$ 144,590	\$ 8,812	\$ 7,575,785
Additions	-	39,321	104,655	1,390	67	4,591	47,223	197,247
Deduction	-	(9,855)	(39,524)	(35,461)	(32,286)	(11,646)	-	(128,772)
Reclassification	(83,824)	(126,216)	(379,901)	2,779	5	1,396	(47,278)	(633,039)
Effects of exchange rate changes	-	-	(47)	(10)	-	(29)	-	(86)
Balance at December 31, 2023	<u>3,267,808</u>	<u>2,249,848</u>	<u>754,537</u>	<u>587,893</u>	<u>3,390</u>	<u>138,902</u>	<u>8,757</u>	<u>7,011,135</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2023	(4,257)	(1,065,981)	(417,895)	(187,805)	(23,881)	(41,892)	-	(1,741,711)
Depreciation	-	(69,869)	(121,599)	(51,288)	(1,581)	(20,342)	-	(264,679)
Deduction	-	9,855	39,520	35,461	22,941	11,644	-	119,421
Reclassification	-	48,761	136,170	-	-	-	-	184,931
Effects of exchange rate changes	-	-	45	9	-	28	-	82
Balance at December 31, 2023	<u>(4,257)</u>	<u>(1,077,234)</u>	<u>(363,759)</u>	<u>(203,623)</u>	<u>(2,521)</u>	<u>(50,562)</u>	<u>-</u>	<u>(1,701,956)</u>
Balance at December 31, 2023, net	<u>\$ 3,263,551</u>	<u>\$ 1,172,614</u>	<u>\$ 390,778</u>	<u>\$ 384,270</u>	<u>\$ 869</u>	<u>\$ 88,340</u>	<u>\$ 8,757</u>	<u>\$ 5,309,179</u>

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Assets used by the Bank and its subsidiaries	\$ 5,308,380	\$ 5,518,859
Assets leased under operating leases	<u>799</u>	<u>315,215</u>
	<u>\$ 5,309,179</u>	<u>\$ 5,834,074</u>

Property and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings and facilities	5-60 years
Machinery and computer equipment	4-10 years
Transportation equipment	5 years
Miscellaneous equipment	3-15 years
Leasehold improvements	Depends on the age or the durable life of the lease, whichever is shorter

The operating leases of the Bank's subsidiaries are mainly based on leased light passenger vehicles with lease terms of 1 to 5 years. The above contracts do not contain market review clauses. The lessees do not have bargain purchase options to acquire the assets at the expiry of the lease periods.

The maturity analysis of lease payments receivable under operating leases was as follows:

	December 31	
	2023	2022
Year 1	\$ 174	\$ 2,787
Year 2	-	174
Year 3	-	-
Year 4	-	-
Year 5	-	-
	<u>\$ 174</u>	<u>\$ 2,961</u>

The equipment leased by the Bank and its subsidiaries under operating leases is depreciated on a straight-line basis over the estimated useful lives as follows:

	Estimated Useful Lives
Machinery equipment	4-20 years
Transportation equipment	2-5 years

The Bank's subsidiary, CDC Finance & Leasing Corporation, plans to sell some of its machinery equipment and has already identified a buyer, with the expectation of completing the disposal within the next year. When it is classified as assets held for sale, no impairment loss should be recognized.

For the information on property and equipment pledged as collateral by the Bank and its subsidiaries, please refer to Note 42.

19. LEASE ARRANGEMENTS

a. Right-of-use assets

	December 31	
	2023	2022
Carrying amounts		
Buildings and facilities	\$ 2,948,679	\$ 3,309,926
Computer equipment	14,038	21,928
Transportation equipment	3,563	5,153
Miscellaneous equipment	<u>384</u>	<u>463</u>
	<u>\$ 2,966,664</u>	<u>\$ 3,337,470</u>

	For the Year Ended December 31	
	2023	2022
Additions to right-of-use assets	\$ 8,370	\$ 87,484

	For the Year Ended December 31	
	2023	2022
Depreciation of right-of-use assets		
Buildings and facilities	\$ 349,238	\$ 347,595
Computer equipment	10,975	15,909
Transportation equipment	3,206	3,021
Miscellaneous equipment	<u>79</u>	<u>79</u>
	<u>\$ 363,498</u>	<u>\$ 366,604</u>

b. Lease liabilities

	December 31	
	2023	2022
Carrying amounts	\$ 3,131,695	\$ 3,493,402

	For the Year Ended December 31	
	2023	2022
Interest expense (other interest expenses)	\$ 28,586	\$ 30,084

Ranges of discount rates for lease liabilities were as follows:

	December 31	
	2023	2022
Buildings and facilities	0.52%-1.82%	0.52%-1.82%
Computer equipment	0.91%-1.50%	0.91%-0.92%
Transportation equipment	0.53%-1.64%	0.53%-1.64%
Miscellaneous equipment	1.03%	1.03%

The maturity analysis of lease liabilities (undiscounted) was as follows:

	December 31	
	2023	2022
Less than 1 year	\$ 368,521	\$ 380,374
1 year to 5 years	1,418,176	1,457,604
Over 5 years	<u>1,487,816</u>	<u>1,820,957</u>
	<u>\$ 3,274,513</u>	<u>\$ 3,658,935</u>

c. Material leasing activities and terms

The Bank and its subsidiaries lease buildings and facilities, computer equipment, transportation equipment and miscellaneous equipment with lease terms of 1 to 15 years. In the contracts, the Bank and its subsidiaries have the option to lease the building at the end of the lease terms. The lessees do not have bargain purchase options to acquire the assets at the expiry of the lease periods.

d. Other lease information

For lease arrangements under operating leases for the leasing out of freehold property and equipment and investment properties for the Bank and its subsidiaries, please refer to Notes 18 and 20, respectively.

	<u>For the Year Ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Expenses relating to short-term leases	\$ 11,136	\$ 7,746
Expenses relating to low-value asset leases	\$ 4,928	\$ 5,748
Total cash outflow for leases	<u>\$ 396,583</u>	<u>\$ 393,925</u>

Short-term lease commitments with lease terms commencing after the balance sheet dates are as follows:

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Short-term lease commitments	\$ 6,057	\$ 1,422

20. INVESTMENT PROPERTY, NET

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Land	\$ 1,234,128	\$ 1,150,304
Buildings and facilities	<u>410,350</u>	<u>346,694</u>
	<u>\$ 1,644,478</u>	<u>\$ 1,496,998</u>

The changes in the Bank and its subsidiaries' investment properties were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2023</u>	<u>2022</u>
<u>Cost</u>		
Beginning balance	\$ 1,928,178	\$ 1,944,724
Reclassification	<u>210,340</u>	<u>(16,546)</u>
Ending balance	<u>2,138,518</u>	<u>1,928,178</u>
<u>Accumulated depreciation</u>		
Beginning balance	(280,264)	(269,122)
Depreciation	(14,099)	(14,149)
Reclassification	<u>(48,761)</u>	<u>3,007</u>
Ending balance	<u>(343,124)</u>	<u>(280,264)</u>
<u>Accumulated impairment</u>		
Beginning balance	(150,916)	(150,916)
Impairment	<u>-</u>	<u>-</u>
Ending balance	<u>(150,916)</u>	<u>(150,916)</u>
Carrying amount, net	<u>\$ 1,644,478</u>	<u>\$ 1,496,998</u>

Investment property is depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings and facilities	
Main building and parking spaces	30-60 years

The fair values of the Bank and its subsidiaries' investment properties were assessed by an external independent appraiser. The sales comparison approach and income approach were used in the valuation, whereby the sales comparison approach compares a subject property's characteristics with those of comparable properties which have been recently sold in similar transactions, and the income approach takes the net operating income of the rent collected and divides it by the capitalization rate. Based on these valuations, the fair values of the Bank and its subsidiaries' investment properties as of December 31, 2023 and 2022 were \$2,234,226 thousand and \$1,898,516 thousand, respectively. Investment properties were categorized into Level 3.

The lease terms of the leasing of investment properties are 1 to 10 years. Some lessees have the priority to rent the leased property under the same terms after the leases have expired. The lessees do not have bargain purchase options to acquire the investment property at the expiry of the lease periods.

The maturity analysis of lease payments receivable under operating leases of investment property was as follows:

	December 31	
	2023	2022
Year 1	\$ 53,558	\$ 40,166
Year 2	48,349	35,878
Year 3	34,527	30,620
Year 4	27,089	16,669
Year 5	15,802	11,217
Over 5 years	<u>6,139</u>	<u>14,133</u>
	<u>\$ 185,464</u>	<u>\$ 148,683</u>

The above items of investment property under operating leases are depreciated on a straight-line basis over the estimated useful lives as follows:

	Estimated Useful Lives
Buildings and facilities	30-60 years

For the information on investment property pledged as collateral by the Bank and its subsidiaries, please refer to Note 42.

21. OTHER ASSETS, NET

	December 31	
	2023	2022
Guarantee deposits paid	\$ 3,352,211	\$ 6,497,372
Prepaid expenses	595,121	640,122
Prepaid pensions	117,839	116,286
Others	<u>125,567</u>	<u>120,630</u>
	<u>\$ 4,190,738</u>	<u>\$ 7,374,410</u>

For the information on other assets pledged as collateral by the Bank and its subsidiaries, please refer to Note 42.

22. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	December 31	
	2023	2022
Call loans from banks	\$ 6,846,756	\$ 11,791,872
Deposits from Chunghwa Post Co., Ltd.	<u>180,556</u>	<u>180,556</u>
	<u>\$ 7,027,312</u>	<u>\$ 11,972,428</u>

23. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	December 31	
	2023	2022
Corporate bonds	\$ 21,849,930	\$ 13,905,696
Government bonds	13,069,499	9,784,967
Bank debentures	6,151,427	3,771,150
Others	<u>1,510,123</u>	<u>899,171</u>
	<u>\$ 42,580,979</u>	<u>\$ 28,360,984</u>
Repurchase amounts	<u>\$ 43,147,805</u>	<u>\$ 28,599,335</u>
Last maturity date	March 2024	March 2023

24. PAYABLES

	December 31	
	2023	2022
Accounts payable factoring	\$ 2,556,748	\$ 1,945,951
Accrued interest	2,274,312	3,862,989
Accrued expenses	1,128,630	1,094,893
Payables for securities purchased	577,497	229,758
Payables for checks for clearing	386,363	1,416,128
Others	<u>884,083</u>	<u>1,453,788</u>
	<u>\$ 7,807,633</u>	<u>\$ 10,003,507</u>

25. DEPOSITS AND REMITTANCES

	December 31	
	2023	2022
Time deposits	\$ 248,867,469	\$ 261,858,627
Savings deposits	177,602,354	158,186,438
Demand deposits	127,814,138	116,217,220
Checking deposits	3,321,552	3,817,497
Negotiable certificates of deposit	134,100	3,136,700
Remittances	<u>703,656</u>	<u>468,721</u>
	<u>\$ 558,443,269</u>	<u>\$ 543,685,203</u>

26. BANK DEBENTURES PAYABLE

Name	December 31		Issuance Period	Method of Paying Principle and Interests	Interest Rate
	2023	2022			
P07 KGIB 1	\$ 3,000,000	\$ 3,000,000	2018.12.27, no maturity date	Interest payable annually (Note)	2.35%
P07 KGIB 2	3,350,000	3,350,000	2018.12.27-2033.12.27	Interest payable annually; principal due on maturity	1.68%
P08 KGIB 1	3,100,000	3,100,000	2019.06.26-2034.06.26	Interest payable annually; principal due on maturity	1.40%
P09 KGIB 1	1,200,000	1,200,000	2020.03.05-2027.03.05	Interest payable annually; principal due on maturity	0.75%
P09 KGIB 2	4,800,000	4,800,000	2020.03.05-2030.03.05	Interest payable annually; principal due on maturity	0.80%
P09 KGIB 3	4,800,000	4,800,000	2020.08.07-2030.08.07	Interest payable annually; principal due on maturity	0.71%
P10 KGIB 1	4,300,000	4,300,000	2021.02.04-2031.02.04	Interest payable annually; principal due on maturity	0.57%
P10 KGIB 2	<u>700,000</u>	<u>700,000</u>	2021.05.18-2024.05.18	Interest payable annually; principal due on maturity	0.40%
	25,250,000	25,250,000			
Valuation adjustments	<u>(502,197)</u>	<u>(496,993)</u>			
Net amount	<u>\$ 24,747,803</u>	<u>\$ 24,753,007</u>			

Note: The Bank has the right to redeem the bonds after 5 years and 1 month from the issue date if its self-owned capital adequacy ratio is still in compliance with the requirements set by the competent authority. The Bank is allowed to redeem the bonds based on the carrying value of each bond plus interest after approved by the competent authority.

27. OTHER FINANCIAL LIABILITIES

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Commercial paper payable	\$ 3,039,829	\$ 4,658,859
Cumulative earnings on appropriated loan fund	1,713,333	560,000
Note issuance facility	1,099,865	499,779
Short-term borrowings	<u>1,080,000</u>	<u>706,000</u>
	<u>\$ 6,933,027</u>	<u>\$ 6,424,638</u>
Commercial paper payable	1.69%-2.24%	1.62%-2.24%
Short-term borrowings	1.90%-2.15%	1.53%-2.09%

For the information on collateral for borrowings, please refer to Note 42.

28. PROVISIONS

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Provisions for guarantee liabilities	\$ 167,628	\$ 109,468
Provisions for loan commitments	73,356	60,462
Provisions for decommissioning, restoration and rehabilitation cost	50,123	47,464
Provisions for employee benefits	3,208	5,217
Others	<u>73,271</u>	<u>73,315</u>
	<u>\$ 367,586</u>	<u>\$ 295,926</u>

29. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The pension plan adopted by the Bank and its domestic subsidiaries in accordance with the Labor Pension Act (LPA) is a state-managed defined contribution plan. Under the LPA, the Bank and its domestic subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Total pension expenses recognized were \$140,967 thousand and \$136,630 thousand for the years ended December 31, 2023 and 2022, respectively.

b. Defined benefit plan

The pension plan adopted by the Bank and its domestic subsidiaries in accordance with the Labor Standards Act is a defined benefit pension plan. Pension benefits are calculated on the bases of the length of service and average monthly salaries and wages of employees at the time of retirement.

The Bank places its monthly contributions to the non-managers' pension fund at authorized ratios, which is deposited in the Bank of Taiwan and administered by the Employees' Pension Reserve Supervisory Committee. Managers' pension funds are managed by the Employee Retirement Fund Management Committee and deposited in KGI's Chungho Branch in the committee's name. Before the end of each year, the Bank assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year.

The amounts included in the consolidated balance sheets in respect of the Bank and its subsidiaries' defined benefit plans were as follows:

	December 31	
	2023	2022
Present value of defined benefit obligation	\$ 974,120	\$ 977,575
Fair value of plan assets	<u>(1,088,751)</u>	<u>(1,088,644)</u>
Net defined benefit assets	<u>\$ (114,631)</u>	<u>\$ (111,069)</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2022	\$ 1,111,569	\$ (1,083,917)	\$ 27,652
Service cost			
Current service cost	4,298	-	4,298
Net interest expense (income)	<u>6,901</u>	<u>(6,796)</u>	<u>105</u>
Recognized in profit or loss	<u>11,199</u>	<u>(6,796)</u>	<u>4,403</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(44,671)	(44,671)
Actuarial (gain) loss - changes in demographic assumptions	6,314	-	6,314
Actuarial (gain) loss - changes in financial assumptions	(103,945)	-	(103,945)
Actuarial (gain) loss - experience adjustments	<u>18,061</u>	<u>-</u>	<u>18,061</u>
Recognized in other comprehensive income	<u>(79,570)</u>	<u>(44,671)</u>	<u>(124,241)</u>
Contributions from the employer	-	(18,883)	(18,883)
Benefits paid	<u>(65,623)</u>	<u>65,623</u>	<u>-</u>
Balance at December 31, 2022	<u>977,575</u>	<u>(1,088,644)</u>	<u>(111,069)</u>
Service cost			
Current service cost	2,304	-	2,304
Net interest expense (income)	<u>14,605</u>	<u>(16,399)</u>	<u>(1,794)</u>
Recognized in profit or loss	<u>16,909</u>	<u>(16,399)</u>	<u>510</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (860)	\$ (860)
Actuarial (gain) loss - changes in financial assumptions	12,964	-	12,964
Actuarial (gain) loss - experience adjustments	<u>(1,065)</u>	<u>-</u>	<u>(1,065)</u>
Recognized in other comprehensive income	<u>11,899</u>	<u>(860)</u>	<u>11,039</u>
Contributions from the employer	-	(15,111)	(15,111)
Benefits paid	<u>(32,263)</u>	<u>32,263</u>	<u>-</u>
Balance at December 31, 2023	<u>\$ 974,120</u>	<u>\$ (1,088,751)</u>	<u>\$ (114,631)</u> (Concluded)

Through the defined benefit plans under the Labor Standards Act, the Bank and its subsidiaries are exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity/debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

The Bank

	December 31	
	2023	2022
Discount rates	1.375%	1.500%
Expected rates of salary increase	3.000%	3.000%

CDIB Management Consulting Corporation and its subsidiaries

	December 31	
	2023	2022
Discount rates	1.200%	1.250%
Expected rates of salary increase	2.500%	2.500%

If possible reasonable change in each of the significant actuarial assumptions occurs and all other assumptions remain constant, the present value of the defined benefit obligation will increase (decrease) as follows:

	<u>December 31</u>	
	2023	2022
Discount rate		
0.25% increase	<u>\$ (25,963)</u>	<u>\$ (27,230)</u>
0.25% decrease	<u>\$ 26,953</u>	<u>\$ 28,313</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 26,064</u>	<u>\$ 27,416</u>
0.25% decrease	<u>\$ (25,242)</u>	<u>\$ (26,509)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The Bank

	<u>December 31</u>	
	2023	2022
The expected contributions to the plan for the next year	<u>\$ 13,873</u>	<u>\$ 14,193</u>
The average duration of the defined benefit obligation	10.9 years	11.4 years

CDIB Management Consulting Corporation and its subsidiaries

	<u>December 31</u>	
	2023	2022
The expected contributions to the plan for the next year	<u>\$ 700</u>	<u>\$ 1,356</u>
The average duration of the defined benefit obligation	8.81 years	9.14 years

30. OTHER LIABILITIES

	<u>December 31</u>	
	2023	2022
Guarantee deposits received	\$ 2,735,736	\$ 2,101,383
Temporary receipts and suspense accounts	824,716	873,009
Others	<u>167,961</u>	<u>149,844</u>
	<u>\$ 3,728,413</u>	<u>\$ 3,124,236</u>

31. EQUITY

a. Capital

Common stock

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Number of shares authorized (in thousands) (Note)	<u>20,000,000</u>	<u>20,000,000</u>
Shares authorized	<u>\$ 200,000,000</u>	<u>\$ 200,000,000</u>
Number of shares issued and fully paid (in thousands) (Note)	<u>4,606,162</u>	<u>4,606,162</u>
Shares issued	<u>\$ 46,061,623</u>	<u>\$ 46,061,623</u>

Note: Par value of shares is NT\$10.

b. Capital surplus

	<u>December 31</u>	
	<u>2023</u>	<u>2022</u>
Additional paid-in capital	\$ 7,245,723	\$ 7,245,723
Share-based payments	146,122	91,198
Change in capital surplus from investments in associates accounted for using equity method	35,255	32,632
Difference between consideration and carrying amount of subsidiaries acquired	<u>4,978</u>	<u>4,978</u>
	<u>\$ 7,432,078</u>	<u>\$ 7,374,531</u>

The premium of additional paid-in capital (share premium from issuance of common shares, treasury share transactions, and excess of the consideration received over the carrying amount of the subsidiaries' net assets during disposal or acquisition) and donations may be used to offset a deficit; in addition, when the Bank has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital once a year within a certain percentage of the Bank's capital surplus.

The capital surplus from investments under the equity method may not be used for any purpose.

c. Legal and special reserves

Under the Company Act, when the Bank incurs no loss, the shareholders' meeting may resolve to distribute legal reserve by issuing new shares or cash dividends, which is limited by the 25% balance of legal reserve minus capital. In addition, under the Banking Act, the Bank should retain 30% of its after-tax earnings as legal reserve before distributing these earnings. Further, if the amount of legal reserve is less than the total amount of capital, the maximum amount of earnings that may be distributed in cash should not exceed 15% of the total capital. However, this restriction will not apply if the amount of legal reserve equals or exceeds the amount of the total capital or if the Bank is in sound financial condition and is in compliance with the Company Act.

After applying IFRS Accounting Standards, the Bank recognizes and reverses special reserve according to Order No. 1010012865 and 1090150022 issued by the FSC and the rule of "Questions and Answers on Special Reserves Appropriated Following the Adoption of IFRSs".

Under Order No. 10510001510 issued by the FSC on May 25, 2016, the Public Bank shall appropriate 2016 to 2018 annual surplus which is based on 0.5% to 1% of net income for special reserve. From fiscal year of 2017, the Bank can reverse the amount of expenditure of employees' transfer arising from financial technology development within the amount of the above special reserve. However, in response of the development of financial technology and the protection of the rights and interests of employees in the domestic banks, it is not applicable to appropriate special reserve in accordance with the Order No. 10802714560 issued by the FSC. When paying the expense of employees' turnover or resettlement expenditures and the training in response of financial technology or business development of the bank, the Bank reverses the special reserve within the scope mentioned above.

d. Appropriation of earnings and dividends policy

In order to expand the Bank's operations and consider the benefit of shareholders as well as comply with the Banking Act and relevant regulations, the Bank applies the residual dividends policy. In principle, the Bank pays dividends in the form of cash. The cash dividends should not be more than 15% of paid-in capital when legal reserve is less than paid-in capital.

The current year's earnings will be first applied to offset the prior years' losses as well as settle all taxes payable. After covering losses and settling taxes, the balance will then be used to appropriate legal reserve and special reserve and to reverse a special reserve in accordance with the Banking Act and relevant regulations. The remainder and the prior years' adjusted unappropriated earnings are subject to the board of directors' decision to propose a distribution plan to be submitted to the shareholders' meeting for approval.

When the Bank's legal reserve equals its paid-in capital, or when the Bank has complied with the FSC's financial soundness requirements and has provided a legal reserve based on the Company Act and relevant regulations, the Bank is no longer subject to the requirement for legal reserve appropriation and to the 15% of paid-in capital limit on cash dividends distribution.

The appropriation of earnings should be presented for approval at the shareholders' meeting in the year following and given effect to in the financial statements of the year following the year of earnings generation.

Under the Financial Holding Company Act, because the Bank has only one shareholder, CDFH, the Company Act provisions on shareholders' meetings do not apply to the Bank and the board of directors is thus entitled to exercise shareholders' meeting functions.

The appropriations of the 2022 and 2021 earnings approved by Bank's board of directors, who were authorized to execute shareholders' meeting function on April 24, 2023 and April 21, 2022, respectively, were as follows:

	2022	2021
Legal reserve	\$ 1,374,487	\$ 1,665,649
Special reserve	3,207,137	168,417
Cash dividends	-	3,718,097

Related information can be accessed at the Market Observation Post System website of the Taiwan Stock Exchange.

32. NET INTEREST

	For the Year Ended December 31	
	2023	2022
<u>Interest revenue</u>		
Discounts and loans	\$ 15,099,079	\$ 10,824,267
Securities	5,668,965	3,602,366
Due from and call loans to banks	1,156,402	425,318
Others	<u>1,444,837</u>	<u>1,004,871</u>
	<u>23,369,283</u>	<u>15,856,822</u>
<u>Interest expense</u>		
Deposits	11,602,356	4,234,610
Notes and bonds issued under repurchase agreements	1,760,803	795,524
Structured notes	1,328,877	475,664
Due to other bank and borrowings from other bank	346,815	362,721
Others	<u>630,462</u>	<u>447,584</u>
	<u>15,669,313</u>	<u>6,316,103</u>
	<u>\$ 7,699,970</u>	<u>\$ 9,540,719</u>

33. SERVICE FEE INCOME, NET

	For the Year Ended December 31	
	2023	2022
<u>Service fee revenue</u>		
Trust	\$ 541,132	\$ 452,893
Loans	519,524	631,345
Insurance commission	377,271	381,945
Underwriting	151,380	104,633
Credit card	151,137	149,643
Others	<u>515,989</u>	<u>511,159</u>
	<u>2,256,433</u>	<u>2,231,618</u>
<u>Service fee expense</u>		
Agency	142,156	128,532
Interbank	107,340	98,663
Others	<u>175,795</u>	<u>175,887</u>
	<u>425,291</u>	<u>403,082</u>
	<u>\$ 1,831,142</u>	<u>\$ 1,828,536</u>

34. GAINS (LOSSES) ON FINANCIAL ASSETS OR LIABILITIES MEASURED AT FVTPL

	For the Year Ended December 31	
	2023	2022
<u>Realized gain (loss)</u>		
Derivative instruments	\$ (133,977)	\$ 3,141,917
Bonds	271,199	(738,259)
Commercial paper	165,910	58,571
Stocks	78,562	(52,660)
Others	<u>30,418</u>	<u>11,738</u>
	<u>412,112</u>	<u>2,421,307</u>
<u>Revaluation gain (loss)</u>		
Derivative instruments	1,531,519	(787,155)
Bonds	(58,639)	460,288
Commercial paper	(1,686)	2,841
Stocks	2,922	(13,574)
Others	<u>23,037</u>	<u>(51,428)</u>
	<u>1,497,153</u>	<u>(389,028)</u>
	<u>\$ 1,909,265</u>	<u>\$ 2,032,279</u>

For the years ended December 31, 2023 and 2022, the realized gain or loss on the Bank and its subsidiaries' financial assets or liabilities at FVTPL included (a) disposal gain of \$262,943 thousand and disposal gain of \$2,935,349 thousand, respectively, (b) interest revenues of \$214,894 thousand and \$192,070 thousand, respectively, (c) dividend incomes of \$475 thousand and \$2,282 thousand, respectively, and (d) interest expenses of \$66,200 thousand and \$708,394 thousand, respectively.

35. REALIZED GAINS (LOSSES) ON FINANCIAL ASSETS MEASURED AT FVTOCI

	For the Year Ended December 31	
	2023	2022
Dividend income	\$ 170,734	\$ 770,177
Gain (loss) on disposal of bonds	<u>125,850</u>	<u>(1,987,509)</u>
	<u>\$ 296,584</u>	<u>\$ (1,217,332)</u>

36. REVERSAL OF IMPAIRMENT LOSS (IMPAIRMENT LOSS) ON ASSETS

	For the Year Ended December 31	
	2023	2022
Debt instruments at FVTOCI	\$ (8,325)	\$ (1,672)
Debt instruments at amortized cost	<u>(334)</u>	<u>(2,298)</u>
	<u>\$ (8,659)</u>	<u>\$ (3,970)</u>

37. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Year Ended December 31	
	2023	2022
Employee benefit expense		
Salaries and wages	\$ 3,491,730	\$ 3,265,131
Employee insurance	275,648	266,973
Pension	141,477	141,033
Others	<u>317,224</u>	<u>316,667</u>
	<u>\$ 4,226,079</u>	<u>\$ 3,989,804</u>
Depreciation and amortization expenses	<u>\$ 899,798</u>	<u>\$ 902,375</u>

The Bank's Articles of Incorporation, which stipulates to distribute compensation of employees at the rates 0.01%-3% and remuneration of directors at the rates no higher than 1% of net profit before income tax and compensation of employees and remuneration of directors, however, if the Bank had incurred cumulative losses, the profit should be used to offset the losses first.

The distribution of the compensation of employees and remuneration of directors for 2023 and 2022 approved by the board of directors on February 27, 2024 and February 16, 2023 were as follows:

	For the Year Ended December 31	
	2023	2022
Compensation of employees	\$ 6,300	\$ 5,300
Remuneration of directors	62,000	52,000

There was no difference between the amounts resolved by the board of directors and the respective amounts recognized in the financial statements for the years.

If there is a change in the proposed amounts after the consolidated financial statements of the fiscal year were authorized for issue, the differences will be recorded as a change in the accounting estimate.

The information on the proposed and approved compensation of employees and remuneration of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

38. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the Year Ended December 31	
	2023	2022
Taxation	\$ 742,498	\$ 584,296
Computer information	449,111	408,151
Marketing	151,217	157,688
Insurance	127,279	116,307
Professional services	77,561	140,698
Others	<u>532,020</u>	<u>516,768</u>
	<u>\$ 2,079,686</u>	<u>\$ 1,923,908</u>

39. INCOME TAX

a. Income tax expense

	For the Year Ended December 31	
	2023	2022
Current income tax		
Current year	\$ 495,795	\$ 700,459
Prior year's adjustments	<u>148</u>	<u>(13,950)</u>
	495,943	686,509
Deferred income tax	<u>288,724</u>	<u>(49,817)</u>
Income tax expenses	<u>\$ 784,667</u>	<u>\$ 636,692</u>

The reconciliation of accounting profit and income tax expense was as follows:

	For the Year Ended December 31	
	2023	2022
Income tax expenses calculated at the statutory rate	\$ 1,236,000	\$ 1,330,340
Effect of different tax rates applied to consolidated entities	119	1,628
Permanent difference	(714,930)	(864,984)
Additional income tax under the Alternative Minimum Tax Act	285,630	212,108
Prior year's adjustments	(148)	(13,950)
Others	<u>(22,300)</u>	<u>(28,450)</u>
Income tax expenses recognized in profit or loss	<u>\$ 784,667</u>	<u>\$ 636,692</u>

The corporate income tax rate used by the Bank and its subsidiaries in the ROC is 20%. The applicable tax rate used by subsidiaries in China is 25%.

b. Income tax recognized in other comprehensive income:

	For the Year Ended December 31	
	2023	2022
Current income tax		
Changes in fair value of equity instruments at FVTOCI	\$ (6,172)	\$ (205,205)
Deferred income tax		
Changes in fair value of debt instruments at FVTOCI	123,852	(197,284)
Remeasurement of defined benefit plans	<u>(2,430)</u>	<u>24,847</u>
Income tax expense (benefit)	<u>\$ 115,250</u>	<u>\$ (377,642)</u>

c. The estimated receivables/payables resulting from the use of the linked-tax system on the Bank's consolidated tax returns were as follows:

	December 31	
	2023	2022
Taxes paid to the parent company	<u>\$ 910,382</u>	<u>\$ 1,032,695</u>

d. Deferred tax assets and liabilities

	December 31	
	2023	2022
<u>Deferred tax assets</u>		
Allowance for bad debts	\$ 492,267	\$ 500,151
Financial investments valuation	-	227,378
Others	<u>22,506</u>	<u>22,787</u>
	<u>\$ 514,773</u>	<u>\$ 750,316</u>
<u>Deferred tax liabilities</u>		
Defined benefit plans	\$ 23,568	\$ 23,257
Unrealized foreign exchange gain	189	21,126
Land value increment tax	19,831	19,831
Financial investments valuation	<u>195,229</u>	<u>-</u>
	<u>\$ 238,817</u>	<u>\$ 64,214</u>

e. Income tax assessments

Since 2015, the Bank used the linked-tax system in filing together its income tax and unappropriated earnings returns and those of its parent company and eligible subsidiaries.

The income tax returns of the Bank through 2017 have been examined by the tax authorities.

The income tax returns of CDIB Management Consulting Corporation and CDC Finance & Leasing Corporation through 2021 have been examined by the tax authorities.

40. EARNINGS PER SHARE

	For the Year Ended December 31	
	2023	2022
Earnings used in the computation of the EPS	<u>\$ 5,395,331</u>	<u>\$ 6,000,010</u>
Weighted average number of common shares outstanding (shares in thousands)	<u>4,606,162</u>	<u>4,606,162</u>
Basic EPS (in dollars)	<u>\$ 1.17</u>	<u>\$ 1.30</u>

41. RELATED-PARTY TRANSACTIONS

The significant transactions and relationship with related parties (in addition to those disclosed in other notes) are summarized below:

<u>Name of Related Party</u>	<u>Relationship with the Bank and Its Subsidiaries</u>
China Development Financial Holding Corporation	Parent company
CDIB Capital Group and its subsidiaries	Subsidiary of the parent company
KGI Securities Co., Ltd. and its subsidiaries	Subsidiary of the parent company
China Development Asset Management Corporation	Subsidiary of the parent company
KGI Life Insurance Co., Ltd. (Formerly China Life Insurance Co., Ltd.)	Subsidiary of the parent company
KGI Securities Investment Trust Co., Ltd.	Subsidiary of the parent company
Others	Other related parties

- a. Future contracts (recognized as cash and cash equivalents and financial assets at FVTPL)

Cash and cash equivalents

	Amount
December 31, 2023	\$ 308,517
December 31, 2022	332,480

Financial assets at FVTPL

	Amount
December 31, 2023	\$ 57,551
December 31, 2022	11,932

- b. Service fee revenue receivables (recognized as receivables, net)

	Amount
December 31, 2023	\$ 25,447
December 31, 2022	18,284

- c. Credit card receivables (recognized as receivables, net)

	Amount
December 31, 2023	\$ 14,340
December 31, 2022	19,423

- d. Receivables on securities sold (recognized as receivables, net)

	Amount
December 31, 2023	\$ 312,426
December 31, 2022	52,412

e. Discounts and loans

	Amount	Interest Rate (%)
December 31, 2023	\$ 772,056	1.82-6.61
December 31, 2022	751,291	1.25-15.00

For the years ended December 31, 2023 and 2022, the interest revenues from discounts and loans were \$15,108 thousand and \$14,052 thousand, respectively.

The loan information for related parties were described below:

December 31, 2023

Category	Number of Accounts	Highest Balance	Ending Balance	Normal	Overdue	Type of Collateral	Is the Transaction at Arm's Length Commercial Term
Consumer loans	28	\$ 25,026	\$ 18,517	\$ 18,517	-	None/Credit guarantee fund	Yes
Residential mortgage loans	68	791,003	641,183	641,183	-	Real estate	Yes
Others	6	116,719	112,356	112,356	-	None/Real estate	Yes

December 31, 2022

Category	Number of Accounts	Highest Balance	Ending Balance	Normal	Overdue	Type of Collateral	Is the Transaction at Arm's Length Commercial Term
Consumer loans	32	\$ 25,783	\$ 13,448	\$ 13,448	-	None/Credit guarantee fund	Yes
Residential mortgage loans	80	1,098,051	728,690	728,690	-	Real estate	Yes
Others	7	37,698	9,153	9,153	-	Real estate	Yes

f. Purchase and sale of bonds

Purchase of Bonds

For the year ended December 31, 2023

Subsidiary of the parent company \$ 1,600,000

For the year ended December 31, 2022

Subsidiaries of the parent company 598,311

g Call loans to security brokers

For the years ended December 31, 2023 and 2022, the interest revenues for call loans to security brokers were \$39,259 thousand and \$845 thousand, respectively.

h. Lease arrangements (as a lessee)

Acquisition of right-of-use assets

	For the Year Ended December 31, 2022	
Subsidiaries of the parent company	\$ 155,567	

Lease liabilities

	<u>December 31</u>	
	2023	2022
Subsidiaries of the parent company	\$ 2,190,739	\$ 2,356,490

	<u>For the Year Ended December 31</u>	
	2023	2022

Interest expense

Subsidiaries of the parent company	\$ 18,369	\$ 18,714
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Lease expense

Subsidiaries of the parent company	393	408
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The above rental price is determined based on the market price and paid monthly.

i. Guarantee deposits paid (recognized as other assets, net)

	Amount
December 31, 2023	\$ 45,902
December 31, 2022	45,902

j. Payable to parent (recognized as current tax liabilities)

	<u>December 31</u>	
	2023	2022
Parent company	\$ 910,382	\$ 1,032,695

The payables resulted from CDFH and its eligible subsidiaries adopting the linked-tax system in the filing of tax returns.

k. Payables for securities purchased (recognized as payables)

	Amount
December 31, 2023	\$ 512,954
December 31, 2022	221,051

l. Accrued interest (recognized as payables)

	Amount
December 31, 2023	\$ 27,119
December 31, 2022	10,687

m. Deposits

	Amount	Interest Rate (%)
December 31, 2023	\$ 30,244,564	0-7.00
December 31, 2022	16,065,780	0-7.00

For the years ended December 31, 2023 and 2022, the interest expenses for deposits were \$294,105 thousand and \$95,635 thousand, respectively.

n. Temporary receipts and suspense accounts (recognized as other liabilities)

	December 31	
	2023	2022
Subsidiaries of the parent company	\$ 560,074	\$ 660,740

The above account is temporary receipts of Automated Clearing House (ACH).

o. Service fee revenue

	For the Year Ended December 31
<u>2023</u>	
Subsidiaries of the parent company	\$ 233,263
Other related parties	23
<u>2022</u>	
Subsidiaries of the parent company	208,855
Other related parties	128

Service fee revenue mainly comprised sale of insurance, funds, and trust affiliated business, etc.

p. Other miscellaneous revenue (recognized as other non-interest income, net)

	For the Year Ended December 31
2023	\$ 12,342
2022	12,323

q. Service fee expenses

**For the Year
Ended
December 31**

2023		\$ 14,963
2022		21,086

r. Insurance expenses (recognized as employee benefits expense)

**For the Year
Ended
December 31**

2023		\$ 20,981
2022		21,639

s. Donations (recognized as other general and administrative expenses)

**For the Year
Ended
December 31**

2023		\$ 13,500
2022		20,000

t. Other general and administrative expenses

**For the Year
Ended
December 31**

2023		\$ 103,826
2022		93,520

u. Outstanding derivative financial instruments

December 31, 2023

Related Party	Contract Type	Contract Period	Notional Amount	Valuation Gain (Loss)	Balance Sheet	
					Account	Balance
Subsidiaries of the parent company	Currency swap contracts	May 19, 2023 - April 17, 2024	\$ 15,060,150	\$ 125,010	Financial assets at FVTPL	\$ 250,793
					Financial liabilities at FVTPL	125,783
	Foreign exchange forward contracts	November 22, 2023 - January 19, 2024	13,554,135	(300,969)	Financial liabilities at FVTPL	300,969
	Cross-currency swap contracts	August 26, 2021 - May 26, 2025	792,026	(17,808)	Financial assets at FVTPL	7,592
					Financial liabilities at FVTPL	33,122

December 31, 2022

Related Party	Contract Type	Contract Period	Notional Amount	Valuation Gain (Loss)	Balance Sheet	
					Account	Balance
Subsidiaries of the parent company	Currency swap contracts	September 2, 2022 - June 20, 2023	\$ 21,342,060	\$ 86,709	Financial assets at FVTPL	\$ 119,413
					Financial liabilities at FVTPL	32,704
	Non-deliverable forward contracts	August 26, 2021 - May 26, 2023	1,477	(83)	Financial liabilities at FVTPL	113
	Cross-currency swap contracts	February 23, 2021 - May 26, 2025	576,313	(26,929)	Financial liabilities at FVTPL	16,618

v. Compensation of key management personnel

	For the Year Ended December 31	
	2023	2022
Salary and short-term employee benefits	\$ 234,717	\$ 255,217
Share-based payments	26,077	35,844
Post-employment benefits	1,957	12,909
	\$ 262,751	\$ 303,970

The terms of transactions with related parties were similar to those for unrelated parties, except for certain preferential interest rate on deposits for the Bank's employees with limited deposit amounts.

Based on Articles 32 and 33 of the Banking Act, except for consumer loans and government loans, credits extended by the Bank to any related party were fully secured, and the other terms for these credits were similar to those for unrelated parties.

42. PLEDGED ASSETS

The assets pledged as collateral of the Bank and its subsidiaries were as follows:

Assets	Object	Purpose	December 31	
			2023	2022
Installment accounts and lease receivables	Notes receivable	Commercial paper payable and short-term borrowings	\$ 1,216,249	\$ 925,094
Financial assets at FVTOCI	Government bonds	Guarantees for provisional seizure	43,057	51,201
Financial assets at FVTOCI	Government bonds	Guarantees and provisions	157,307	156,885
Financial assets at FVTOCI	Negotiable certificates of deposit	As collateral for day-term overdraft and U.S. dollar liquidation and other transactions of the guarantee	299,607	4,919,409
Debt investments measured at amortized cost	Negotiable certificates of deposit	As collateral for day-term overdraft and U.S. dollar liquidation and other transactions of the guarantee	18,730,000	13,600,000
Property and equipment, net	Real estate	Commercial paper payable and short-term borrowings	7,725	7,934
Investment property, net	Investment property	Commercial paper payable and short-term borrowings	30,907	32,194
Other financial assets, net	Time deposits	Short-term borrowings	300	300
Other assets, net	Cash in banks - impound account	Commercial paper payable and short-term borrowings	24,544	18,371

43. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Major Litigation

In December 2012, a third party filed a lawsuit claiming that the Bank fraudulently infringed upon the property rights of creditors on Dun Nan building. On February 14, 2014, the Taipei District Court adjudicated that the mortgage is cancelled, and the Bank has to return the amount of \$1,786,318 thousand. The Bank has appealed against this sentence on March 10, 2014. The original adjudication in favor of the third party was revoked by the High Court on July 26, 2017. The third party filed a new appeal, and the Supreme Court ordered the High Court to conduct a new trial on November 9, 2018. The High Court issued a judgment on August 17, 2021, upholding the original Taipei District Court's decision to revoke the part of the mortgage, and dismissed the third party's request for the Bank to pay the received money. In September 2021, the Bank and the third party each filed a third-instance appeal for losing part of the lawsuit. As of the day which board of directors adopts the consolidation financial report, the case is being heard by the Supreme Court.

44. FAIR VALUE AND HIERARCHY INFORMATION

a. The fair value hierarchy of financial instruments is defined as follows:

- 1) Level 1 fair values are quoted prices in active markets for financial instruments.
- 2) Level 2 fair values refer to directly or indirectly observable inputs other than Level 1 quoted prices, such as the quoted prices of similar financial instruments in active markets; in less active markets, fair values are quoted prices of the same or similar financial instruments or financial instruments that can be generated by using pricing models that use inputs such as interest rates and volatility rates, which are derived from or can be corroborated with observable market data.
- 3) Level 3 refers to inputs that are not based on observable market data.

b. Financial instruments measured at fair value

- 1) The fair value hierarchy of financial instruments measured at fair value is as follows:

December 31, 2023

	Level 1	Level 2	Level 3	Total
<u>Measured on a recurring basis</u>				
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at FVTPL				
Financial assets mandatorily classified as at FVTPL				
Stock investments	\$ 724,873	\$ -	\$ -	\$ 724,873
Bond investments	231,795	-	-	231,795
Commercial papers	-	11,909,838	-	11,909,838
Others	262,011	-	413,347	675,358
Financial assets at FVTOCI				
Stock investments	3,833,897	-	923,832	4,757,729
Bond investments	68,358,412	57,797,830	-	126,156,242
Negotiable certificates of deposit	-	2,433,259	-	2,433,259
				(Continued)

	Level 1	Level 2	Level 3	Total
<u>Derivative financial instruments</u>				
Assets				
Financial assets at FVTPL	\$ 61,507	\$ 28,191,493	\$ 1,160,254	\$ 29,413,254
Financial assets for hedging	-	598,459	-	598,459
Liabilities				
Financial liabilities at FVTPL	-	28,160,536	1,160,272	29,320,808
Financial liabilities for hedging	-	610,323	-	610,323
				(Concluded)

December 31, 2022

	Level 1	Level 2	Level 3	Total
<u>Measured on a recurring basis</u>				
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at FVTPL				
Financial assets mandatorily classified as at FVTPL				
Bond investments	\$ 473,700	\$ 299,983	\$ -	\$ 773,683
Commercial papers	-	6,990,203	-	6,990,203
Others	301,680	-	390,720	692,400
Financial assets designated as at FVTPL				
	-	1,497,931	-	1,497,931
Financial assets at FVTOCI				
Stock investments	948,104	-	951,062	1,899,166
Bond investments	55,783,824	56,577,103	-	112,360,927
Negotiable certificates of deposit	-	26,424,348	-	26,424,348
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	11,029,589	-	11,029,589
<u>Derivative financial instruments</u>				
Assets				
Financial assets at FVTPL	11,932	23,263,646	936,660	24,212,238
Financial assets for hedging	-	2,025,601	-	2,025,601
Liabilities				
Financial liabilities at FVTPL	-	23,662,075	936,647	24,598,722
Financial liabilities for hedging	-	526,268	-	526,268

2) Valuation technique of fair value

For financial assets and liabilities at FVTPL and financial assets at FVTOCI, fair value is determined at quoted market prices. When market prices of the Bank's various financial instruments are not readily available, fair values are estimated by using appropriate valuation models or the counterparties' transaction prices. The information used by the Bank for fair value estimation is consistent with that generally used in the market, and the pricing models used are commonly recognized by the industry as helpful tools in determining fair value. Related framework of the methodology can be outlined as analytical solution model (such as Black-Scholes model) and numeric method model (such as Monte Carlo simulation).

3) Fair value adjustment

a) The limitation of valuation techniques and uncertain inputs

Valuation techniques incorporate assumptions that depend on the financial instrument type and available market data. However, certain inputs used in valuation techniques may be less readily determinable. In these circumstances, a valuation model would use additional parameters and/or model assumptions-model risk, liquidity risk, and so on to make fair value adjustments. Thus, on the basis of its valuation management policies and relevant control procedures, the management considers valuation adjustments as necessary and appropriate. For the Bank and its subsidiaries to make appropriate valuation adjustments, all parameters and price information are evaluated thoroughly, and market conditions are taken into consideration.

b) Credit risk valuation adjustment

Credit risk valuation adjustment consists of credit valuation adjustment and debit valuation adjustment, and definitions are the following:

The credit valuation adjustment is an adjustment to the valuation of OTC derivative financial instruments contracts to reflect within fair value the possibility that the counterparty may default and that the Bank may not receive the full market value of the transactions.

The debit valuation adjustment is an adjustment to the valuation of OTC derivative financial instruments contracts to reflect within fair value the possibility that the Bank may default, and that the Bank may not pay full market value of the transactions.

The Bank does credit valuation adjustment using probability of default (PD) multiplied by loss given default (LGD) multiplied by exposure at default (EAD). To estimate the PD to be used as basis for the allowance for doubtful accounts, the Bank refers to the ratings published by international credit rating institutions, valuation models and valuation method specified in IFRS 9.

For EAD calculation, the market values of OTC derivative financial instruments are estimated in calculating EAD. The Bank uses PD no lower than 60%.

The above parameters used in risk valuation adjustment that is based on the fair values of financial instruments reflect the credit risks of counterparties and the credit quality of the Bank.

4) Transfer between Level 1 and Level 2

There was no transfer of financial instrument between Level 1 and Level 2 for the years ended December 31, 2023 and 2022.

5) Reconciliation of Level 3 items of financial instruments

The movements of financial assets with Level 3 fair value were as follows:

For the Year Ended December 31, 2023

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		Profit and Loss	Other Comprehensive Income	Purchase or Issue	Transfer to Level 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial assets at FVTPL	\$ 1,327,380	\$ 266,016	\$ -	\$ -	\$ -	\$ (19,795)	\$ -	\$ 1,573,601
Financial assets at FVTOCI	951,062	-	(26,930)	-	-	(300)	-	923,832

For the Year Ended December 31, 2022

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		Profit and Loss	Other Comprehensive Income	Purchase or Issue	Transfer to Level 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial assets at FVTPL	\$ 577,421	\$ 840,782	\$ -	\$ -	\$ -	\$ (90,823)	\$ -	\$ 1,327,380
Financial assets at FVTOCI	946,623	-	4,489	-	-	(50)	-	951,062

The movements of financial liabilities with Level 3 fair value were as follows:

For the Year Ended December 31, 2023

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Profit and Loss	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue	Transfer to Level 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial liabilities at FVTPL	\$ 936,647	\$ 233,262	\$ -	\$ -	\$ (9,637)	\$ -	\$ 1,160,272

For the Year Ended December 31, 2022

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Profit and Loss	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue	Transfer to Level 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial liabilities at FVTPL	\$ 178,401	\$ 830,832	\$ -	\$ -	\$ (72,586)	\$ -	\$ 936,647

In relation to the above, valuation gains and losses are recognized in gain and loss in the period. As of December 31, 2023 and 2022, the gains and losses on assets and liabilities were gain of \$22,602 thousand and loss of \$8,397 thousand, respectively.

6) Quantitative information about significant unobservable inputs (Level 3) used in the fair value measurement

The table below lists quantitative unobservable inputs of financial instruments with Level 3 fair value:

	Fair Value at December 31, 2023	Valuation Technique(s)	Significant Unobservable Inputs	Range	The Relationship Between Inputs and Fair Value
<u>Repetitive basis to fair value measurement items</u>					
<u>Non-derivative financial instruments</u>					
Financial assets at FVTPL	\$ 413,347	Quoted price of counterparties	Liquidity discount ratios	Beyond estimation	Fair value is inversely proportional to discount for liquidity discount ratios
Financial assets at FVTOCI	923,832	Market approach	P/B, Lack of liquidity discount	1.28 27.20%	Multiplier is proportional to fair value; fair value is inversely proportional to discount for lack of liquidity
		Net asset method	Lack of liquidity discount and control discount	11%	Fair value is inversely proportional to discount for lack of liquidity and control
<u>Derivative financial instruments</u>					
Financial assets at FVTPL	1,160,254	Hull White Model, Libor Market Model, BS Model, discounted cash flow/quoted price of counterparties	Model parameters such as Mean Reversion, Sigma, Correlation, shift Parameter/liquidity discount ratios	Adjusted daily based on market information /beyond estimation	The used evaluation model parameters cannot be obtained directly from market information or inputs of parameters do not contain linear relation; thus, analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank and its subsidiaries select the applicable one according to the analysis; fair value is inversely proportional to discount for liquidity discount ratios
Financial liabilities at FVTPL	1,160,272	Hull White Model, Libor Market Model, BS Model, discounted cash flow/quoted price of counterparties	Model parameters such as Mean Reversion, Sigma, Correlation, shift Parameter/liquidity discount ratios	Adjusted daily based on market information /beyond estimation	The used evaluation model parameters cannot be obtained directly from market information or inputs of parameters do not contain linear relation; thus, analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank and its subsidiaries select the applicable one according to the analysis; fair value is inversely proportional to discount for liquidity discount ratios

	Fair Value at December 31, 2022	Valuation Technique(s)	Significant Unobservable Inputs	Range	The Relationship Between Inputs and Fair Value
<u>Repetitive basis to fair value measurement items</u>					
<u>Non-derivative financial instruments</u>					
Financial assets at FVTPL	\$ 390,720	Quoted price of counterparties	Liquidity discount ratios	Beyond estimation	Fair value is inversely proportional to discount for liquidity discount ratios
Financial assets at FVTOCI	951,062	Market approach	P/B, Lack of liquidity discount	1.10 27.20%	Multiplier is proportional to fair value; fair value is inversely proportional to discount for lack of liquidity
		Net asset method	Lack of liquidity discount and control discount	11%	Fair value is inversely proportional to discount for lack of liquidity and control
<u>Derivative financial instruments</u>					
Financial assets at FVTPL	936,660	Hull White Model, Libor Market Model, BS Model, discounted cash flow/quoted price of counterparties	Model parameters such as Mean Reversion, Sigma, Correlation, shift Parameter/liquidity discount ratios	Adjusted daily based on market information /beyond estimation	The used evaluation model parameters cannot be obtained directly from market information or inputs of parameters do not contain linear relation; thus, analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank and its subsidiaries select the applicable one according to the analysis; fair value is inversely proportional to discount for liquidity discount ratios
Financial liabilities at FVTPL	936,647	Hull White Model, Libor Market Model, BS Model, discounted cash flow/quoted price of counterparties	Model parameters such as Mean Reversion, Sigma, Correlation, shift Parameter/liquidity discount ratios	Adjusted daily based on market information /beyond estimation	The used evaluation model parameters cannot be obtained directly from market information or inputs of parameters do not contain linear relation; thus, analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank and its subsidiaries select the applicable one according to the analysis; fair value is inversely proportional to discount for liquidity discount ratios

7) Pricing process of Level 3 fair value

The Bank's risk management department is responsible for the pricing process of Level 3 fair value. The pricing models and conditions assumed are conform to market practice; the basis of the theory is commonly recognized by the industry as a basis of valuation in conducting measurement of fair value. Further, the department confirms whether the sources of the information are independent or not, reasonably reflecting the prices in normal circumstances, and examines and adjusts fair value periodically to ensure results of the valuation is reasonable.

c. Fair value of financial instruments not carried at fair value

1) Except for debt investments measured at amortized cost and bank debentures payable, the carrying amounts of the financial instruments not measured at fair value are approximate to their fair value; thus, their fair values are not disclosed.

2) Information of fair value hierarchy

December 31, 2023

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Debt investments measured at amortized cost	\$ -	\$ 67,883,488	\$ -	\$ 67,883,488

Financial liabilities

Bank debentures payable	-	25,254,807	-	25,254,807
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December 31, 2022

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Debt investments measured at amortized cost	\$ -	\$ 58,192,448	\$ -	\$ 58,192,448

Financial liabilities

Bank debentures payable	-	25,280,355	-	25,280,355
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3) Valuation techniques

- a) Because the maturity date is close to the balance sheet date, the fair value of the financial assets can be reasonably estimated by referring to their carrying amount in the balance sheet. The technique applies to cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under resell agreements, receivables, other financial assets, guarantee deposits paid, deposits from the Central Bank and banks, notes and bonds issued under repurchase agreements, payables, deposits and remittances, other financial liabilities and guarantee deposits received, etc.
- b) The floating rates are usually adopted as the interest of the loan, which reflects market interest; thus, it is reasonable to estimate the fair value of a loan by referring to its carrying amount together with the consideration in the collectability.
- c) The fair value of debt investments measured at amortized cost is estimated by referring to quote price from electronic bond trading system of Taipei Exchange or Bloomberg.
- d) The fair value of the payables of the Bank debenture is estimated by referring to the discounted expected cash flow, of which the discount rate is reference to interest rates with similar maturity date.

45. FINANCIAL RISK MANAGEMENT

a. Risk management policies and framework

The Bank has an appropriate risk management system covering the main types of risks, such as market risks, credit risks, operating risks, and follows risk management procedures.

The Bank also analyzes, monitors and prepares reports on overall risk management. These reports are submitted to senior management, to committees with risk management functions and to the board of directors. Updates on actual risks encountered when there are significant changes in macroeconomic conditions or in the financial market are generated for more effective risk monitoring and handling.

The Bank's risk management focuses not only on individual departments but also the overall impact of risks on a corporate level.

The Bank identifies risks using consistent standard asset portfolio classifications, with classifications correlating with each other, and establishes a consistent measure applicable to the different types of exposure.

The Bank's risk management groupings are as follows:

1) Board of directors

The Bank's board of directors supervises the operation of a risk management structure and promotes a risk management culture, ensures the efficiency of risk management, reviews important risk control reports and bears the ultimate responsibility for risk management.

2) Risk management committee

The risk management committee supervises the implementation of risk management policies, inspects risk control reports and deals with related issues.

3) Business and management departments

The departments are responsible for ensuring compliance with risk management regulations while conducting operations to control daily risks.

4) Risk management department

The risk management department is a unit independent from business departments and is in charge of risk management planning and system operation and providing overall risk management information to senior management and the board of directors.

5) Audit department

The department is in charge of establishing all risk mechanisms and auditing the implementation of and compliance with these mechanisms.

Risk management is a joint duty of all the Bank's departments including business, legal, regulatory compliance, finance, accounting, administration, operating, audit department and so on, that should be done diligently through interdepartmental coordination in overall risk management.

b. Credit risk

1) Definition and source of credit risk

Credit risk is the risk of financial loss to the Bank if a creditor, debtor or counterparty fails to meet its contractual obligations or has negative changes in its credit quality. Credit risk management covers all operating activities that involve credit risk, including credit business, call loans to banks, banking book securities investment, derivatives financial instruments, repurchase agreement transactions and other operating activities.

2) Credit risk management policy

The Bank has standard control procedures for credit risk identification, measurement, and generation of disclosures and reports to be used for a rational identification, measurement, disclosure, and effective control of credit risk. These procedures include applying standard screening criteria for target clients, credit investigations for credit approval or rejection, careful deliberation of applications for certain exceptions, credit review, management of non-performing loans and requests, and control over all related documents and information. The Bank also adjusts the credit risk structure accordingly so that credit portfolios are within the Bank's risk appetite. Further, the Bank assesses the changes in the economy to adjust risk structure and develops strategies in response to these changes to raise shareholders' value and ensure the risk is bearable.

Based on the risk management policies, the management process is carried out as follows:

a) Credit investigation

In screening target clients, the Bank asks for all the necessary documents from the clients in order to get an accurate understanding of their background and control credit portfolios within the acceptable range.

b) Credit approval

Cases that have passed the credit investigation are reviewed by the credit authority of each level, which in accordance with the Bank's credit limit structure and authorization policies. The Bank's credit approval structure and policies are based not only on the Banking Act and other government rules for credit extended to the same person, single enterprise/group, industry, mortgage loans, investments in securities and country, but also on the professionalism of the Bank's credit authorities and the quality of asset control. The amounts of credit authorized are reviewed by the credit authorities occasionally.

c) Post-lending loan review

The corporate banking segment of the Bank tracks the borrowers' financial and business conditions, generates risk assessment reports on credit asset portfolios regularly, operates a risk warning system and adjusts business development strategies as needed to cope with economic conditions and changes in asset quality through the use of an account management scheme and a regular-reassessment system. For consumer banking business, they track and control the changes in asset quality through the use of regular-assessment system and handle the changes in borrowers' credit quality instantly through the use of regular-reassessment system. For delinquent loans, the Bank uses the concentration management method, together with information systems and analysis models, to enhance and expedite the collection of non-performing loans.

d) Risk report and information disclosures

The risk management department is responsible for measuring risk, preparing various risk management index, analysis of changes in asset quality, etc., and prepares quarterly risk management report for submission to the risk management committee and board of directors.

3) Credit risk hedge or mitigation policies

Considering the asset hedge market and liquidity, the Bank takes the necessary risk reduction strategies, mainly on credit objects and hedge transactions involving assets with doubtful collectability or a long period of duration, including methods for increasing appropriate collateral with good liquidity, or transferring to credit guarantee institutions such as the Small and Medium Enterprise Credit Guarantee Fund of Taiwan to maximize the collateral. For determining the value of foreclosed collateral, liquid securities will be evaluated at their market value; other collateral will regularly be inspected by the appraisal institution to assess the current situation of the collateral and reassess its value as necessary to ensure the risk offset effect, which will be used as a basis for demanding additional collateral or adjusting the credit amount.

To mitigate the Bank's risks, in addition to strengthening the review and tracking of the borrowers and guarantors, if clients are found to have bad credit features, the Bank will take corresponding measures at the appropriate time, such as early repayment or additional collateral. In addition, the Bank sets different credit limits for counterparties involved in derivative financial instruments and enters into collateral agreements with major counterparties to ensure that risks are under control.

4) Maximum exposure to credit risk

The maximum exposure to credit risk from on-balance sheet financial assets was equal to their carrying values; without taking into collateral or other credit enhancements and unused revolving credit without credit card and cash card, the maximum exposure of credit risk from irrevocable off-balance sheet financial instruments was as follows:

Items	December 31	
	2023	2022
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	\$ 43,737,382	\$ 42,507,746

The Bank believes that stringent selection processes and conducting regular review afterwards are the reasons why they can continuously control and minimize the credit risk exposure from their off-balance sheet items.

The Bank and its subsidiaries' carrying amount of maximum exposure credit risk for major credit assets were as follows:

Discounts and Loans						
December 31, 2023						
	Stage 1	Stage 2	Stage 3		The Adjustment under the Regulation/ Discount	Total
	12 Months Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset		
Short-term loans	\$ 46,320,134	\$ 594,896	\$ 681,759	\$ -		\$ 47,596,789
Short-term secured loans	13,923,022	273	-	-		13,923,295
Medium-term loans	152,121,832	160,635	242,629	-		152,525,096
Medium-term secured loans	82,043,284	309,349	21,622	-		82,374,255
Long-term loans	7,592,441	525,924	844,689	-		8,963,054
Long-term secured loans	95,437,396	174,740	162,833	-		95,774,969
Overdue loans	-	-	974,615	-		974,615
Export negotiations	5,449	-	-	-		5,449
Total carrying amount	<u>397,443,558</u>	<u>1,765,817</u>	<u>2,928,147</u>	<u>-</u>		<u>402,137,522</u>
Allowance for bad debts	(789,010)	(168,283)	(791,094)	-		(1,748,387)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans Discounts on loans					\$ (3,406,787) (55,911)	(3,406,787) (55,911)
Total	<u>\$ 396,654,548</u>	<u>\$ 1,597,534</u>	<u>\$ 2,137,053</u>	<u>\$ -</u>	<u>\$ (3,462,698)</u>	<u>\$ 396,926,437</u>

Receivables						
December 31, 2023						
	Stage 1	Stage 2	Stage 3		The Adjustment under the Regulation	Total
	12 Months Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset		
Credit card	\$ 3,195,165	\$ 196,868	\$ 130,508	\$ -		\$ 3,522,541
Accounts receivable - forfeiting	1,617,130	-	-	-		1,617,130
Accounts receivable factoring without recourse	10,262,973	4	25	-		10,263,002
Acceptances	8,292	-	-	-		8,292
Installment accounts and lease receivables	<u>5,654,277</u>	<u>71,889</u>	<u>101,064</u>	<u>-</u>		<u>5,827,230</u>
Total carrying amount	<u>20,737,837</u>	<u>268,761</u>	<u>231,597</u>	<u>-</u>		<u>21,238,195</u>
Allowance for bad debts	(48,865)	(27,236)	(59,820)	-		(135,921)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					\$ (168,961)	(168,961)
Total	<u>\$ 20,688,972</u>	<u>\$ 241,525</u>	<u>\$ 171,777</u>	<u>\$ -</u>	<u>\$ (168,961)</u>	<u>\$ 20,933,313</u>

Discounts and Loans						
December 31, 2022						
	Stage 1 12 Months Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		The Adjustment under the Regulation/ Discount	Total
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset		
Short-term loans	\$ 50,495,544	\$ 659,915	\$ 643,696	\$ -		\$ 51,799,155
Short-term secured loans	15,440,552	-	5,979	-		15,446,531
Medium-term loans	145,129,981	137,865	284,372	-		145,552,218
Medium-term secured loans	87,940,372	77,969	27,943	-		88,046,284
Long-term loans	8,267,089	504,125	709,940	-		9,481,154
Long-term secured loans	88,672,116	154,089	111,851	-		88,938,056
Overdue loans	-	-	520,522	-		520,522
Export negotiations	21,719	-	-	-		21,719
Total carrying amount	395,967,373	1,533,963	2,304,303	-		399,805,639
Allowance for bad debts	(702,059)	(99,224)	(617,242)	-		(1,418,525)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans Discounts on loans					\$ (3,762,082) (52,214)	(3,762,082) (52,214)
Total	\$ 395,265,314	\$ 1,434,739	\$ 1,687,061	\$ -	\$ (3,814,296)	\$ 394,572,818

Receivables						
December 31, 2022						
	Stage 1 12 Months Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		The Adjustment under the Regulation	Total
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset		
Credit card	\$ 3,155,263	\$ 198,218	\$ 98,785	\$ -		\$ 3,452,266
Accounts receivable - forfeiting	3,521,111	-	-	-		3,521,111
Accounts receivable factoring without recourse	11,472,404	8	50	-		11,472,462
Acceptances	8,881	-	-	-		8,881
Installment accounts and lease receivables	6,256,331	72,059	54,958	-		6,383,348
Total carrying amount	24,413,990	270,285	153,793	-		24,838,068
Allowance for bad debts	(46,841)	(23,273)	(38,123)	-		(108,237)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					\$ (219,975)	(219,975)
Total	\$ 24,367,149	\$ 247,012	\$ 115,670	\$ -	\$ (219,975)	\$ 24,509,856

Maximum exposures to credit risk of financial instruments not applicable to impairment were as follows:

	December 31	
	2023	2022
Financial assets at FVTPL		
Debt instruments	\$ 12,554,980	\$ 9,652,537
Derivatives instruments	29,413,254	24,212,238

5) Collateral and credit enhancements

The Bank and its subsidiaries' pledged collateral associated with credit include discounts, loans and receivables which contain real estate, movable property (e.g.: Machinery), rights certificates and securities (e.g.: Certificates of deposit, stocks), notes receivable arose from borrowing of business transactions, guarantees provided by government public authority at all levels, banks or guarantee institutions authorized by government (e.g.: SME credit guarantee fund and letter of credit guaranteed) and collateral set in accordance with the laws including pledge, registration of land rights. Financial assets held by the Bank are part of corporate bonds guaranteed by financial institutions as credit enhancement.

The Bank and its subsidiaries observe collateral's value of financial instruments closely and consider the recognition of impairment for financial assets with credit impairment. The Bank and its subsidiaries' financial assets with impairment, and collateral's values for mitigation of potential losses were as follows:

	December 31, 2023			
	Total Carrying Amount	Credit Impairment	Amount of Risk Exposure (Amortized Cost)	Collateral Value
Impaired asset:				
Receivables:				
Credit card	\$ 130,508	\$ 30,406	\$ 100,102	\$ -
Accounts receivable factoring without recourse	25	1	24	-
Installment accounts and lease receivables	101,064	29,413	71,651	-
Discounts and loans	<u>2,928,147</u>	<u>791,094</u>	<u>2,137,053</u>	<u>521,857</u>
Total amount of impaired asset	<u>\$ 3,159,744</u>	<u>\$ 850,914</u>	<u>\$ 2,308,830</u>	<u>\$ 521,857</u>
	December 31, 2022			
	Total Carrying Amount	Credit Impairment	Amount of Risk Exposure (Amortized Cost)	Collateral Value
Impaired asset:				
Receivables:				
Credit card	\$ 98,785	\$ 19,259	\$ 79,526	\$ -
Accounts receivable factoring without recourse	50	2	48	-
Installment accounts and lease receivables	54,958	18,862	36,096	-
Discounts and loans	<u>2,304,303</u>	<u>617,242</u>	<u>1,687,061</u>	<u>224,965</u>
Total amount of impaired asset	<u>\$ 2,458,096</u>	<u>\$ 655,365</u>	<u>\$ 1,802,731</u>	<u>\$ 224,965</u>

The amount of the Bank and its subsidiaries' financial assets which has been written off and still has recourse activities of outstanding contract amount are \$1,041,276 thousand and \$530,220 thousand for the years ended December 31, 2023 and 2022.

6) Concentration of credit risk

Concentration of credit risk arise when there is only one counterparty, or when there is more than one counterparty, but they have comparable economic characteristics, or when 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 from 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 credits, due from and call loans to banks, investments, receivables and derivatives, etc. The Bank maintained a diversified loan portfolio to mitigate the credit risk concentration to same customers; total transactions of same customers in discounts and loans are not material. To manage credit risk concentration, the Bank maintains a diversified portfolio and monitors its exposure continually. The Bank's most significant concentrations of credit risk are summarized as follows:

a) By industry

	December 31, 2023		December 31, 2022	
	Amount	%	Amount	%
Public and private enterprises	\$ 234,684,241	58.36	\$ 241,584,897	60.43
Natural persons	167,453,281	41.64	157,964,018	39.51
Non-profit organizations	-	-	256,724	0.06
Total	\$ 402,137,522	100.00	\$ 399,805,639	100.00

b) By region

	December 31, 2023		December 31, 2022	
	Amount	%	Amount	%
Domestic	\$ 327,247,935	81.38	\$ 316,427,583	79.15
Overseas	74,889,587	18.62	83,378,056	20.85
Total	\$ 402,137,522	100.00	\$ 399,805,639	100.00

c) By collateral

	December 31, 2023		December 31, 2022	
	Amount	%	Amount	%
Credit Secured	\$ 209,655,063	52.14	\$ 207,343,404	51.86
Real estate	175,106,905	43.54	172,558,268	43.16
Guarantees	3,416,212	0.85	7,846,720	1.96
Financial collateral	9,225,201	2.29	6,472,978	1.62
Other	4,734,141	1.18	5,584,269	1.40
Total	\$ 402,137,522	100.00	\$ 399,805,639	100.00

7) Management policies on foreclosed collateral

Foreclosed collateral is recorded at cost, using lower at cost or net fair value as of the balance sheet date. If collateral were 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 competent authority requires.

	December 31	
	2023	2022
Foreclosed collateral	\$ 588,985	\$ 588,985
Allowance for impairment	<u>(588,985)</u>	<u>(588,985)</u>
	<u>\$ -</u>	<u>\$ -</u>

Foreclosed collateral will be sold when it is actually available for sale. The foreclosed collateral is classified as other assets in balance sheet. The difference amount between the disposition price and the carrying amount is recognized as net other non-interest income.

8) Disclosures required under the Regulations Governing the Preparation of Financial Reports by Public Banks

a) Asset quality of non-performing loans and overdue receivables

Items		December 31, 2023					
		Non-performing Loan (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Loan Loss Reserves (LLR)	Coverage Ratio (Note 3)	
Corporate banking	Secured	\$ 383,766	\$ 89,060,951	0.43%	\$ 1,097,989	286.11%	
	Unsecured	87,698	156,759,003	0.06%	1,764,124	2,011.58%	
Consumer banking	Mortgage (Note 4)	56,515	75,554,853	0.07%	1,136,550	2,011.07%	
	Cash card	124,195	10,485,761	1.18%	164,683	132.60%	
	Micro credit (Note 5)	551,758	42,384,194	1.30%	694,607	125.89%	
	Others (Note 6)	Secured	9,497	27,866,655	0.03%	296,954	3,126.75%
		Unsecured	-	26,105	0.00%	267	-
Total		1,213,429	402,137,522	0.30%	5,155,174	424.84%	
		Overdue Receivables	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio	
Credit card		\$ 38,864	\$ 3,522,541	1.10%	\$ 69,635	179.81%	
Accounts receivable factoring without recourse (Note 7)		4	10,263,002	0.00%	131,739	3,149,379.82%	

Items		December 31, 2022					
		Non-performing Loan (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Loan Loss Reserves (LLR)	Coverage Ratio (Note 3)	
Corporate banking	Secured	\$ 31,420	\$ 92,794,875	0.03%	\$ 1,166,063	3,711.22%	
	Unsecured	243,179	161,763,577	0.15%	1,868,485	768.36%	
Consumer banking	Mortgage (Note 4)	30,259	72,496,927	0.04%	1,088,466	3,597.22%	
	Cash card	117,390	10,882,352	1.08%	222,464	189.51%	
	Micro credit (Note 5)	346,571	34,635,885	1.00%	544,692	157.17%	
	Others (Note 6)	Secured	12,428	27,191,233	0.05%	290,020	2,333.54%
		Unsecured	-	40,790	0.00%	417	-
Total		781,247	399,805,639	0.20%	5,180,607	663.12%	
		Overdue Receivables	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio	
Credit card		\$ 21,505	\$ 3,452,266	0.62%	\$ 49,954	232.29%	
Accounts receivable factoring without recourse (Note 7)		5	11,472,462	0.00%	146,546	2,836,184.07%	

Note 1: Non-performing loans are reported in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. Overdue credit card receivables are regulated by Order No. 0944000378 announced by the FSC on July 6, 2005.

Note 2: NPL ratio = NPL ÷ Total loans. For credit card business: Delinquency ratio = Overdue credit card receivables ÷ Credit card receivables balance.

Note 3: Coverage ratio = LLR ÷ NPL. Coverage ratio of credit receivables: Allowance for credit losses ÷ Overdue credit card receivables.

Note 4: Residential mortgage refers to financing obtained to buy, build, or fix houses owned by the borrower or the borrower's spouse or children, with the house used as loan collateral.

Note 5: Micro credit is covered by a Banking Bureau pronouncement dated December 19, 2005 (Order No. 09440010950) and is excluded from credit card and cash card loans.

Note 6: "Others" under consumer loans refers to secured or unsecured loans other than mortgage loans, cash cards, micro credit, and credit cards.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Order No. 0945000494), allowance for bad debt is recognized once no compensation is made by a factor or insurance company within three months for accounts receivable factoring without recourse.

b) Exemption on non-performing loans and overdue receivables

Items	December 31, 2023		December 31, 2022	
	Excluded NPL	Excluded Overdue Receivables	Excluded NPL	Excluded Overdue Receivables
Amounts of executed contracts on negotiated debts not reported (Note 1)	\$ 1,863	\$ 19	\$ 3,017	\$ 61
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	70,209	6,179	68,301	5,988
Total	\$ 72,072	\$ 6,198	\$ 71,318	\$ 6,049

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 (Order No. 09510001270).

Note 2: The disclosure of excluded NPLs and excluded overdue receivables resulting from consumer debt clearance is based on the Banking Bureau letters dated September 15, 2008 (Order No. 09700318940) and dated September 20, 2016 (Order No. 10500134790).

c) Concentration of credit risk

December 31, 2023

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth (%)
1	A Group - real estate development activities	\$ 6,373,781	9.21
2	B Group - manufacture of liquid crystal panel and components	5,766,893	8.33
3	C Group -manufacture of liquid crystal panel and components	5,672,918	8.20
4	D Group - real estate activities for sale and rental	5,186,839	7.49
5	E Group - real estate development activities	4,662,000	6.74
6	F Group -engineering activities and related technical consultancy	4,250,659	6.14
7	G Group -wireless telecommunications activities	4,159,550	6.01
8	H Group - real estate activities for sale and rental	4,056,462	5.86
9	I Group - real estate activities for sale and rental	3,848,084	5.56
10	J Group -manufacture of integrated circuits	3,762,331	5.44

December 31, 2022

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth (%)
1	A Group - real estate development activities	\$ 6,567,569	10.68
2	C Group - manufacture of liquid crystal panel and components	6,242,325	10.16
3	G Group - department stores	5,936,900	9.66
4	J Group - manufacture of electric wires and cables	5,509,080	8.96
5	D Group - real estate development activities	5,178,276	8.42
6	I Group - real estate activities for sale and rental	4,009,825	6.52
7	K Group - financial leasing	3,992,322	6.50
8	E Group - real estate development activities	3,798,000	6.18
9	B Group -manufacture of liquid crystal panel and components	3,649,517	5.94
10	L Group - wired telecommunications activities	3,516,017	5.72

9) Judgments of a significant increase in credit risk since initial recognition

Credit business

The Bank assesses changes in credit quality during the expected lifetime of various types of credit assets on each reporting date to determine if there has been a significant increase in credit risk since initial recognition, main indicators considered and supporting information (including prospective information) were as follows:

a) Quantitative index

When the contractual payments are overdue for more than 30 days, the credit risk of the credit assets are considered to be significantly increased since the initial recognition.

b) Qualitative index

- i. Changes in the current or predicted operating, financial, or economic conditions that are expected to cause a significant change in the ability of the borrower to perform debt obligations.
- ii. Actual or expected significant changes in borrower's operating results.
- iii. The credit risk of other credit contracts of the same borrower has increased significantly.
- iv. After evaluation, it can be included if the borrowers do not suffer from difficulties at the time of negotiation in individual credit assets.

The various types of credit assets of the Bank which are not regarded as low credit risk can be assumed that the credit risk of such assets has not increased significantly since initial recognition.

10) Definition of default and credit impaired financial assets

The definition of financial assets in default of the Bank is the same as that of the credit impaired financial assets. If one or more of the following conditions are met, the Bank determines that the financial asset is in default and credit impaired:

a) Quantitative index

- i. When the borrower's payment of the contract is overdue for more than 90 days.
- ii. Changes in external rating of guarantor or issuer of the notes or bonds.

b) Qualitative index

For credit assets, if there is evidence that the borrower will be unable to settle the loan, or has significant financial difficulties, such as:

- i. Borrower has been bankrupt or may file a petition for bankruptcy or financial restructuring.
- ii. Borrower's loan contract has been reclassified to non-performing loans or has been written off as bad debts by the Bank.
- iii. Due to financial or contractual reasons related to the financial difficulties of the borrower, the creditor gives the borrower concessions that would not have been considered or agreed (agreements).
- iv. For cases involving the sale of non-performing loans and suits.
- v. Payment by the Bank to fulfill off-balance sheet financial contracts (e.g., guarantee advances).

The aforementioned definition of default and credit impairment applied to the credit assets held by the Bank is consistent with the definition used for internal credit risk management purposes, and is used in the relevant impairment assessment model.

The credit asset will be restored to the state of compliance and is not considered as the credit asset of default and credit impairment if it no longer meets the definition of default and credit impairment.

The debt instrument investment may also be deemed to have a credit impairment if the rating of the notes or bonds of the guarantor or issuer downgrade significantly, for example, from an investment grade to a junk bond rating, or if one or more of the following conditions are met:

- i. The guarantor or issuer cannot repay the principal or interest on the maturity date of the note or bond.
- ii. Before the maturity of the note or bond, it can be objectively determined that the guarantor or issuer may not be able to repay the principal and interest on time.
- iii. Before the maturity of the note or bond, the guarantor or issuer is in bankruptcy or in reorganization or taken over due to financial difficulties.
- iv. Before the maturity of the note or bond, the guarantor or issuer closes down or is in the process of other financial restructuring.

11) Write-off policy

The Bank shall write off non-performing loans and overdue receivables that meet at least one of the following requirements:

- a) When the timing for statutory write-off is reached.
- b) There is a need to expedite the reduction of non-performing loans or for certain businesses that need to comply with the requirements of the governing authorities.
- c) Written off by the governing authorities or the financial inspection authorities.
- d) If it is difficult to dispose of the collateral or it may take a long time to recover the loan, the creditor's balance shall be written off as bad debt within the period which is specified in a).
- e) Obtaining the debt certificate or supporting documents with the assessment that credit assets evaluated as impossible to obtain repayment.

12) Amendment of contract cash flows of financial assets

The Bank may amend the contract cash flows of loans as a result of financial difficulties of borrowers or improvement of problematic debtors' recovery rates, etc. The amendments to contract cash flows include the extension of the contract period, interest payment time modification, contract interest modification, or exemption of part of the debts.

13) Measurement of expected credit losses

For the purpose of measuring expected credit losses, the Bank divides credit assets into the following groups: for corporate banking, they are grouped according to scale, while for consumer banking, they are grouped according to product characteristics:

Business	Group	Definition
Corporate banking	Large enterprises + Stage 1	Credit risk has not increased significantly
	Small and medium enterprises + Stage 1	
	Large enterprises + Stage 2	Credit risk has increased significantly
	Small and medium enterprises + Stage 2	
	Large enterprises + Stage 3	Credit impaired
	Small and medium enterprises + Stage 3	
Consumer banking	Product + Stage 1	Credit risk has not increased significantly
	Product + Stage 2	Credit risk has increased significantly
	Product + Stage 3	Credit impaired

The Bank measures the allowance loss for financial instruments that did not have a significant increase in credit risk since initial recognition based on the 12-month expected credit loss model. For financial instruments that had a significant increase in credit risk or are credit impaired since initial recognition, lifetime expected credit losses are applied.

To measure the expected credit losses, the Bank takes into account the borrower's probability of default (PD) for the next 12 months and the period of existence, and includes the loss given default (LGD) and exposure at default (EAD), taking into account the impact of the time value of money when calculating the 12 month and lifetime expected credit losses, respectively.

Probability of default is the probability of default of a borrower or counterparty over a period of time; the loss given default refers to the probability of loss of the borrower or counterparty due to inability to recover the debt at the end of the reminder procedures. The probability of default and loss given default used in the impairment assessment of the Bank's credit business are based on internal historical information (such as credit loss experience, etc.) of each group, adjusted based on the current observable data and forward-looking general economic information (such as GDP and employment rate, etc.) which are used to calculate the probability of default on expected losses.

The exposure at default means that the Bank can claim compensation for the carrying amount held by borrowers or the counterparty after borrowers or the counterparty have defaulted. The Bank has taken into account the amount of credits that have been used and the amounts that may be used in the future for the exposure at default amount. The amount of credits is used as an assessment of exposure at default of on-balance sheet credits; off-balance sheet or committed credits that are not yet used are based on the corresponding credit conversion factor (CCF) which considered the credits that are expected to be used within 12 months or expected lifetime, to calculate exposure at default of expected credit loss.

14) Considerations of forward-looking information

The Bank incorporates forward-looking information when measuring expected credit losses on loans and receivables. Based on the business characteristics, the Bank selected the overall indicators that are appropriate as adjustment parameters for default probability of lending. Based on the type of business, the Bank used different overall indicators. The Corporate banking business takes the economic growth rate (GDP) as an adjustment parameter; the consumer banking business takes employment rate variation as adjustment parameter. The Bank also makes reference to external information (predicted value of renowned economic forecasting institutions at home and abroad) or group expert assessments to provide forecasting information on economic factors quarterly, such as using the change of Leading Index or Interbank offered rate as basic economic conditions; it contains the best estimate of the economic situation in the next five years.

The measurement of expected credit loss of the Bank's debt instruments is based an external credit migration matrix method to calculate the Probability of default (PD), which is incorporated in the information of forward-looking factors.

15) Changes of provisions for off-balance-sheet guarantees and loan commitments

For the year ended December 31, 2023:

	Stage 1	Stage 2		Stage 3		Impairment in Accordance with IFRS 9	The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)			
Balance at January 1	\$ 63,024	\$ 30	\$ -	\$ 41	\$ -	\$ 63,095	\$ 107,002	\$ 170,097
Changes due to financial instruments that have been identified at the beginning of the period:								
Transferred to lifetime ECL	(1)	1	-	-	-	-	-	-
Transferred to credit-impaired financial assets	-	-	-	-	-	-	-	-
Transferred to 12 months ECL	3	(3)	-	-	-	-	-	-
Derecognized financial assets in the current period	(33,804)	(56)	-	(45)	-	(33,905)	-	(33,905)
Purchased or originated new financial assets	53,009	80	-	16	-	53,105	-	53,105
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							47,965	47,965
Effect of exchange rate changes and others	3,802	39	-	(10)	-	3,831	-	3,831
Balance at December 31	\$ 86,033	\$ 91	\$ -	\$ 2	\$ -	\$ 86,126	\$ 154,967	\$ 241,093

There was no significant increase in the expected credit loss of the Bank and its subsidiaries' off-balance-sheet guarantees and loan commitments for the year ended December 31, 2023. The increase of guarantees in reporting period resulted in abovementioned provisions increased by \$70,996 thousand in comparison to the beginning of period.

For the year ended December 31, 2022:

	Stage 1	Stage 2		Stage 3		Impairment in Accordance with IFRS 9	The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)			
Balance at January 1	\$ 102,916	\$ 443	\$ -	\$ 448	\$ -	\$ 103,807	\$ 231,078	\$ 334,885
Changes due to financial instruments that have been identified at the beginning of the period:								
Transferred to lifetime ECL	(2)	2	-	-	-	-	-	-
Transferred to credit-impaired financial assets	-	-	-	-	-	-	-	-
Transferred to 12 months ECL	291	(159)	-	(132)	-	-	-	-
Derecognized financial assets in the current period	(60,189)	(385)	-	(381)	-	(60,955)	-	(60,955)
Purchased or originated new financial assets	33,935	13	-	4	-	33,952	-	33,952
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							(124,076)	(124,076)
Effect of exchange rate changes and others	(13,927)	116	-	102	-	(13,709)	-	(13,709)
Balance at December 31	\$ 63,024	\$ 30	\$ -	\$ 41	\$ -	\$ 63,095	\$ 107,002	\$ 170,097

There was no significant increase in the expected credit loss of the Bank and its subsidiaries' off-balance-sheet guarantees and loan commitments for the year ended December 31, 2022. The decrease of guarantees in reporting period resulted in abovementioned provisions decreased by \$164,788 thousand in comparison to the beginning of period.

c. Liquidity risk

1) Definition and source of liquidity risk

Liquidity risk of the Bank refers to the risks of bearing financial loss because of the inability to liquidate assets or obtain financing to provide funds to meet the financial obligation, such as early termination of deposits, deteriorating of the source and condition of financing from banks influenced by specific market, abnormal recover of funds due to default from borrowers, inability to liquidate financial instruments and early exertion of rights of rescission of interest sensitive product by the assured. The aforementioned situation may reduce cash source of loan, transactions and investment. In some extreme cases, the lack of liquidity may result in a decrease in the overall position of the balance sheet, sale of assets and failure to perform loan commitments.

2) Management policies of liquidity risk

To control liquidity risk, the Bank calculates the maximum cumulative cash outflow (MCO) to monitor the daily funding gap by each major currency. The Bank also actively deconcentrates funding sources, due dates of funding settlement, and the counterparties to the due from other banks and call loans to other banks, as well as maintains an adequate amount of corporate cash in banks to enhance its liquidity position.

3) Financial assets held for liquidity management and maturity analysis of non-derivative financial liabilities

a) Financial assets held for liquidity management

The Bank holds cash and highly liquid and high-grade assets to pay off obligations and meet any potential emergency funding needs. The assets held for liquidity management include cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at FVTPL, financial assets at FVTOCI, securities purchased under resell agreements, receivables and discounts and loans, etc.

b) Maturity analysis of non-derivative financial liabilities

The following tables show the cash outflows on the Bank's non-derivative financial liabilities based on contract maturities. However, because the amounts disclosed were based on contractual cash flows, some of them will not match the amounts shown in the balance sheets.

Maturity analysis of non-derivative financial liabilities (NTD)

December 31, 2023	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	\$ 3,623,296	\$ -	\$ -	\$ 157,260	\$ -	\$ 3,780,556
Notes and bonds issued under repurchase agreements	8,698,692	-	-	-	-	8,698,692
Deposits and remittances	55,272,822	73,546,061	62,980,713	111,858,526	36,810,638	340,468,760
Borrowings	-	-	700,000	-	26,263,333	26,963,333
Other capital outflow on maturity	2,626,137	384,345	432,566	3,655,769	3,320,676	10,419,493
Total	\$ 70,220,947	\$ 73,930,406	\$ 64,113,279	\$ 115,671,555	\$ 66,394,647	\$ 390,330,834

December 31, 2022	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	\$ 23,296	\$ -	\$ -	\$ 157,260	\$ -	\$ 180,556
Notes and bonds issued under repurchase agreements	5,499,171	1,304,476	-	-	-	6,803,647
Deposits and remittances	55,183,925	94,692,761	59,536,690	111,630,317	21,029,068	342,072,761
Borrowings	-	-	-	-	25,810,000	25,810,000
Other capital outflow on maturity	3,091,305	404,169	349,362	4,413,018	3,705,459	11,963,313
Total	\$ 63,797,697	\$ 96,401,406	\$ 59,886,052	\$ 116,200,595	\$ 50,544,527	\$ 386,830,277

Maturity analysis of non-derivative financial liabilities (USD)

(In Thousands of U.S. Dollars)

December 31, 2023	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000
Notes and bonds issued under repurchase agreements	298,098	-	587,875	-	-	885,973
Deposits and remittances	1,619,948	1,822,766	1,292,314	1,576,855	6,067	6,317,950
Other capital outflow on maturity	73,896	46,193	26,474	4,537	83,522	234,622
Total	\$ 2,091,942	\$ 1,868,959	\$ 1,906,663	\$ 1,581,392	\$ 89,589	\$ 7,538,545

(In Thousands of U.S. Dollars)

December 31, 2022	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	\$ 229,000	\$ 85,000	\$ 70,000	\$ -	\$ -	\$ 384,000
Notes and bonds issued under repurchase agreements	201,340	266,396	159,050	-	-	626,786
Deposits and remittances	1,767,522	2,444,006	479,484	1,201,085	296	5,892,393
Borrowings	-	-	-	-	359,176	359,176
Other capital outflow on maturity	56,412	38,959	14,457	1,411	145,061	256,300
Total	\$ 2,254,274	\$ 2,834,361	\$ 722,991	\$ 1,202,496	\$ 504,533	\$ 7,518,655

4) Maturity analysis of derivative instruments

Contractual maturities were assessed to have an understanding of derivative instruments presented in the consolidated balance sheet. Amounts disclosed in the table were based on contractual cash flows; however, some of these amounts did not match those in the balance sheets.

Maturity analysis of derivative instruments (NTD)

December 31, 2023	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	\$ (247,346,473)	\$ (357,827,293)	\$ (197,160,030)	\$ (51,215,570)	\$ (4,457,110)	\$ (858,006,476)
Cash inflow	223,894,441	329,846,705	202,847,428	43,550,175	3,559,260	803,698,009
Interest rate derivatives instruments						
Cash outflow	(362,820)	(579,060)	(52,050)	-	(22,163,586)	(23,157,516)
Cash inflow	260,457	529,826	42,797	1,857	-	834,937
Hedging derivatives instrument						
Interest rate derivatives instruments						
Cash outflow	-	(59,068)	-	-	-	(59,068)
Cash inflow	-	80,853	3,896	39,914	-	124,663
Cash outflow subtotal	(247,709,293)	(358,465,421)	(197,212,080)	(51,215,570)	(26,620,696)	(881,223,060)
Cash inflow subtotal	224,154,898	330,457,384	202,894,121	43,591,946	3,559,260	804,657,609
Net cash flow	\$ (23,554,395)	\$ (28,008,037)	\$ 5,682,041	\$ (7,623,624)	\$ (23,061,436)	\$ (76,565,451)

December 31, 2022	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	\$ (156,648,303)	\$ (323,290,843)	\$ (178,603,726)	\$ (80,742,795)	\$ (977,350)	\$ (740,263,017)
Cash inflow	150,742,337	337,094,910	148,358,148	57,167,134	1,372,747	694,735,276
Interest rate derivatives instruments						
Cash outflow	(377,329)	(633,233)	(36,363)	(18,820)	(22,181,753)	(23,247,498)
Cash inflow	458,736	575,722	36,462	-	1,857	1,072,777
Hedging derivatives instrument						
Interest rate derivatives instruments						
Cash outflow	-	(47,111)	-	-	-	(47,111)
Cash inflow	-	80,367	3,885	39,696	-	123,948
Cash outflow subtotal	(157,025,632)	(323,971,187)	(178,640,089)	(80,761,615)	(23,159,103)	(763,557,626)
Cash inflow subtotal	151,201,073	337,750,999	148,398,495	57,206,830	1,374,604	695,932,001
Net cash flow	\$ (5,824,559)	\$ 13,779,812	\$ (30,241,594)	\$ (23,554,785)	\$ (21,784,499)	\$ (67,625,625)

Maturity analysis of derivative instruments (USD)

(In Thousands of U.S. Dollars)

December 31, 2023	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	\$ (8,287,630)	\$ (11,254,792)	\$ (7,087,053)	\$ (1,788,597)	\$ (130,228)	\$ (28,548,300)
Cash inflow	9,112,005	12,799,175	7,090,356	1,961,756	163,228	31,126,520
Interest rate derivatives instruments						
Cash outflow	(17,563)	(30,352)	(14,445)	(20,658)	(459,669)	(542,687)
Cash inflow	3,534	14,590	1,554	2,832	60	22,570
Others						
Cash outflow	(1,054)	-	-	-	-	(1,054)
Cash inflow	1,723	-	-	-	-	1,723
Hedging derivatives instrument						
Interest rate derivatives instruments						
Cash outflow	(1,307)	(3,923)	(6,711)	(8,396)	-	(20,337)
Cash inflow	-	-	-	-	-	-
Cash outflow subtotal	(8,307,554)	(11,289,067)	(7,108,209)	(1,817,651)	(589,897)	(29,112,378)
Cash inflow subtotal	9,117,262	12,813,765	7,091,910	1,964,588	163,288	31,150,813
Net cash flow	\$ 809,708	\$ 1,524,698	\$ (16,299)	\$ 146,937	\$ (426,609)	\$ 2,038,435

(In Thousands of U.S. Dollars)

December 31, 2022	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	\$ (6,116,806)	\$ (11,746,180)	\$ (5,214,927)	\$ (2,332,689)	\$ (84,000)	\$ (25,494,602)
Cash inflow	6,429,615	11,754,987	6,285,547	3,184,371	70,000	27,724,520
Interest rate derivatives instruments						
Cash outflow	(48,749)	(37,710)	(13,590)	(18,902)	(388,711)	(507,662)
Cash inflow	12,958	7,475	852	2,592	510	24,387
Others						
Cash outflow	(209)	-	-	-	-	(209)
Cash inflow	230	-	-	-	-	230
Hedging derivatives instrument						
Interest rate derivatives instruments						
Cash outflow	(483)	(2,149)	(5,482)	(8,737)	-	(16,851)
Cash inflow	-	-	-	-	-	-
Cash outflow subtotal	(6,166,247)	(11,786,039)	(5,233,999)	(2,360,328)	(472,711)	(26,019,324)
Cash inflow subtotal	6,442,803	11,762,462	6,286,399	3,186,963	70,510	27,749,137
Net cash flow	\$ 276,556	\$ (23,577)	\$ 1,052,400	\$ 826,635	\$ (402,201)	\$ 1,729,813

5) Maturity analysis of off-balance sheet items

The table below shows the Bank's maturity analysis of the off-balance sheet items based on the remaining time between the reporting date and the contractual period. For the financial guarantee contracts issued, the maximum guaranteed amount included in the guarantee may be required to be fulfilled in the earliest period.

December 31, 2023	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	\$ 10,934,968	\$ 5,726,275	\$ 3,386,863	\$ 5,195,508	\$ 18,493,768	\$ 43,737,382

December 31, 2022	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	\$ 7,350,303	\$ 4,340,352	\$ 4,872,807	\$ 10,027,266	\$ 15,917,018	\$ 42,507,746

6) Summary of required disclosures under the Regulations Governing the Preparation of Financial Reports by Public Banks:

a) Maturity analysis of assets and liabilities of the Bank (NTD)

December 31, 2023	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	\$ 133,118,642	\$ 226,712,408	\$ 392,246,436	\$ 241,311,512	\$ 104,076,195	\$ 232,406,638	\$ 1,329,871,831
Main capital outflow on maturity	105,408,598	236,318,518	477,002,150	301,996,047	223,362,698	317,870,889	1,661,958,900
Gap	27,710,044	(9,606,110)	(84,755,714)	(60,684,535)	(119,286,503)	(85,464,251)	(332,087,069)

December 31, 2022	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	\$ 142,501,992	\$ 131,664,686	\$ 402,034,784	\$ 186,744,048	\$ 125,729,644	\$ 214,791,860	\$ 1,203,467,014
Main capital outflow on maturity	119,923,050	125,362,587	466,989,335	279,574,412	264,000,473	254,615,354	1,510,465,211
Gap	22,578,942	6,302,099	(64,954,551)	(92,830,364)	(138,270,829)	(39,823,494)	(306,998,197)

b) Maturity analysis of assets and liabilities of the Bank (USD)

(In Thousands of U.S. Dollars)

December 31, 2023	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	\$ 10,135,095	\$ 13,417,408	\$ 7,363,731	\$ 2,438,159	\$ 3,435,506	\$ 36,789,899
Main capital outflow on maturity	10,693,331	13,745,695	9,697,967	4,578,381	3,797,651	42,513,025
Gap	(558,236)	(328,287)	(2,334,236)	(2,140,222)	(362,145)	(5,723,126)

(In Thousands of U.S. Dollars)

December 31, 2022	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	\$ 7,639,447	\$ 12,387,281	\$ 6,562,140	\$ 3,462,485	\$ 3,510,437	\$ 33,561,790
Main capital outflow on maturity	8,775,235	15,329,826	6,819,115	5,134,430	4,053,357	40,111,963
Gap	(1,135,788)	(2,942,545)	(256,975)	(1,671,945)	(542,920)	(6,550,173)

d. Market risk

1) Definition and source of market risk

Market risk is defined as the fluctuation in market risk factors (such as interest rates, exchange rates, stock prices and commodity prices), which may cause a potential loss of on- and off- balance sheet items.

2) Risk management policies

In order to have a common language of market risk management, definition, communication and measurement, and comply with the requirements of the governing authorities, the Bank has developed “Market Risk Management Standard” based on Regulations Governing the Capital Adequacy Ratio of Banks (the CAR Regulations) related market risk calculation tables announced by the FSC, international standards, and CDFH’s market risk management policy framework.

The “Market Risk Management Standard” is applicable to “Trading Book” positions defined by the Regulations Governing the Capital Adequacy Ratio of the Bank related market risk calculation tables and the Bank’s book management approach to financial instrument handling.

Following the “Market Risk Management Standard”, the Bank sets up the “Market Risk Management Procedure to Trading Activities” to manage market risk. This procedure includes risk identification and assessment, risk measurement, risk monitoring, risk reporting and contingency management processes.

3) Procedures for market risk measuring, monitoring, and reporting

The Bank’s market risk limits include position sensitivities, stop-loss limits and value-at-risk (VaR).

Risk factors analyzed through the Bank’s risk measurement systems are sufficient to determine all market risks of trading positions on the balance sheet, including interest rate risk, foreign exchange risk, equity securities risk, and price of commodity risks, as well as volatility risks which arise out of the option transactions.

The Bank’s market risk reports include profit or loss on trading positions, limit usage, stress testing, and trading portfolio risk assessment, as well as significant exceptions if any.

The risk management department of the Bank independently performs daily market risk limit controls, and regularly reports to both the Risk Management Committee and CDFH’s Risk Management Committee. Besides, the above reports are presented to the Board quarterly for reference.

4) Mitigation of risks or hedging of market risk

The Bank’s market risk positions or hedging positions are marked to market on a daily basis through techniques such as model valuation. All market parameters are updated at least daily in accordance with changes in market conditions to conduct value assessment of products. Market Risk Limits are reviewed and controlled based on the valuation results of risk value, position sensitivity and profit and loss figure on a daily basis.

5) Valuation techniques of market risk

The Bank uses the VaR model and stress testing to evaluate the potential and extreme risk on trading portfolios. Through variations of the assumptions on market conditions, these techniques are used to assess the market risk of positions held and the maximum expected loss.

VaR is calculated using a one-day time horizon with a 95% confidence level.

	For the Year Ended December 31, 2023			For the Year Ended December 31, 2022		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	\$ 13,066	\$ 41,141	\$ 6,565	\$ 46,303	\$ 99,773	\$ 8,226
Equity securities risk	4,816	14,619	155	7,427	31,542	-
Foreign exchange risk	17,665	29,632	6,664	18,708	36,355	5,344

6) Interest rate risk in the banking book

The scope of interest rate risk in banking book includes interest rate sensitivity of assets and liabilities, but do not include risk management of trading book. Interest rate risk in banking book measures the adverse effects on net interest income of assets, liabilities and off-balance sheet as a result of adverse fluctuations in interest. Risk assessment not only builds the sensitivity gap between assets and liabilities, but also quantifies through the dimension of retained earnings and economic value perspectives.

7) Interest rate risk management of the banking book

The interest rate risk management strategy involving the Bank's banking book is to minimize the negative impact of changes in interest rates on net interest income and the net economic value of equity. The asset-liability management committee (ALMCO) approves the annual banking book interest rate risk limits and monitors the Bank's interest rate risk exposures every day. The interest rate risk management processes include risk identification, risk measurement, risk control, risk monitoring and others. The unit monitoring the banking book interest rate risks reports interest rate risk exposures regularly to ALMCO and adjusts the structure of assets and liabilities according to the reports, lowering the amount of exposure. For risk monitoring, the asset and liability management system outputs and analysis reports, which is provided to the interest rate risk execution units and senior management. If risk missing or excess of limit occur from monitor, written notices will be passed to the interest rate risk assessment units to adjust and improve the program reported to ALMCO.

8) The effect of interest rate benchmark reform

The Bank is exposed to USD LIBOR which is subject to interest rate benchmark reform. The exposures arise on derivatives and non-derivative financial assets and liabilities. SOFR (Secured Overnight Financing Rate) is expected to replace USD LIBOR. There are key differences between USD LIBOR and SOFR. USD LIBOR is "forward looking", which implies market expectation over future interest rates, and includes a credit spread over the risk-free rate. SOFR is currently a "backward-looking" rate, based on interest rates from actual transactions, and excludes a credit spread. To transition existing contracts and agreements that reference USD LIBOR to SOFR, adjustments for these differences might need to be applied to SOFR to enable the two benchmark rates to be economically equivalent.

The Bank has established a LIBOR conversion task force, is responsible for promoting cross-departmental conversion work, drafting conversion plans and time schedule planning, conducting impact assessments. This task force also focuses on product conversion business strategy adjustments, customer communication, system, operating process changes, evaluation, risk models, financial reports and tax implications. This task force reports to the Risk Management Committee and the Board of Directors on the implementation situation quarterly. The Bank has completed all the above assessments and conversion work, which the financial instruments subject to interest rate benchmark reform have been quoted using other benchmark interest rate.

9) Concentration of foreign currency risk information

The financial assets and liabilities denominated in foreign currencies and with material influence on the Bank and its subsidiaries were as follows:

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2023		
	Foreign Currency	Exchange Rate	New Taiwan Dollar
<u>Financial assets</u>			
Monetary items			
USD	\$ 5,649,095	30.74	\$ 173,624,921
HKD	4,484,610	3.93	17,642,454
AUD	615,877	21.01	12,939,567
CNY	2,073,549	4.33	8,981,368
			(Continued)

December 31, 2023			
	Foreign Currency	Exchange Rate	New Taiwan Dollar
ZAR	\$ 4,779,130	1.66	\$ 7,928,576
JPY	22,592,142	0.22	4,911,532
EUR	134,594	34.03	4,580,229
GBP	40,631	39.20	1,592,738
SGD	18,345	23.32	427,812
Investments accounted for using the equity method			
CNY	1,793,443	4.33	7,768,118

Financial liabilities

Monetary items			
USD	8,133,968	30.74	249,997,520
CNY	3,292,090	4.33	14,259,360
AUD	346,265	21.01	7,275,027
EUR	200,468	34.03	6,821,920
JPY	17,459,474	0.22	3,795,690
ZAR	2,024,312	1.66	3,358,334
HKD	131,698	3.93	518,100
SGD	9,130	23.32	212,908
GBP	4,049	39.20	158,726
NZD	5,821	19.50	113,503
			(Concluded)

(In Thousands of Foreign Currencies/New Taiwan Dollars)

December 31, 2022			
	Foreign Currency	Exchange Rate	New Taiwan Dollar
<u>Financial assets</u>			
Monetary items			
USD	\$ 5,812,766	30.71	\$ 178,498,426
HKD	4,399,814	3.94	17,326,468
CNY	1,824,189	4.41	8,040,659
ZAR	4,427,356	1.81	8,022,369
EUR	237,273	32.71	7,761,191
JPY	19,000,810	0.23	4,415,788
AUD	197,495	20.82	4,111,850
GBP	45,424	37.04	1,682,486
SGD	34,637	22.86	791,796
Investments accounted for using the equity method			
CNY	1,011,784	4.41	4,459,742
			(Continued)

	December 31, 2022		
	Foreign Currency	Exchange Rate	New Taiwan Dollar
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 8,043,773	30.71	\$ 247,008,179
CNY	2,616,391	4.41	11,532,527
EUR	163,842	32.71	5,359,259
ZAR	1,964,674	1.81	3,559,989
AUD	158,207	20.82	3,293,863
JPY	9,734,674	0.23	2,262,338
GBP	54,950	37.04	2,035,346
HKD	205,655	3.94	809,869
SGD	10,361	22.86	236,855
NZD	8,246	19.43	160,221
			(Concluded)

10) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a) Analysis of interest rate-sensitive assets and liabilities (NTD)

December 31, 2023

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	\$ 390,550,804	\$ 24,309,505	\$ 23,538,035	\$ 58,366,114	\$ 496,764,458
Interest rate-sensitive liabilities	171,144,839	173,806,630	24,177,668	28,960,613	398,089,750
Interest rate sensitivity gap	219,405,965	(149,497,125)	(639,633)	29,405,501	98,674,708
Net worth					68,697,998
Ratio of interest rate-sensitive assets to liabilities (%)					124.79
Ratio of interest rate-sensitive gap to net worth (%)					143.64

December 31, 2022

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	\$ 365,303,695	\$ 24,613,450	\$ 29,957,660	\$ 58,889,544	\$ 478,764,349
Interest rate-sensitive liabilities	190,244,449	148,686,716	26,256,552	27,361,742	392,549,459
Interest rate sensitivity gap	175,059,246	(124,073,266)	3,701,108	31,527,802	86,214,890
Net worth					61,085,508
Ratio of interest rate-sensitive assets to liabilities (%)					121.96
Ratio of interest rate-sensitive gap to net worth (%)					141.14

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

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

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (interest rate-sensitive assets and interest rate-sensitive liabilities in New Taiwan dollars).

b) Analysis of interest rate-sensitive assets and liabilities (USD)

December 31, 2023

(In Thousands of U.S. Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	\$ 2,572,675	\$ 175,878	\$ 265,554	\$ 2,299,422	\$ 5,313,529
Interest rate-sensitive liabilities	5,056,942	1,833,842	892,415	6,067	7,789,266
Interest rate sensitivity gap	(2,484,267)	(1,657,964)	(626,861)	2,293,355	(2,475,737)
Net worth					16,942
Ratio of interest rate-sensitive assets to liabilities (%)					68.22
Ratio of interest rate-sensitive gap to net worth (%)					(14,613.01)

December 31, 2022

(In Thousands of U.S. Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	\$ 2,914,753	\$ 182,642	\$ 99,304	\$ 2,169,252	\$ 5,365,951
Interest rate-sensitive liabilities	6,181,834	658,547	488,253	359,472	7,688,106
Interest rate sensitivity gap	(3,267,081)	(475,905)	(388,949)	1,809,780	(2,322,155)
Net worth					12,351
Ratio of interest rate-sensitive assets to liabilities (%)					69.80
Ratio of interest rate-sensitive gap to net worth (%)					(18,801.35)

Note 1: The above amounts included only U.S. dollar amounts held by the Bank excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

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

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (Interest rate-sensitive assets and Interest rate-sensitive liabilities in U.S. dollars).

e. Transfers of financial assets

Transferred financial assets not qualifying for full derecognition

Among daily operations of the Bank, most of the transactions of transferred financial assets not qualifying for full derecognition are debt securities under repurchase agreements. As the Bank's right to receive cash flows of the financial assets transferred to the counterparties and reflecting the obligation to repurchase the transferred financial assets for a fixed price at a future date, the transferred financial assets cannot be used, sold or pledged in the duration of the transaction. The Bank does not derecognize it entirely because the Bank remains exposed to interest rate risk and credit risk on these pledged instruments.

Related information of financial assets and liabilities not qualifying for full derecognition are listed below:

December 31, 2023					
Category	Carrying Amount of Transferred Financial Assets	Carrying Amount of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Fair Value of Net Position
Notes and bonds issued under repurchase agreements					
Debt investments measured at amortized cost	\$ 1,075,645	\$ 927,945	\$ 1,000,876	\$ 927,945	\$ 72,931
Financial assets at FVTPL	1,508,805	1,510,123	1,508,805	1,510,123	(1,318)
Financial assets at FVTOCI	42,234,199	40,142,911	42,234,199	40,142,911	2,091,288

December 31, 2022					
Category	Carrying Amount of Transferred Financial Assets	Carrying Amount of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Fair Value of Net Position
Notes and bonds issued under repurchase agreements					
Debt investments measured at amortized cost	\$ 934,238	\$ 797,576	\$ 842,586	\$ 797,576	\$ 45,010
Financial assets at FVTPL	1,104,088	1,079,721	1,104,088	1,079,721	24,367
Financial assets at FVTOCI	27,374,699	26,483,687	27,374,699	26,483,687	891,012

f. Offsetting financial assets and financial liabilities

The Bank and its subsidiaries have enforceable master netting arrangements or similar agreements signed with counterparty but do not meet the offsetting criteria, and the financial assets and financial liabilities can be offset when both sides of the transaction have decided to, but gross settlements if have not. One can choose net settlement if the other side of the transaction is in the breach of contract.

Related information of offsetting of financial assets and financial liabilities are as follows:

December 31, 2023						
Financial Assets Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet (b)	Net Amount of Recognized Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note 1)	Cash Collateral Received	
Securities purchased under resell agreements	\$ 42,097,729	\$ -	\$ 42,097,729	\$ 42,097,729	\$ -	\$ -
Derivative financial instruments (Note 2)	30,011,713	-	30,011,713	8,646,423	2,566,513	18,798,777
Total	\$ 72,109,442	\$ -	\$ 72,109,442	\$ 50,744,152	\$ 2,566,513	\$ 18,798,777

December 31, 2023						
Financial Liabilities Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet (b)	Net Amount of Recognized Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)	Related Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note 1)	Cash Collateral Pledged	
Notes and bonds issued under repurchase agreements	\$ 42,580,979	\$ -	\$ 42,580,979	\$ 42,580,979	\$ -	\$ -
Derivative financial instruments (Note 2)	29,931,131	-	29,931,131	8,646,423	2,947,399	18,337,309
Total	\$ 72,512,110	\$ -	\$ 72,512,110	\$ 51,227,402	\$ 2,947,399	\$ 18,337,309

December 31, 2022						
Financial Assets Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet (b)	Net Amount of Recognized Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note 1)	Cash Collateral Received	
Securities purchased under resell agreements	\$ 15,467,689	\$ -	\$ 15,467,689	\$ 15,467,689	\$ -	\$ -
Derivative financial instruments (Note 2)	26,237,839	-	26,237,839	10,321,717	1,904,463	14,011,659
Total	\$ 41,705,528	\$ -	\$ 41,705,528	\$ 25,789,406	\$ 1,904,463	\$ 14,011,659

December 31, 2022						
Financial Liabilities Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet (b)	Net Amount of Recognized Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)	Related Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note 1)	Cash Collateral Pledged	
Notes and bonds issued under repurchase agreements	\$ 28,360,984	\$ -	\$ 28,360,984	\$ 28,228,141	\$ 132,843	\$ -
Derivative financial instruments (Note 2)	25,124,990	-	25,124,990	10,321,717	5,048,395	9,754,878
Total	\$ 53,485,974	\$ -	\$ 53,485,974	\$ 38,549,858	\$ 5,181,238	\$ 9,754,878

Note 1: Financial instruments include netting settlement arrangements and non-cash financial collaterals.

Note 2: Derivative financial instruments include hedging derivative financial instruments.

46. CAPITAL MANAGEMENT

a. Objective of capital management

The calculation methods of self-owned capital should be conducted according to the regulations of authorities. The basic management objective includes sufficient capital to meet the requirements of the regulation and achieve the minimum capital adequacy ratio so as to control all risks within the risk appetite.

In order to undertake all kinds of risk, the Bank conducts risk management based on the risk portfolio and the assessment of risk characteristics to design the best capital allocation.

b. Capital management procedures

The Bank had met the authorities' requirements for capital adequacy ratio and reported to the authority quarterly. Eligible capital is calculated according to the "Regulations Governing the Capital Adequacy and Capital Category of Banks".

c. Capital adequacy ratio

Items		Year	December 31, 2023	December 31, 2022
Eligible capital	Common equity Tier 1 capital		\$ 65,814,572	\$ 59,742,889
	Additional Tier 1 capital		2,727,702	2,746,213
	Tier 2 capital		11,021,620	10,983,505
	Eligible capital		79,563,894	73,472,607
Risk-weighted assets	Credit risk	Standardized approach	497,173,375	478,564,170
		Internal rating-based approach	-	-
		Securitization	206,674	195,360
	Operational risk	Basic indicator approach	24,606,995	23,078,097
		Standardized approach/ alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	22,539,250	15,919,650
		Internal model approach	-	-
	Total risk-weighted assets		544,526,294	517,757,277
	Capital adequacy ratio		14.61%	14.19%
Ratio of common equity to risk-weighted assets		12.09%	11.54%	
Ratio of Tier 1 capital to risk-weighted assets		12.59%	12.07%	
Leverage ratio		7.79%	7.41%	

- Note: 1) Eligible capital = Common equity capital + Additional Tier 1 capital + Tier 2 capital.
- 2) Total risk-weighted asset = Risk-weighted assets for credit risk + (Capital requirements for operational risk + Capital requirements for market risk) × 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Total risk-weighted assets.
- 4) Ratio of common equity capital to risk-weighted assets = Common equity capital ÷ Total risk-weighted assets.

- 5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity capital + Additional Tier 1 capital) ÷ Total risk-weighted assets.
- 6) Leverage ratio = Tier 1 capital ÷ Exposure measurement.

47. TRUST BUSINESS OPERATIONS UNDER THE TRUST ENTERPRISES ACT

The balance sheets and income statements of the trust accounts and trust property accounts were as follows:

Balance Sheets of Trust Accounts

(In Thousands of New Taiwan Dollars)

Trust Assets	December 31		Trust Liabilities	December 31	
	2023	2022		2023	2022
Bank deposits	\$ 3,778,800	\$ 2,582,693	Payables	\$ 85,700	\$ 86,309
Short-term investments			Accounts payable on securities		
Funds	27,579,033	28,650,887	under custody	2,867,578	2,269,849
Bonds	10,711,522	6,367,352	Other liabilities	46,923	73,015
Stocks	141,482	174,413	Trust capital	57,413,114	49,239,268
Structured notes	78,457	47,904	Accumulated profits and losses	<u>15,719</u>	<u>7,760</u>
Receivables	72	25,785			
Securities under custody	2,867,578	2,269,849			
Real estate					
Land	14,234,149	10,522,529			
Buildings	16,426	12,094			
Intangible assets - surface rights	984,534	984,534			
Others	<u>36,981</u>	<u>38,161</u>			
Total	<u>\$ 60,429,034</u>	<u>\$ 51,676,201</u>	Total	<u>\$ 60,429,034</u>	<u>\$ 51,676,201</u>

Income Statements of Trust Accounts

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2023	2022
Trust income and gains		
Dividend income	\$ 10,995	\$ 11,045
Interest income	1,717,611	1,466,221
Rental income	27,038	26,809
Other income	<u>3,783</u>	<u>6,126</u>
Total trust income and gains	<u>1,759,427</u>	<u>1,510,201</u>
Trust expenses		
Property transaction losses	(2,135,095)	(3,324,545)
Administrative expenses	(2,231)	(1,079)
Other expenses	<u>(10,746)</u>	<u>(263,263)</u>
Total trust expenses	<u>(2,148,072)</u>	<u>(3,588,887)</u>
Net loss	<u>\$ (388,645)</u>	<u>\$ (2,078,686)</u>

The above income from trust operations were excluded from the Bank's income.

Trust Property Accounts

(In Thousands of New Taiwan Dollars)

Investment Portfolio	December 31	
	2023	2022
Bank deposits	\$ 3,778,800	\$ 2,582,693
Short-term investments		
Funds	27,579,033	28,650,887
Bonds	10,711,522	6,367,352
Stocks	141,482	174,413
Structured notes	78,457	47,904
Securities under custody	2,867,578	2,269,849
Real estate		
Land	14,234,149	10,522,529
Buildings	16,426	12,094
Intangible assets - surface rights	984,534	984,534
Other assets	<u>37,053</u>	<u>63,946</u>
Total	<u>\$ 60,429,034</u>	<u>\$ 51,676,201</u>

48. ALLOCATION OF REVENUE, COST, EXPENSE, PROFITS AND LOSSES RESULTING FROM INTERCOMPANY COOPERATION AND RESOURCE SHARING

a. Business or trading behaviors

Please refer to Note 41 for related-party transactions.

b. Integration of business activities

The Bank has become a full-functioning financial platform for customers by conducting cross-selling activities with the subsidiaries of the parent company through the banking, securities and life insurance channels.

c. Cross utilization of information or locations and business utilities

In compliance with Article 43 of the "Financial Holding Companies Act", "Financial Holding Subsidiaries Cross-selling Activities Acts", "Self-disciplinary Standards" and other related regulations from the FSC, the Bank has advocated cross-selling activities among the subsidiaries of the parent company. In addition, the Bank, which joined the cross-selling business, discloses protection measures of customer information on the official website to limit the use of the data and secure customer information and related rights when handling cross-selling activities.

d. Allocation of revenues, costs, expenses, profits and losses

Revenue, costs, expenses, profits and losses arising from integrated business activities among the Bank and the subsidiaries of the parent company are allocated to each counterparty based on the cross-selling contract or other reasonable allocation methods.

49. PROFITABILITY

(%)

Items		December 31, 2023	December 31, 2022
Return on total assets	Before income tax	0.79	0.89
	After income tax	0.69	0.81
Return on net worth	Before income tax	9.46	10.41
	After income tax	8.26	9.42
Profit margin		39.78	45.37

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

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

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

Note 4: Income before (after) income tax means income accumulated in the current year.

Note 5: Return on total assets and return on net worth are expressed on an annual basis.

50. ADDITIONAL DISCLOSURES

a. Information about significant transactions:

- 1) Financing provided: The Bank: Not applicable. For subsidiaries' information: Table 1 (attached).
- 2) Endorsements/guarantees provided: The Bank: Not applicable. For subsidiaries' information: None.
- 3) Marketable securities held: The Bank: Not applicable. For subsidiaries' information: Table 2 (attached).
- 4) Derivative transactions: The Bank: Not applicable. For subsidiaries' information: None.
- 5) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 10% of the issued capital (for subsidiaries acquired and disposed of marketable securities, at cost or price of at least NT\$300 million or 10% of the issued capital): For subsidiaries' information: None. The Bank: Table 3 (attached).
- 6) Acquisition of individual real estate at cost of at least NT\$300 million or 10% of the issued capital: None.
- 7) Disposal of individual real estate at price of at least NT\$300 million or 10% of the issued capital: None.
- 8) Discount on service fees received from related parties amounting to NT\$5 million: None.
- 9) Receivables from related parties amounting to at least NT\$300 million or 10% of the issued capital: Table 4 (attached).
- 10) Sale of non-performing loans: None.
- 11) Financial asset securitization: None.

12) Other significant transactions which may affect the decisions of the consolidated financial statements users: None.

- b. Related information and proportionate share in investees: Table 5 (attached).
- c. Information on investments in Mainland China: Table 6 (attached).
- d. Business relationships and significant transactions among the Bank and its subsidiaries: Table 7 (attached).

51. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance according to the characteristics of the business and profits and losses. The reportable segments of the Bank and its subsidiaries were as follows:

- a. Retail banking segment: The segment mainly provides cash cards, credit cards, personal loans, mortgages, deposits, remittances, wealth management, etc.
- b. Corporate banking segment: The segment mainly provides services such as processing deposits and credit business of large-scale enterprises and small and medium enterprises.
- c. Global markets segment: The segment's services include the distribution of funds, issuance of bank debentures, commodities, equity, handling money market and bond market transactions, foreign exchange handling, and dealing with other financial market-related products (such as derivative instruments) and transactions.
- d. Others: Mainly include the administration segment of head office and summarized of other non-independent segments.

The accounting policies of the operating segments are the same as the accounting policies described in Note 4. The Bank and its subsidiaries use income before income tax as the measurement for segment profit and the basis of performance assessment. The net revenue and income before income tax, assets and liabilities of an operating division, including items directly attributable to an operating segment, are reasonable.

Segment revenues and results

The following is an analysis of the Bank and its subsidiaries' revenue and results of operations by reportable segment:

	Retail Banking Segment	Corporate Banking Segment	Global Markets Segment	Others	Total
<u>For the year ended December 31, 2023</u>					
Interest revenue (expense), net	\$ 5,939,049	\$ 4,670,456	\$ (2,845,995)	\$ (63,540)	\$ 7,699,970
Non-interest profits and gains (loss), net	<u>1,365,209</u>	<u>1,372,173</u>	<u>3,216,896</u>	<u>(89,670)</u>	<u>5,864,608</u>
Net revenue (loss)	7,304,258	6,042,629	370,901	(153,210)	13,564,578
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision	(211,531)	(41,548)	(967)	75,029	(179,017)
Operating expenses	<u>(4,226,638)</u>	<u>(1,534,226)</u>	<u>(634,911)</u>	<u>(809,788)</u>	<u>(7,205,563)</u>
Income (loss) before income tax	2,866,089	4,466,855	(264,977)	(887,969)	6,179,998
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(784,667)</u>	<u>(784,667)</u>
Net income (loss)	<u>\$ 2,866,089</u>	<u>\$ 4,466,855</u>	<u>\$ (264,977)</u>	<u>\$ (1,672,636)</u>	<u>\$ 5,395,331</u>

(Continued)

	Retail Banking Segment	Corporate Banking Segment	Global Markets Segment	Others	Total
<u>For the year ended December 31, 2022</u>					
Interest revenue (expense), net	\$ 5,197,307	\$ 4,100,813	\$ 329,710	\$ (87,111)	\$ 9,540,719
Non-interest profits and gains (loss), net	<u>1,071,163</u>	<u>1,358,921</u>	<u>1,522,999</u>	<u>(235,198)</u>	<u>3,717,885</u>
Net revenue (loss)	6,268,470	5,459,734	1,852,709	(322,309)	13,258,604
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision	66,799	88,096	(119)	54,410	209,186
Operating expenses	<u>(3,970,518)</u>	<u>(1,431,827)</u>	<u>(638,124)</u>	<u>(775,618)</u>	<u>(6,816,087)</u>
Income (loss) before income tax	2,364,751	4,116,003	1,214,466	(1,043,517)	6,651,703
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(636,692)</u>	<u>(636,692)</u>
Net income (loss)	<u>\$ 2,364,751</u>	<u>\$ 4,116,003</u>	<u>\$ 1,214,466</u>	<u>\$ (1,680,209)</u>	<u>\$ 6,015,011</u> (Concluded)

a. Geographical information

The revenue of the Bank and its subsidiaries from external customers by location of operations are detailed below.

	For the Year Ended December 31	
	2023	2022
Taiwan	\$ 13,562,265	\$ 13,256,014
Others	<u>2,313</u>	<u>2,590</u>
	<u>\$ 13,564,578</u>	<u>\$ 13,258,604</u>

b. Information about major customers

No single customer contributed 10% or more to the total revenue of the Bank and its subsidiaries.

KGI BANK CO., LTD. AND SUBSIDIARIES

FINANCINGS PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2023
(In Thousands of New Taiwan Dollars)

No.	Financier	Counterparty	Financial Statement Account	Related-party	Maximum Balance for the Period	Ending Balance	Actual Amount Drawn Down	Interest Rate	Nature of Financing Provided	Transaction Amount	Financing Reasons	Allowance for Bad Debt	Collateral		Financial Limit for Each Borrowing Company (Note)	Limit on Financier's Total Financing (Note)
													Item	Value		
1	CDC Finance & Leasing Corporation	Fu-Tang Land Development Co., Ltd.	Receivables, net	No	\$ 85,000	\$ -	\$ -	3.5%-18%	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 89,679	\$ 358,717

Note: Financing limit is based on the "Loan of Funds Making Guideline". The guideline states that, for each and for all of the borrowing companies, (1) there are business transactions: The total amount should not exceed the amount of business transactions between the two parties and should not exceed 20% of the company's net worth value. The cumulative total balance should not exceed twice the company's net worth value; (2) there is short-term financing: The total amount should not exceed 10% of the company's net worth, and the cumulative total balance should not exceed 40% of the net worth value.

KGI BANK CO., LTD. AND SUBSIDIARIES

**MARKETABLE SECURITIES HELD
DECEMBER 31, 2023
(In Thousands of New Taiwan Dollars)**

Holding Company	Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2023				Note
				Shares/Face Value/Units	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
CDIB Management Consulting Corporation	<u>Stock</u> CDC Finance & Leasing Corporation	Subsidiary	Investments accounted for using equity method	76,704,787	\$ 916,040	100.00	\$ 916,040	
	CDIB International Leasing Corporation	Subsidiary	Investments accounted for using equity method	-	155,428	100.00	155,428	
CDC Finance & Leasing Corporation	<u>Stock</u> Pacific Electric Wire and Cable Co., Ltd.	-	Financial assets at FVTOCI	546,231	9,952	0.07	9,952	

Note 1: The Bank and its subsidiaries recognized the related income or loss of investees as required by regulations.

Note 2: No securities were treated as collateral or pledge.

Note 3: The above companies which are the subsidiaries of the Bank were eliminated from the consolidated financial statements.

KGI BANK CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NTS300 MILLION OR 10% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2023

(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Face Value/Units	Amount	Shares/Face Value/Units	Amount	Shares/Face Value/Units	Price	Carrying Value	Gain (Loss) on Amount	Shares/Face Value/Units	Amount
KGI Bank Co., Ltd.	Stock Suyin KGI Consumer Finance Co., Ltd.	Investments accounted for using equity method	-	-	-	\$ 4,459,742	-	\$ 3,308,376 (Note)	-	\$ -	\$ -	\$ -	-	\$ 7,768,118

Note: Consist of investment of \$2,806,103 thousand, investment gain of \$619,254 thousand, additional paid-in capital that does not subscribe for these newly issued shares of gain of \$2,623 thousand, and exchange differences on translation of financial statements of foreign operations of \$(119,604) thousand.

KGI BANK CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS300 MILLION OR 10% OF THE PAID-IN CAPITAL

DECEMBER 31, 2023

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
KGI Bank Co., Ltd.	KGI Securities Co., Ltd.	Subsidiary of the parent company	\$ 312,426	-	\$ -	-	\$ 312,426	\$ -

KGI BANK CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES

DECEMBER 31, 2023

(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business	Balance as of December 31, 2023			Consolidated Investment (Note 1)				Note
			Percentage of Ownership (%)	Carrying Value	Investment Gain (Loss)	Shares Currently Held	Virtual Shares (Note 2)	Number of Shares	Percentage of Ownership (%)	
<u>Financial industry-related</u>										
Taipei Foreign Exchange Inc.	Taipei City, Taiwan	Foreign exchange trading, financial derivatives trading	0.40	\$ 3,717	\$ 704	80,000	-	80,000	0.40	
Taiwan Futures Exchange	Taipei City, Taiwan	Futures exchange and settlement	0.51	143,375	6,623	33,407,860	-	33,407,860	6.12	
Financial Information Service Co., Ltd.	Taipei City, Taiwan	Telecommunication service; information system service	1.23	197,378	17,628	6,410,160	-	6,410,160	1.23	
Taiwan Asset Management Co., Ltd.	Taipei City, Taiwan	Purchasing for financial institutions' loans	0.57	79,130	3,960	6,000,000	-	6,000,000	0.57	
Sunlight Asset Management Co., Ltd.	Taipei City, Taiwan	Purchasing for financial institutions' loans	5.74	4,238	467	344,476	-	344,476	5.74	
Taiwan Financial Asset Service Company	Taipei City, Taiwan	Other activities auxiliary to financial service activities	2.94	48,641	725	5,000,000	-	5,000,000	2.94	
Taiwan Mobile Payment Co., Ltd.	Taipei City, Taiwan	Communication and IT service	1.00	3,235	-	600,000	-	600,000	1.00	
CDIB Management Consulting Corporation	Taipei City, Taiwan	Management consultancy activities	100.00	1,089,192	73,211	153,171,873	-	153,171,873	100.00	
Euroc III Venture Capital Corp.	Taipei City, Taiwan	Venture capital corporation	5.00	204	-	15,000	-	15,000	5.00	
Next Commercial Bank Co., Ltd.	Taipei City, Taiwan	Commercial banking	5.15	433,962	-	51,499,000	-	51,499,000	5.15	
Suyin KGI Consumer Finance Co., Ltd.	China	Consumer finance service	37.63	7,768,118	619,254	-	-	-	37.63	
<u>Non-financial industry-related</u>										
CDIB & Partners Investment Holding Corp.	Taipei City, Taiwan	General investment corporation	4.95	850,586	93,399	367,200,000	-	367,200,000	33.66	

Note 1: All present shares or virtual shares of the Bank, directors, supervisors, the Bank's managers, and affiliates should be included.

Note 2: (1) virtual shares refer to equity-type securities or derivative financial instrument contracts that are not transferred to common shares. Based on the transaction terms and the holding purposes of the Bank, the two types of instruments are linked to the equity of investees and are recognized as investments accounted, in accordance with Article 74 of the Securities and Exchange Act. (2) The equity securities, such as convertible bonds and warrants, are regulated by Article 11 Paragraph 1 of the Securities and Exchange Act Enforcement Rules. (3) The derivative instrument contracts are those defined under IFRS 9, such as stock options.

Note 3: The above companies which are the subsidiaries of the Bank were eliminated from the consolidated financial statements.

KGI BANK CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
DECEMBER 31, 2023
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2023	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2023	Net Gain of the investee	% Ownership of Direct or Indirect Investment	Investment Gain (Note 2)	Carrying Value as of December 31, 2023	Accumulated Inward Remittance of Earnings as of December 31, 2023
					Outflow	Inflow						
Suyin KGI Consumer Finance Co., Ltd.	Consumer financial service	CNY 4,200,000 thousand	Note 1 (a)	CNY 940,400 thousand	CNY 640,087 thousand	\$ -	CNY 1,580,487 thousand	\$ 1,709,524	37.63	\$ 619,254 (Note 2 (b) 1)	\$ 7,768,118	\$ -
CDIB International Leasing Corporation	Financial leasing and management business consulting	CNY 187,750 thousand	Note 1 (a)	US\$ 30,000 thousand	-	-	US\$ 30,000 thousand	2,384	100.00	2,384 (Note 2 (b) 2)	155,428	-

Accumulated Investment in Mainland China as of December 31, 2023	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investment
\$8,039,446 (US\$261,573 thousand)	US\$261,573 thousand	\$41,531,495

Note 1: The investment types are as follows:

- a. Direct investments.
- b. Reinvested through an investee company in a third area.
- c. Others.

Note 2: In the column "Investment Gain"

- a. If it is in preparation and there is no investment gain, it should state clearly.
- b. Investment gain should be based on the following and should state clearly.
 - 1) Financial statements audited/reviewed by an international CPA firm having a cooperative relation with CPA firms in the ROC;
 - 2) Financial statements audited/reviewed by the CPA firm of the parent company in Taiwan;
 - 3) Other.
- c. If the current profit and loss information of the investee company cannot be obtained, it should state clearly.

Note 3: Exchange rate as of reporting date of the financial statement was used in translating foreign currency.

KGI BANK CO., LTD. AND SUBSIDIARIES

**BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2023
(In Thousands of New Taiwan Dollars)**

No. (Note 1)	Trading Company	Related Party	Flow of Transactions (Note 2)	Content of Transaction (Note 5)			
				Financial Statement Accounts	Amounts	Trading Terms	Transaction Amount/Total Consolidated Revenue or Total Consolidated Assets (Note 3)
0	KGI Bank Co., Ltd.	CDC Finance & Leasing Corporation	1	Deposit and remittances	\$ 48,943	Note 4	0.01
1	CDC Finance & Leasing Corporation	KGI Bank Co., Ltd.	2	Cash and cash equivalents	48,943	Note 4	0.01
0	KGI Bank Co., Ltd.	CDIB Management Consulting Corporation	1	Deposit and remittances	17,450	Note 4	0.00
2	CDIB Management Consulting Corporation	KGI Bank Co., Ltd.	2	Cash and cash equivalents	17,450	Note 4	0.00

Note 1: The consolidated entities are identified in the No. column as follows: Parent company - "0"; subsidiaries - numbered from 1 by company.

Note 2: Transaction flows are as follows: (1) from parent to subsidiary; (2) from subsidiary to parent; and (3) between subsidiaries.

Note 3: The ratio is calculated as follows: For asset and liability accounts - Transaction amount in the ending period/Total consolidated assets; for income and expense accounts - Transaction amount in the annual/Total consolidated revenue.

Note 4: The transaction criteria for related parties are similar to those for third parties.

Note 5: Transactions each amounted to at least NT\$10 million.

Note 6: The above transactions and balances were eliminated from the consolidated financial statements.