

**TAIWAN STOCK EXCHANGE
CORPORATION
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2019 AND 2018**

For the convenience of readers and for information purposes only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Taiwan Stock Exchange Corporation

Opinion

We have audited the accompanying parent company only balance sheets of Taiwan Stock Exchange Corporation (hereinafter referred to as “the Company”) as of December 31, 2019 and 2018, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (refer to *Other matter* section of our report), the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Parent Company Only Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our

audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

In our assessment, the financial position and financial performance of the Company's subsidiary, Taiwan Depository & Clearing Corporation (hereinafter referred to as the "TDCC", recognized as an investment accounted for using the equity method) has a significant impact to the Company's parent company only financial statements (The balance of the Company's investments accounted for using the equity method in the TDCC which amounted to NT\$13,524,205 thousand, constituting 19.17% of the Company's total assets as of December 31, 2019 and the comprehensive income recognized from investments in the TDCC amounted to NT\$1,357,941 thousand, constituting 40.53% of the Company's total comprehensive income for the year then ended). Therefore, the Company's key audit matters incorporated the TDCC's key audit matters as follows: Financial assets - measurement of fair value of unlisted stocks without an active market, accuracy of operating revenue and existence and classification of cash in banks. Refer to Notes 4(13) and 6(8) for the accounting policies on and details of investments accounted for using the equity method.

Financial assets-measurement of fair value of unlisted stocks without an active market

Description

Refer to Notes 4(7) and 6(3) for the accounting policy on and the details of unlisted stocks without an active market recognized as financial assets at fair value through other comprehensive income, and Notes 5 and 12(3) for the accounting estimates and assumption uncertainty in relation to unlisted stocks without an active market.

The Company and the TDCC invested in stocks of Taiwan Futures Exchange Corporation and Taipei Financial Center Corporation which are financial instruments without an active market. Valuation techniques have been applied to determine the fair value of abovementioned stocks. These valuation techniques use significant unobservable inputs, including a compound dividend growth rate and discount rate, which involve high uncertainty and subjective judgements by management, and could have a material impact on the fair value measurement. Therefore, we consider the fair value measurement of the stocks of Taiwan Futures Exchange Corporation and Taipei Financial Center a key audit matter.

How our audit addressed the matter

Our audit procedures on the above key audit matter included assessing the appropriateness of the significant assumptions used in applying the valuation techniques:

1. Comparing the compound dividend growth rate with historical data and economic forecasts.
2. For the discount rate, examining the cost of capital assumptions of the related cash-generating units, and comparing the return on assets ratio with similar companies in the market.
3. Examining the inputs and calculation formula of the valuation models, and reviewing information and documents to evaluate the relevance and reliability of the data source.

Accuracy of operating revenue

Description

Refer to Note 4(24) for the accounting policy on revenue recognition and Note 6(22) for the details of “Trading fees”. The Company and the TDCC have various types of operating revenue, consisting of various fees, such as trading, securities settlement and account maintenance services, listing, securities recording services and securities settlement services. Each type of revenue is recognized based on the pricing method in accordance with the related regulations or terms of the contracts. As the amount of the abovementioned operating revenue of the Company and the TDCC is significant, which affected both the Company’s operating revenue and comprehensive income accounted for using the equity method, we consider the accuracy of operating revenue a key audit matter.

How our audit addressed the matter

Our audit procedures on the above key audit matter included:

1. Interviewing management and understanding the operations and industry of the Company, evaluating the internal control workflow of operating revenues, understanding the information environment used by management to calculate the related revenue, and testing the effectiveness of significant internal controls.
2. Selecting samples to verify the pricing method used by management to calculate revenue and ascertaining whether it is in compliance with the related regulations or underlying contracts.
3. Selecting samples to examine the accuracy of the amount of each type of operating revenue.

Existence and classification of cash in banks

Description

Refer to Note 4(5) for the accounting policy on cash equivalents and Notes 6(1)(7)(6) for the details of “cash and cash equivalents”, “other current financial assets”, “settlement and clearing fund” and “compensation reserve”. As of December 31, 2019, the Company’s cash in banks was recognized as cash and cash equivalents amounting to NT\$6,225,488 thousand, other current financial assets amounting to NT\$18,194,060 thousand, settlement and clearing fund amounting to NT\$3,427,484 thousand and compensation reserve amounting to NT\$9,186,575 thousand.

The Company’s and the TDCC’s cash in banks is recognized as cash and cash equivalents, other current financial assets (time deposits with an original maturity date of more than three months), the settlement and clearing fund in which each securities company appropriates and deposits a certain amount to the Company in accordance with the related regulations and the compensation reserve (appropriated and deposited in accordance with the “Securities and Exchange Act” and the related regulations).

As the balance of cash in banks is significant to the balance sheets and affects the abovementioned items and investments accounted for using the equity method, we consider the existence and classification of cash and cash equivalents a key audit matter.

How our audit addressed the matter

Our audit procedures on the above key audit matter included:

1. Interviewing management, understanding the internal control workflow and testing the effectiveness of significant internal controls.
2. Sending out confirmations to financial institutions to confirm the existence and accuracy of financial assets and to verify the rights and obligations of the Company to the financial assets.
3. Checking whether cash in banks held for specific purposes or with certain limitations have been reclassified to appropriate account items.
4. Performing counts of time deposits and verifying its details against accounting records.
5. Selecting samples to perform tests of material cash collection and disbursement transactions to confirm whether it was for operations purpose and to determine whether there were any significant unusual transactions.

Other matter

We did not audit the financial statements of certain investees accounted for using the equity method for the years ended December 31, 2019 and 2018, the balances of which amounted to NT\$13,685,196 thousand and NT\$12,952,725 thousand, constituting 19.36% and 13.45% of total assets as of December 31, 2019 and 2018, respectively, and the share of profit (including share of other comprehensive income) of these investments, which were accounted for using the equity method, amounted to NT\$1,380,787 thousand and NT\$1,392,572 thousand, constituting 41.21% and 34.78% of total comprehensive income for the years then ended, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other auditors.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including supervisors, are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement if 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 ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only 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 controls.
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 Company's internal controls.
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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial

statements. We are responsible for the direction, supervision and performance of the 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 controls that we identify during our audit.

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

PricewaterhouseCoopers, Taiwan

March 24, 2020

The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

| Assets | Notes | December 31, 2019 | | December 31, 2018 | |
|---|------------|----------------------|------------|----------------------|------------|
| | | AMOUNT | % | AMOUNT | % |
| Current Assets | | | | | |
| Cash and cash equivalents | 6(1) | \$ 6,225,488 | 9 | \$ 31,578,752 | 33 |
| Current financial assets at fair value through profit or loss | 6(2) | 1,939,850 | 3 | 2,414,701 | 2 |
| Current financial assets at amortized cost | 6(4) | 1,372,339 | 2 | 1,001,634 | 1 |
| Accounts receivable, net | 6(5) and 7 | 416,714 | - | 337,590 | - |
| Other receivables | | 54,289 | - | 50,568 | - |
| Other current financial assets | 6(1) | 18,194,060 | 26 | 17,240,267 | 18 |
| Settlement and clearing debit items | 6(7) | 7,710,487 | 11 | 10,245,195 | 11 |
| Other current assets | | 3,280 | - | 3,480 | - |
| Total Current Assets | | <u>35,916,507</u> | <u>51</u> | <u>62,872,187</u> | <u>65</u> |
| Non-current Assets | | | | | |
| Non-current financial assets at fair value through other comprehensive income | 6(3) | 3,824,315 | 5 | 3,929,251 | 4 |
| Non-current financial assets at amortized cost | 6(4) | 2,675,862 | 4 | 3,256,107 | 3 |
| Compensation reserve | 6(6) | 9,186,575 | 13 | 9,037,351 | 9 |
| Investments accounted for using the equity method | | 13,822,221 | 20 | 13,121,480 | 14 |
| Property and equipment | 6(9) | 2,701,005 | 4 | 2,931,164 | 3 |
| Right-of-use assets | 6(10) | 1,371,603 | 2 | - | - |
| Investment properties, net | 6(11) | 265,029 | - | 268,227 | - |
| Intangible assets | 6(12) | 335,530 | - | 431,956 | 1 |
| Deferred income tax assets | 6(27) | 40,044 | - | 16,280 | - |
| Other non-current assets | 6(13) | 428,028 | 1 | 416,932 | 1 |
| Total Non-current Assets | | <u>34,650,212</u> | <u>49</u> | <u>33,408,748</u> | <u>35</u> |
| TOTAL ASSETS | | <u>\$ 70,566,719</u> | <u>100</u> | <u>\$ 96,280,935</u> | <u>100</u> |

(Continued)

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

| Liabilities and Equity | Notes | December 31, 2019 | | December 31, 2018 | |
|---|-------|----------------------|------------|----------------------|------------|
| | | AMOUNT | % | AMOUNT | % |
| Current Liabilities | | | | | |
| Securities lending and borrowing collateral payable | 6(14) | \$ 525,525 | 1 | \$ 28,206,367 | 29 |
| Accrued expenses | | 1,148,825 | 2 | 1,011,939 | 1 |
| Current income tax liabilities | | 211,487 | - | 391,142 | 1 |
| Current lease liabilities | 6(10) | 169,823 | - | - | - |
| Settlement and clearing credit items | 6(7) | 7,710,487 | 11 | 10,245,195 | 11 |
| Other current liabilities | 6(15) | 3,372,800 | 5 | 1,885,494 | 2 |
| Total Current Liabilities | | <u>13,138,947</u> | <u>19</u> | <u>41,740,137</u> | <u>44</u> |
| Non-current Liabilities | | | | | |
| Deferred income tax liabilities | 6(27) | 44,599 | - | 44,599 | - |
| Non-current lease liabilities | 6(10) | 1,277,282 | 2 | - | - |
| Net defined benefit liability | 6(16) | 146,643 | - | 172,625 | - |
| Guarantee deposits received | | 78,438 | - | 58,709 | - |
| Total Non-current Liabilities | | <u>1,546,962</u> | <u>2</u> | <u>275,933</u> | <u>-</u> |
| Total Liabilities | | <u>14,685,909</u> | <u>21</u> | <u>42,016,070</u> | <u>44</u> |
| Equity | | | | | |
| Share Capital | | | | | |
| Share capital-common stock | 6(17) | 7,285,627 | 10 | 6,938,692 | 7 |
| Capital Surplus | | | | | |
| Capital surplus | 6(18) | 2,179 | - | 1,977 | - |
| Retained Earnings | | | | | |
| Legal reserve | 6(19) | 5,834,044 | 8 | 5,480,537 | 6 |
| Special reserve | 6(19) | 35,913,080 | 51 | 34,283,412 | 35 |
| Unappropriated retained earnings | 6(20) | 3,358,349 | 5 | 4,065,842 | 4 |
| Other Equity Interest | | | | | |
| Other equity interest | 6(21) | 3,487,531 | 5 | 3,494,405 | 4 |
| Total Equity | | <u>55,880,810</u> | <u>79</u> | <u>54,264,865</u> | <u>56</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>\$ 70,566,719</u> | <u>100</u> | <u>\$ 96,280,935</u> | <u>100</u> |

The accompanying notes are an integral part of these parent company only financial statements.

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share)

| Items | Notes | Year ended December 31 | | | |
|--|-------------|------------------------|--------------|---------------------|--------------|
| | | 2019 | | 2018 | |
| | | AMOUNT | % | AMOUNT | % |
| Operating Revenue | 6(22) and 7 | | | | |
| Trading fees | | \$ 2,995,978 | 52 | \$ 3,322,097 | 54 |
| Listing fees | | 1,391,698 | 24 | 1,378,042 | 22 |
| Data processing fees | | 410,312 | 7 | 361,195 | 6 |
| Royalty fees | | 310,044 | 5 | 366,537 | 6 |
| Information processing fees | | 204,834 | 3 | 205,122 | 3 |
| Securities lending and borrowing service fees | | 176,721 | 3 | 216,722 | 4 |
| Others | | 324,461 | 6 | 307,295 | 5 |
| Total Operating Revenue | | <u>5,814,048</u> | <u>100</u> | <u>6,157,010</u> | <u>100</u> |
| Operating Expenses | 6(23) | | | | |
| Personnel | | (1,484,132) | (25) | (1,420,010) | (23) |
| General and administrative | | (2,737,024) | (47) | (2,450,454) | (40) |
| Total Operating Expenses | | <u>(4,221,156)</u> | <u>(72)</u> | <u>(3,870,464)</u> | <u>(63)</u> |
| Operating Profit | | <u>1,592,892</u> | <u>28</u> | <u>2,286,546</u> | <u>37</u> |
| Non-operating Income and Expenses | | | | | |
| Share of profit of subsidiaries and associates accounted for using the equity method | | 1,306,663 | 22 | 1,351,770 | 22 |
| Interest income | | 320,868 | 6 | 300,941 | 5 |
| Other income | 6(24) | 293,547 | 5 | 269,256 | 4 |
| Other gains and losses | 6(25) | 271,539 | 5 | (186,351) | (3) |
| Finance costs | 6(26) | (32,865) | (1) | (1,751) | - |
| Total Non-operating Income and Expenses | | <u>2,159,752</u> | <u>37</u> | <u>1,733,865</u> | <u>28</u> |
| Profit before income tax | | <u>3,752,644</u> | <u>65</u> | <u>4,020,411</u> | <u>65</u> |
| Income tax expense | 6(27) | (377,584) | (7) | (485,340) | (8) |
| Profit for the year | | <u>\$ 3,375,060</u> | <u>58</u> | <u>\$ 3,535,071</u> | <u>57</u> |
| Other comprehensive income, net | | | | | |
| Components of other comprehensive income (loss) that will not be reclassified to profit or loss | | | | | |
| Losses on remeasurements of defined benefit plans | 6(16) | (\$ 5,227) | - | (\$ 22,850) | - |
| Unrealized (losses) gains from investments in equity instruments measured at fair value through other comprehensive income | 6(3) | (104,936) | (2) | 433,319 | 7 |
| Share of other comprehensive income of subsidiaries and associates accounted for using the equity method | | 85,519 | 2 | 58,710 | 1 |
| Other comprehensive income, net | | <u>(\$ 24,644)</u> | <u>-</u> | <u>\$ 469,179</u> | <u>8</u> |
| Total comprehensive income for the year | | <u>\$ 3,350,416</u> | <u>58</u> | <u>\$ 4,004,250</u> | <u>65</u> |
| Earnings per share (in New Taiwan dollars) | | | | | |
| Basic earnings per share | 6(28) | <u>\$ 4.63</u> | | <u>\$ 4.85</u> | |

The accompanying notes are an integral part of these parent company only financial statements.

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

| | Notes | Share capital- common stock | Capital surplus | Retained Earnings | | Unappropriated retained earnings | Other equity interest | Total equity |
|---|-----------|--------------------------------|-----------------|---------------------|----------------------|-------------------------------------|--------------------------|----------------------|
| | | | | Legal reserve | Special reserve | | | |
| <u>Year ended December 31, 2018</u> | | | | | | | | |
| Balance at January 1, 2018 | | \$ 6,938,692 | \$ 2,196 | \$ 5,195,112 | \$ 33,261,592 | \$ 3,050,933 | \$ 3,557,991 | \$ 52,006,516 |
| Effects of retrospective application | | - | - | - | - | 552,222 | (559,778) | (7,556) |
| Balance at January 1, 2018 after adjustments | | <u>6,938,692</u> | <u>2,196</u> | <u>5,195,112</u> | <u>33,261,592</u> | <u>3,603,155</u> | <u>2,998,213</u> | <u>51,998,960</u> |
| Profit for the year | | - | - | - | - | 3,535,071 | - | 3,535,071 |
| Other comprehensive income (loss) for the year | 6(20)(21) | - | - | - | - | (27,013) | 496,192 | 469,179 |
| Total comprehensive income for the year | | - | - | - | - | <u>3,508,058</u> | <u>496,192</u> | <u>4,004,250</u> |
| Appropriations of 2017 retained earnings: | | | | | | | | |
| Legal reserve | 6(20) | - | - | 285,425 | - | (285,425) | - | - |
| Special reserve | 6(20) | - | - | - | 1,021,820 | (1,021,820) | - | - |
| Cash dividends | 6(20) | - | - | - | - | (1,734,673) | - | (1,734,673) |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | | - | (437) | - | - | (3,453) | - | (3,890) |
| Capital surplus, other adjustments | | - | 218 | - | - | - | - | 218 |
| Balance at December 31, 2018 | | <u>\$ 6,938,692</u> | <u>\$ 1,977</u> | <u>\$ 5,480,537</u> | <u>\$ 34,283,412</u> | <u>\$ 4,065,842</u> | <u>\$ 3,494,405</u> | <u>\$ 54,264,865</u> |
| <u>Year ended December 31, 2019</u> | | | | | | | | |
| Balance at January 1, 2019 | | \$ 6,938,692 | \$ 1,977 | \$ 5,480,537 | \$ 34,283,412 | \$ 4,065,842 | \$ 3,494,405 | \$ 54,264,865 |
| Profit for the year | | - | - | - | - | 3,375,060 | - | 3,375,060 |
| Other comprehensive loss for the year | 6(20)(21) | - | - | - | - | (17,770) | (6,874) | (24,644) |
| Total comprehensive income (loss) for the year | | - | - | - | - | <u>3,357,290</u> | <u>(6,874)</u> | <u>3,350,416</u> |
| Appropriations of 2018 retained earnings: | | | | | | | | |
| Legal reserve | 6(20) | - | - | 353,507 | - | (353,507) | - | - |
| Special reserve | 6(20) | - | - | - | 1,629,668 | (1,629,668) | - | - |
| Cash dividends | 6(20) | - | - | - | - | (1,734,673) | - | (1,734,673) |
| Stock dividends | 6(20) | 346,935 | - | - | - | (346,935) | - | - |
| Capital surplus, other adjustments | | - | 202 | - | - | - | - | 202 |
| Balance at December 31, 2019 | | <u>\$ 7,285,627</u> | <u>\$ 2,179</u> | <u>\$ 5,834,044</u> | <u>\$ 35,913,080</u> | <u>\$ 3,358,349</u> | <u>\$ 3,487,531</u> | <u>\$ 55,880,810</u> |

The accompanying notes are an integral part of these parent company only financial statements.

TAIWAN STOCK EXCHANGE CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

| | Notes | Year ended December 31, | |
|--|-------|-------------------------|---------------|
| | | 2019 | 2018 |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | |
| Profit before tax | | \$ 3,752,644 | \$ 4,020,411 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| (Gains) losses on financial assets at fair value through profit or loss | 6(25) | (364,214) | 111,968 |
| Interest income | | (320,868) | (300,941) |
| Dividend income | 6(24) | (181,765) | (175,710) |
| Finance costs | 6(26) | 32,865 | 1,751 |
| Depreciation | 6(23) | 567,134 | 323,351 |
| Amortization | 6(23) | 171,445 | 143,379 |
| Differences between investment income from investments accounted for using the equity method and current cash dividends received | | (615,222) | (735,320) |
| Gains on reversal of expected credit impairment loss | | (978) | (1,948) |
| Losses on disposal of property and equipment | | - | 21 |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Accounts receivable, net | | (79,293) | 38,933 |
| Other receivables | | - | 12 |
| Other current assets | | 200 | 1,111 |
| Compensation reserve | | (149,224) | (175,022) |
| Changes in operating liabilities | | | |
| Securities lending and borrowing collateral payable | | (27,680,842) | 14,690,712 |
| Accrued expenses | | 137,651 | (82,817) |
| Other current liabilities | | 1,487,306 | 504,290 |
| Net defined benefit liability | | (31,209) | (28,765) |
| Cash (outflow) inflow generated from operations | | (23,274,370) | 18,335,416 |
| Interest received | | 317,147 | 308,043 |
| Interest paid | | (33,429) | (2,554) |
| Income tax paid | | (581,003) | (237,631) |
| Net cash flows (used in) from operating activities | | (23,571,655) | 18,403,274 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Net decrease (increase) in financial assets at fair value through profit or loss | | 839,065 | (363,575) |
| Net decrease in financial assets at amortized cost | | 210,687 | 1,565,336 |
| Increase in other current financial assets | | (953,794) | (2,990,517) |
| Acquisition of property, equipment and intangible assets | 6(29) | (168,309) | (413,995) |
| Increase in operations guarantee deposits | | (17,400) | - |
| Decrease (increase) in refundable deposits | | 405 | (8) |
| Dividends received | | 181,765 | 175,710 |
| Net cash flows from (used in) investing activities | | 92,419 | (2,027,049) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Cash dividends paid | | (1,734,673) | (1,734,673) |
| Increase (decrease) in guarantee deposits received | | 19,729 | (4,509) |
| Repayments of the principal portion of lease liabilities | | (159,084) | - |
| Net cash flows used in financing activities | | (1,874,028) | (1,739,182) |
| Net (decrease) increase in cash and cash equivalents | | (25,353,264) | 14,637,043 |
| Cash and cash equivalents at the beginning of the year | 6(1) | 31,578,752 | 16,941,709 |
| Cash and cash equivalents at the end of the year | 6(1) | \$ 6,225,488 | \$ 31,578,752 |

The accompanying notes are an integral part of these parent company only financial statements.

TAIWAN STOCK EXCHANGE CORPORATION
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

Taiwan Stock Exchange Corporation (the Company) was established in December 1961. The main activities of the Company are providing location and facilities for trading and settlement of securities, and other services as approved by the Competent Authority.

On October 11, 2011, the Competent Authority authorized the Company to continue existing in its current corporate form for the next ten years until a change into a membership-type organization is approved.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These parent company only financial statements were authorized for issuance by the Board of Directors on March 24, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (hereinafter referred to as "IFRS") as endorsed by the Financial Supervisory Commission (hereinafter referred to as "FSC")

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date by International Accounting Standards Board (hereinafter referred to as "IASB")</u> |
|--|---|
| Amendments to IFRS 9, "Prepayment features with negative compensation" | January 1, 2019 |
| IFRS 16, "Leases" | January 1, 2019 |
| Amendments to IAS 19, "Plan amendment, curtailment or settlement" | January 1, 2019 |
| Amendments to IAS 28, "Long-term interests in associates and joint ventures" | January 1, 2019 |
| IFRIC 23, "Uncertainty over income tax treatments" | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact on the Company's financial position and financial performance based on the Company's assessment.

IFRS 16, "Leases"

A. IFRS 16, "Leases", replaces IAS 17, "Leases" and related interpretations and SICs. The standard requires lessees to recognize a "right-of-use asset" and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be

provided by lessors.

- B. The Company has elected to apply IFRS 16 by not restating the comparative information (hereinafter referred to as the “modified retrospective approach”) when applying the International Financial Reporting Standards, International Accounting Standards (hereinafter referred to as “IAS”), IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively hereinafter referred to as the “IFRSs”) effective in 2019. Accordingly, the Company increased “right-of-use asset” by \$1,606,846 and increased “lease liability” by \$1,606,846 with respect to the lease contracts of lessees on January 1, 2019.
- C. The Company used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- D. The Company calculated the present value of lease liabilities by using the incremental borrowing interest rate of 2.1%.
- E. The Company recognized lease liabilities which had previously been classified as “operating leases” under the principles of IAS 17, “Leases”. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognized as of January 1, 2019, is as follows:

| | |
|---|---------------------|
| Operating lease commitments disclosed by applying IAS 17 as of December 31, 2018 | \$ 391,749 |
| Add: Adjustments as a result of a different treatment of extension and termination options | <u>1,345,300</u> |
| Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019 | 1,737,049 |
| Incremental borrowing interest rate at the date of initial application | <u>2.1%</u> |
| Lease liabilities recognized as of January 1, 2019 by applying IFRS 16 | <u>\$ 1,606,846</u> |

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

| New Standards, Interpretations and Amendments | Effective date by the IASB |
|---|----------------------------|
| Amendments to IAS 1 and IAS 8, “Disclosure Initiative-Definition of Material” | January 1, 2020 |
| Amendments to IFRS 3, “Definition of a business” | January 1, 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7, “Interest rate benchmark reform” | January 1, 2020 |

The above standards and interpretations have no significant impact on the Company’s financial position and financial performance based on the Company’s assessment.

(3) IFRSs issued by the IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by the IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| New Standards, Interpretations and Amendments | Effective date by the IASB |
|---|------------------------------|
| Amendments to IFRS 10 and IAS 28, “Sale or contribution of assets between an investor and its associate or joint venture” | To be determined by the IASB |
| IFRS 17, “Insurance contracts” | January 1, 2021 |
| Amendments to IAS 1, “Classification of liabilities as current or non-current” | January 1, 2022 |

The above standards and interpretations have no significant impact on the Company’s financial position and financial performance based on the Company’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these parent company only financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

These parent company only financial statements of the Company have been prepared in accordance with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchange”. However, the Company complies with the regulations issued by the FSC if different from the aforementioned standards.

(2) Basis of preparation

A. Except for the following items, the parent company only financial statements have been prepared under the historical cost convention:

- (a) Financial assets at fair value through profit or loss;
- (b) Financial assets at fair value through other comprehensive income; and
- (c) Defined benefit liability recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of

applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

The parent company only financial statements are presented in New Taiwan dollars, which is the functional and presentation currency of the Company.

Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss. All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within "other gains and losses".

(4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date; and
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date; and
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are

recognized and derecognized using settlement date accounting.

- C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
- D. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be reliably measured.

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using settlement date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:
 - (a) The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be reliably measured.
 - (b) Except for the recognition of impairment loss, interest income and gains or losses on foreign exchange which are recognized in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

(8) Financial assets at amortized cost

- A. Financial assets at amortized cost are those that meet all of the following criteria:
 - (a) The objective of the Company's business model is achieved by collecting contractual cash flows; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortized cost are recognized and derecognized using settlement date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective

interest method. A gain or loss is recognized in profit or loss when the asset is derecognized or impaired.

(9) Accounts receivable

Accounts receivable entitle the Company to a legal right to receive consideration in exchange for services rendered. The short-term accounts receivable without bearing interest are subsequently measured at the initial invoice amounts as the effect of discounting is immaterial.

(10) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortized cost including accounts receivable or contract assets that have a significant financing component, at each reporting date, the Company recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognize the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognizes the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(12) Leasing arrangements (lessor)-operating leases

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(13) Investments accounted for using the equity method

A. Subsidiaries are all entities controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

B. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income.

D. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

E. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income.

F. Pursuant to the “Regulations Governing the Preparation of Financial Reports by Company-Type Stock Exchanges”, profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall be equal to the allocations of profit or loss during the period and other comprehensive income attributable to owners of the parent company presented in the consolidated financial statements. Owners’ equity in the parent company only financial statements shall be equal to the equity attributable to owners of the parent company presented in the consolidated financial statements.

(14) Property and equipment

- A. Property and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Land is not depreciated and computer equipment is depreciated using the fixed percentage on declining balance method. Other property and equipment apply the cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- C. The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets’ residual values and useful lives differ from previous estimates or the patterns of consumption of the assets’ future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, from the date of the change.

(15) Leasing arrangements (lessee)-right-of-use assets/lease liabilities

Effective 2019

- A. Except for payments for short-term leases or leases of low-value assets which are recognized as expenses on a straight-line basis over the lease term, the Company recognizes right-of-use assets and corresponding lease liabilities for all leases at the date at which the leased asset is available for use by the Company.
- B. Lease liabilities are measured at the net present value of the remaining fixed lease payments at the commencement date, discounted using the incremental borrowing interest rate.
- C. Subsequently, lease liabilities are measured at amortized cost using the interest method, with interest expense recognized over the lease terms. Lease liabilities are remeasured with a corresponding adjustment to the right-of-use assets when there are changes in the lease terms or in future lease payments and such changes do not arise from contract modifications.
- D. At the commencement date, right-of-use assets are recognized at cost which comprises the amount of the initial measurement of lease liabilities.
- E. Right-of-use assets are measured subsequently using the cost model and are depreciated from the commencement date to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. When lease liabilities are remeasured, the amount of remeasurement is

recognized as an adjustment to the right-of-use assets.

(16) Leasing arrangements (lessee)-operating leases

Prior to 2019

Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(17) Investment properties

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis.

(18) Intangible assets

Computer software is stated at cost and amortized on a straight-line basis.

(19) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(20) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is either discharged, cancelled or expires.

(21) Pensions

A. Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expense when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

B. Defined benefit plans

(a) Net obligation under defined benefit plans is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

(b) Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded in retained earnings.

(22) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or

loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

- B. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the shareholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only balance sheet.
- D. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(23) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(24) Revenue recognition

The Company allocates the transaction price to each performance obligation when the performance obligations of customer contracts are identifiable. Revenue is recognized when the performance obligation is satisfied, and is classified as service revenue, dividend income, interest income and rental income.

A. Service revenue

Service revenue is recognized at the end of the month when the service was provided.

B. Dividend income and interest income

The Company recognizes the dividend income arising from investments when the shareholders' right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

Interest income arising from financial assets is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. Interest income is calculated over time based on the outstanding principal discounted by using the applicable effective interest rate, and is accounted for under the accrual basis. The effective interest rate is the rate used to discount the estimated cash that will be received during the financial assets' expected lives to be exactly equal to the net carrying amount of such assets at initial recognition.

C. Rental income

Rental income arising from operating leases is recognized in profit or loss on a straight-line basis over the lease terms.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. The above information is addressed below:

Financial assets-fair value measurement of unlisted stocks without an active market

The fair value of unlisted stocks held by the Company that are not traded in an active market is determined considering related financial information and inputs used in applying the valuation techniques. Any change in these judgements and estimates will impact the fair value measurement of these unlisted stocks.

As of December 31, 2019, information on the Company's unlisted stocks without an active market is provided in Note 6(3).

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Checking accounts and demand deposits | \$ 1,392,819 | \$ 27,671,287 |
| Cash equivalents | | |
| Time deposits with initial maturity term within three months | - | 150,000 |
| Commercial papers | 4,832,669 | 3,757,465 |
| | <u>\$ 6,225,488</u> | <u>\$ 31,578,752</u> |

A. As of December 31, 2019 and 2018, the time deposits with initial maturity term of more than three months were \$18,194,060 and \$17,240,267, respectively, and were shown as "other current financial assets".

B. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

C. The details of cash and cash equivalents pledged to others are provided in Note 8.

(2) Financial assets at fair value through profit or loss

| <u>Items</u> | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Current items: | | |
| Financial assets mandatorily measured at fair value through profit or loss | | |
| Beneficiary certificates | <u>\$ 1,939,850</u> | <u>\$ 2,414,701</u> |

Amounts recognized in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| <u>Financial assets at fair value through profit or loss</u> | | |
| Fair value change recognized in profit or loss | \$ 364,214 | (\$ 111,968) |
| Dividend income recognized in profit or loss | <u>14,476</u> | <u>8,846</u> |
| | <u>\$ 378,690</u> | <u>(\$ 103,122)</u> |

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

| <u>Items</u> | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|----------------------|--------------------------|--------------------------|
| Non-current items: | | |
| Equity instruments | | |
| Unlisted stocks | \$ 1,238,528 | \$ 1,238,528 |
| Valuation adjustment | <u>2,585,787</u> | <u>2,690,723</u> |
| | <u>\$ 3,824,315</u> | <u>\$ 3,929,251</u> |

Amounts recognized in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|-------------------|
| | <u>2019</u> | <u>2018</u> |
| <u>Equity instruments at fair value through other comprehensive income</u> | | |
| Fair value change recognized in other comprehensive income | (\$ <u>104,936</u>) | <u>\$ 433,319</u> |
| Dividend income recognized in profit or loss | <u>\$ 167,289</u> | <u>\$ 166,864</u> |

(4) Financial assets at amortized cost

| <u>Items</u> | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--------------------|--------------------------|--------------------------|
| Current items: | | |
| Financial bonds | \$ 1,372,339 | \$ 800,627 |
| Corporate bonds | <u>-</u> | <u>201,007</u> |
| | <u>\$ 1,372,339</u> | <u>\$ 1,001,634</u> |
| Non-current items: | | |
| Financial bonds | \$ 2,320,315 | \$ 2,899,014 |
| Corporate bonds | 302,645 | 303,868 |
| Government bonds | <u>52,902</u> | <u>53,225</u> |
| | <u>\$ 2,675,862</u> | <u>\$ 3,256,107</u> |

A. Amounts recognized in profit or loss in relation to financial assets at amortized cost are listed below:

| | Years ended December 31, | |
|---------------------------------|--------------------------|------------------|
| | 2019 | 2018 |
| Interest income | \$ 63,536 | \$ 78,882 |
| Gains on reversal of impairment | 1,147 | 948 |
| | <u>\$ 64,683</u> | <u>\$ 79,830</u> |

B. Information relating to credit risk of financial assets at amortized cost is provided in Note 12(2).

(5) Accounts receivable

| | December 31, 2019 | December 31, 2018 |
|---------------------------------------|-------------------|-------------------|
| Accounts receivable | \$ 416,883 | \$ 337,590 |
| Less: Allowance for doubtful accounts | (169) | - |
| | <u>\$ 416,714</u> | <u>\$ 337,590</u> |

A. The Company does not hold any collateral on accounts receivable.

B. Aging analysis of accounts receivable and information relating to credit risk are provided in Note 12(2).

(6) Compensation reserve

A. The Company, as required by the “Securities and Exchange Act” and the related regulations, deposited \$50 million in the beginning and set aside at a certain percentage of trading fees within 15 days at the end of each quarter to the compensation reserve (Debit: compensation reserve; Credit: cash), until the accumulated amount of the compensation reserve is equal to or greater than the total amount of the Company’s capital. In addition, pursuant to the regulations of the Competent Authority No. 00480 bulletin (1986), the Company recognized an equivalent amount as provision for the compensation reserve beginning 1986 (Debit: compensation reserve expense; Credit: provision for the compensation reserve). Moreover, following Article 6 of the “Taiwan Stock Exchange Corporation Securities Borrowing and Lending Rules”, and the regulations of the Competent Authority No. 0920129756 bulletin (2003), the Company sets aside 3% of securities lending and borrowing service fees towards the compensation reserve.

B. As the accumulated amount of the compensation reserve already exceeded the total amount of the Company’s capital, the Company has ceased setting aside at a certain percentage of trading fees to the compensation reserve and the provision for the compensation reserve since November 2006. However, in accordance with the Competent Authority No. 0980026755 bulletin (June 2009), the Company began setting aside 5% of trading fees to the compensation reserve within 15 days after the end of every quarter since January 1, 2010.

C. The Company began preparing the financial statements in accordance with IFRSs for the first time from January 1, 2013. Pursuant to the requirements of the regulatory authority, the balance of the provision for the compensation reserve was reclassified to “special reserve” upon transition. The special reserve cannot be used for other purposes except to cover accumulated deficit or for other uses approved by the FSC. In addition, the Company ceased to set aside the provision for the

compensation reserve from October 30, 2012. However, the Company still has to set aside 5% of trading fees to the compensation reserve within 15 days after the end of every quarter since January 1, 2010, in accordance with the Competent Authority No. 0980026755 bulletin (June 2009).

- D. Under the regulations of the Competent Authority, if losses occur when the Company pays the settlement on behalf of others under the requirements of Article 153 of the “Securities and Exchange Act”, the losses will be directly offset against the abovementioned special reserve and no expense will be recognized, provided the matter is first reported to the Competent Authority and its approval is subsequently obtained.
- E. Beginning September 1996, the Company was required to establish a special clearing fund to be used in settling defaults by securities companies in accordance with the “Taiwan Stock Exchange Corporation Rules” for the Administration of the Joint Responsibility System Clearing and Settlement Fund. Therefore, the Company established the special clearing fund with an initial funding of \$1 billion. The Company has set aside to the special clearing fund on a continuing basis any portion in excess of the balance of \$1 billion of the Company’s compensation reserve. The special clearing fund in excess of the initial funding has an upper limit of \$2 billion. As of December 31, 2019 and 2018, the balance of the special clearing fund was \$3 billion.
- F. The movements of the compensation reserve are as follows:

| | Years ended December 31, | |
|---|--------------------------|---------------------|
| | 2019 | 2018 |
| Balance, beginning of year (Note) | \$ 6,037,351 | \$ 5,862,329 |
| Contributions | | |
| 5% of trading fees | 143,800 | 168,787 |
| 3% of securities lending and borrowing service fees | 5,424 | 6,235 |
| | <u>6,186,575</u> | <u>6,037,351</u> |
| Special clearing fund | <u>3,000,000</u> | <u>3,000,000</u> |
| Balance, end of year | <u>\$ 9,186,575</u> | <u>\$ 9,037,351</u> |

Note: The beginning balance of the special clearing fund was \$3 billion, and the balance of the compensation reserve was \$9,037,351 and \$8,862,329 as of January 1, 2019 and 2018, respectively.

- G. As of December 31, 2019 and 2018, the compensation reserve was invested entirely in time deposits.

(7) Settlement and clearing debit (credit) items

As required by the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges”, settlement and clearing debit (credit) items include settlement and clearing fund and settlement consideration, and the related descriptions are as follows:

A. Settlement and clearing fund

- (a) As required by the Competent Authority, securities companies make cash deposits to the

settlement and clearing fund, which is administrated by a special management committee of the joint responsibility system clearing and settlement fund (the “committee”) and deposited in the name of the Company, and this fund is distinguished from the other funds owned by the Company. Under the “Securities and Exchange Act”, the settlement and clearing fund can only be (a) invested in government bonds; (b) deposited in banks or in the postal savings system; or (c) invested in other instruments as approved by the Competent Authority. The income on the settlement and clearing fund, after deducting related expenses and taxes, is distributed to the securities companies every six months.

- (b) For the price difference and all other fees arising from and in connection with the handling of any default of settlement obligations by a securities company, deductions are first made against the portion of the contributions made by the defaulting securities company to the settlement and clearing fund and any undistributed income thereon. When that is insufficient, compensation on behalf of the defaulting securities company is made from the special clearing fund in the following order:
 - i. The special clearing fund in excess of \$1 billion will be used, and the utilized portion will not be subsequently made up.
 - ii. The initial deposit of the special clearing fund of \$1 billion and the deposit to the settlement and clearing fund by other securities companies will be used proportionately to the amounts of their contributions.
- (c) As of December 31, 2019 and 2018, the balances of the settlement and clearing fund were \$3,427,484 and \$3,416,203, respectively, and the balance of the special clearing fund was \$3 billion. The funds are invested in time deposits pursuant to the relevant regulations. In addition, as of December 31, 2019, the Company had entered into a loan agreement with financial institutions in the amount of \$11 billion and US\$10 million and provided time deposits of \$2 billion in total to financial institutions as collaterals to provide for future advances that may be required by securities companies in fulfilling settlements and other revolving funds for emergency use as a result of securities companies defaulting on their settlement obligations or natural disasters. As of December 31, 2019, the loan amount has not been drawn down. The aforementioned time deposits were recorded under the compensation reserve in the amount of \$750 million, the special clearing fund in the amount of \$550 million, and the settlement and clearing fund in the amount of \$700 million.
- (d) As the Company is only responsible for the custodianship of the settlement and clearing fund deposited by securities companies, yield and income generated from the funds belong to the securities companies. Furthermore, the Company does not bear any related expenses and losses, and the recovery or reimbursement of the settlement and clearing fund is made to the individual securities companies. Therefore, the assets and liabilities arising from the settlement and clearing fund are offset in the Company’s financial statements and the net amount presented is \$0.

B. Settlement consideration

The receipts or payments from/to each securities company arising from the Company's clearing and settlement of securities are shown as "settlement and clearing debit items" and "settlement and clearing credit items". Pursuant to "Operating Rules of the Taiwan Stock Exchange Corporation", net settlement is carried out on the second business day following the trade date. Balances of settlement and clearing debit (credit) items as of December 31, 2019 and 2018 are as follows:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--------------------------------------|--------------------------|--------------------------|
| Settlement and clearing debit items | \$ 7,710,487 | \$ 10,245,195 |
| Settlement and clearing credit items | \$ 7,710,487 | \$ 10,245,195 |

(8) Investments accounted for using the equity method

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| Subsidiaries: | | |
| Taiwan Depository & Clearing Corporation (the TDCC) | \$ 13,524,205 | \$ 12,822,045 |
| Taiwan-Ca. Inc. (the TWCA) | 106,142 | 102,900 |
| Taiwan Index Plus Corporation (the TIP) | <u>164,025</u> | <u>168,755</u> |
| | 13,794,372 | 13,093,700 |
| Associate: | | |
| Taiwan Ratings Co. (the TRC) | <u>27,849</u> | <u>27,780</u> |
| | <u>\$ 13,822,221</u> | <u>\$ 13,121,480</u> |

A. Subsidiaries

Refer to Note 4(3) of the consolidated financial statements for the information on subsidiaries.

The share of profit of the subsidiaries, Taiwan Depository & Clearing Corporation (the TDCC) and Taiwan-Ca Inc. (the TWCA), accounted for using the equity method was based on their financial statements audited by other auditors.

B. Associates

The Company's share of the operating results from the individually immaterial associate is summarized below:

| | Taiwan Ratings Co. | |
|--|--------------------------|----------|
| | Years ended December 31, | |
| | 2019 | 2018 |
| Share of profit of associate accounted for using the equity method | \$ 7,713 | \$ 7,612 |
| Share of other comprehensive loss of associate accounted for using the equity method | (\$ 351) | (\$ 379) |

The percentage of ownership held by the Company in the above associate was both 19.99% as of December 31, 2019 and 2018.

The share of profit of the associate accounted for using the equity method was based on the financial statements audited by other auditors.

(9) Property and equipment

| 2019 | Land | Buildings and structures | Computer equipment | Other equipment | Rental assets | Total |
|---|-------------------|--------------------------|--------------------|---------------------|-------------------|---------------------|
| <u>Cost</u> | | | | | | |
| At January 1 (including revaluation of \$836) | \$ 692,004 | \$ 1,003,633 | \$ 371,985 | \$ 1,301,911 | \$ 267,617 | \$ 3,637,150 |
| Additions | - | - | 44,416 | 10,048 | - | 54,464 |
| Disposals | - | - | (156,597) | (54,410) | - | (211,007) |
| Transfers (Note) | - | - | 44,726 | - | - | 44,726 |
| Closing book amount | <u>\$ 692,004</u> | <u>\$ 1,003,633</u> | <u>\$ 304,530</u> | <u>\$ 1,257,549</u> | <u>\$ 267,617</u> | <u>\$ 3,525,333</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| At January 1 | \$ - | \$ 58,690 | \$ 160,056 | \$ 415,704 | \$ 71,536 | \$ 705,986 |
| Depreciation | - | 17,922 | 146,232 | 131,743 | 33,452 | 329,349 |
| Disposals | - | - | (156,597) | (54,410) | - | (211,007) |
| Closing book amount | <u>\$ -</u> | <u>\$ 76,612</u> | <u>\$ 149,691</u> | <u>\$ 493,037</u> | <u>\$ 104,988</u> | <u>\$ 824,328</u> |
| At January 1 net book amount | <u>\$ 692,004</u> | <u>\$ 944,943</u> | <u>\$ 211,929</u> | <u>\$ 886,207</u> | <u>\$ 196,081</u> | <u>\$ 2,931,164</u> |
| At December 31 net book amount | <u>\$ 692,004</u> | <u>\$ 927,021</u> | <u>\$ 154,839</u> | <u>\$ 764,512</u> | <u>\$ 162,629</u> | <u>\$ 2,701,005</u> |

| 2018 | Land | Buildings and structures | Computer equipment | Other equipment | Rental assets | Total |
|---|------------------|--------------------------|--------------------|--------------------|------------------|--------------------|
| <u>Cost</u> | | | | | | |
| At January 1 (including revaluation of \$836) | \$692,004 | \$1,003,633 | \$ 581,396 | \$1,240,451 | \$267,099 | \$3,784,583 |
| Additions | - | - | 38,766 | 72,659 | - | 111,425 |
| Disposals | - | - | (406,981) | (12,031) | - | (419,012) |
| Transfers (Note) | - | - | 158,804 | 832 | 518 | 160,154 |
| Closing book amount (including revaluation of \$836) | <u>\$692,004</u> | <u>\$1,003,633</u> | <u>\$ 371,985</u> | <u>\$1,301,911</u> | <u>\$267,617</u> | <u>\$3,637,150</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| At January 1 | \$ - | \$ 40,768 | \$ 428,125 | \$ 297,821 | \$ 38,110 | \$ 804,824 |
| Depreciation | - | 17,922 | 138,891 | 129,914 | 33,426 | 320,153 |
| Disposals | - | - | (406,960) | (12,031) | - | (418,991) |
| Closing book amount | <u>\$ -</u> | <u>\$ 58,690</u> | <u>\$ 160,056</u> | <u>\$ 415,704</u> | <u>\$ 71,536</u> | <u>\$ 705,986</u> |
| At January 1 net book amount | <u>\$692,004</u> | <u>\$ 962,865</u> | <u>\$ 153,271</u> | <u>\$ 942,630</u> | <u>\$228,989</u> | <u>\$2,979,759</u> |
| At December 31 net book amount | <u>\$692,004</u> | <u>\$ 944,943</u> | <u>\$ 211,929</u> | <u>\$ 886,207</u> | <u>\$196,081</u> | <u>\$2,931,164</u> |

Note: Transfers pertain to prepayments for equipment transferred from other non-current assets.
The estimated useful lives of property and equipment are as follows:

| | |
|--------------------------|--------------|
| Buildings and structures | 55 years |
| Computer equipment | 3 ~ 5 years |
| Other equipment | 3 ~ 10 years |
| Rental assets | 3 ~ 8 years |

(10) Lease transactions-lessee

Effective 2019

A. Right-of-use assets

(a) The Company leases various assets including buildings and other equipment. Lease contracts are typically made for periods between two to seven years. Lease terms are negotiated on an individual basis and contain various different terms and conditions. Apart from the general provisions found in commercial contracts that leased assets may not be transferred, subleased or used as collaterals for borrowing purposes, the lease contracts do not impose other covenants.

(b) Carrying amounts of right-of-use assets:

| | <u>December 31, 2019</u> |
|-----------------|--------------------------|
| Buildings | \$ 1,371,089 |
| Other equipment | 514 |
| | <u>\$ 1,371,603</u> |

(c) Depreciation on right-of-use assets is as follows:

| | <u>Year ended December 31, 2019</u> |
|-----------------|---|
| Buildings | \$ 233,816 |
| Other equipment | 771 |
| | <u>\$ 234,587</u> |

B. Lease liabilities

(a) The carrying amounts of lease liabilities are as follows:

| | <u>December 31, 2019</u> |
|---------------------|--------------------------|
| Current portion | \$ 169,823 |
| Non-current portion | 1,277,282 |
| | <u>\$ 1,447,105</u> |

(b) Information on profit or loss in relation to lease liabilities is as follows:

| | <u>Year ended December 31, 2019</u> |
|---------------------------------------|---|
| <u>Items affecting profit or loss</u> | |
| Interest expense on lease liabilities | <u>\$ 32,210</u> |

C. Other information on leases is as follows:

(a) For the year ended December 31, 2019, the Company's total cash outflows for leases was \$191,294.

(b) Information on lease transactions with related parties is provided in Note 7.

(c) Extension options:

Extension options are included in the Company's lease contracts pertaining to buildings. In determining the lease term, the Company takes into consideration all facts and circumstances

that create an economic incentive to exercise an extension option. The assessment of a lease term is reviewed if a significant event occurs which affects the assessment.

(11) Investment properties

| <u>2019</u> | <u>Land</u> | <u>Buildings and structures</u> | <u>Total</u> |
|---|-------------------|-------------------------------------|-------------------|
| <u>Cost</u> | | | |
| At January 1 and December 31 (both including revaluation of \$80,786) | \$ 195,187 | \$ 179,111 | \$ 374,298 |
| <u>Accumulated depreciation</u> | | | |
| At January 1 | \$ - | \$ 106,071 | \$ 106,071 |
| Depreciation | - | 3,198 | 3,198 |
| Closing book amount | <u>\$ -</u> | <u>\$ 109,269</u> | <u>\$ 109,269</u> |
| At January 1 net book amount | <u>\$ 195,187</u> | <u>\$ 73,040</u> | <u>\$ 268,227</u> |
| At December 31 net book amount | <u>\$ 195,187</u> | <u>\$ 69,842</u> | <u>\$ 265,029</u> |
| | | | |
| <u>2018</u> | <u>Land</u> | <u>Buildings and structures</u> | <u>Total</u> |
| <u>Cost</u> | | | |
| At January 1 and December 31 (both including revaluation of \$80,786) | \$ 195,187 | \$ 179,111 | \$ 374,298 |
| <u>Accumulated depreciation</u> | | | |
| At January 1 | \$ - | \$ 102,873 | \$ 102,873 |
| Depreciation | - | 3,198 | 3,198 |
| Closing book amount | <u>\$ -</u> | <u>\$ 106,071</u> | <u>\$ 106,071</u> |
| At January 1 net book amount | <u>\$ 195,187</u> | <u>\$ 76,238</u> | <u>\$ 271,425</u> |
| At December 31 net book amount | <u>\$ 195,187</u> | <u>\$ 73,040</u> | <u>\$ 268,227</u> |

A. Rental income and direct operating expenses arising from the investment properties are shown below:

| | Years ended December 31, | |
|--|--------------------------|-----------|
| | 2019 | 2018 |
| Rental income from investment properties | \$ 28,721 | \$ 24,187 |
| Direct operating expenses arising from the investment properties that generated rental income during the year (depreciation expense) | \$ 2,963 | \$ 2,381 |

B. The fair values of the investment properties held by the Company as of December 31, 2019 and 2018 were \$765,688 and \$729,482, respectively. The fair values of the above assets were determined by comparing with the transaction information of similar properties in the market and appropriate adjustments have been applied in the valuations. The comparative approach was used for the valuations which is categorized within Level 3 in the fair value hierarchy.

C. Except for land, investment properties are depreciated on a straight-line basis over the estimated useful life of 55 years.

(12) Intangible assets

| | Years ended December 31, | |
|---|--------------------------|-------------------|
| | 2019 | 2018 |
| <u>Cost</u> | | |
| At January 1 | \$ 695,232 | \$ 527,972 |
| Additions | 34,303 | 61,286 |
| Disposals | (133,227) | (178,985) |
| Transfer from prepayments for equipment | 40,716 | 284,959 |
| Closing book amount | <u>\$ 637,024</u> | <u>\$ 695,232</u> |
| <u>Accumulated amortization</u> | | |
| At January 1 | \$ 263,276 | \$ 298,882 |
| Amortization | 171,445 | 143,379 |
| Disposals | (133,227) | (178,985) |
| Closing book amount | <u>\$ 301,494</u> | <u>\$ 263,276</u> |
| At January 1 net book amount | <u>\$ 431,956</u> | <u>\$ 229,090</u> |
| At December 31 net book amount | <u>\$ 335,530</u> | <u>\$ 431,956</u> |

Computer software is stated at historical cost and is amortized on a straight-line basis over its estimated useful life of three years.

(13) Other non-current assets

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| Operations guarantee deposits | \$ 364,800 | \$ 347,400 |
| Refundable deposits | 29,867 | 30,271 |
| Prepayments for equipment and intangible assets | <u>33,361</u> | <u>39,261</u> |
| | <u>\$ 428,028</u> | <u>\$ 416,932</u> |

As of December 31, 2019 and 2018, the Company has pledged time deposits amounting to \$364,800 and \$347,400, respectively, with the Central Bank of the Republic of China (Taiwan) as operations guarantee deposits.

(14) Securities lending and borrowing collateral payable

The Company has provided securities lending and borrowing services since June 2003. The borrower is required to deposit collaterals based on certain percentages (the “stipulated collateral ratio”) of borrowed securities’ daily market prices to the Company. In addition, the individual collateral maintenance ratio of each transaction will be calculated on a daily basis, and further collaterals will be required if the maintenance ratio is below the stipulated collateral ratio. As of December 31, 2019 and 2018, the Company has received the following collaterals:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---------------------------|--------------------------|--------------------------|
| Cash (Note A) | \$ 525,525 | \$ 28,206,367 |
| Bank drafts (Note B) | <u>4,118,055</u> | <u>8,068,219</u> |
| Securities (Note B and C) | <u>\$ 55,663,011</u> | <u>\$ 40,779,397</u> |

Note A: Interest will be paid based on the bank’s current interest rate upon refund of cash collaterals.

Note B: Pursuant to “Taiwan Stock Exchange Corporation Securities Borrowing and Lending Rules”, bank drafts and securities will be returned to the borrowers upon the completion of the transaction. Accordingly, these are not reflected as assets of the Company. The Company is only responsible for the custodianship of these collaterals.

Note C: Securities are remeasured based on their closing prices as of December 31, 2019 and 2018.

(15) Other current liabilities

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| Security borrowing performance bond payable (Note A) | \$ 2,808,549 | \$ 1,431,549 |
| Contract liabilities (Note B) | 345,022 | 321,809 |
| Deposits received for borrowing securities collateral | 190,000 | 110,000 |
| Others | <u>29,229</u> | <u>22,136</u> |
| | <u>\$ 3,372,800</u> | <u>\$ 1,885,494</u> |

Note A: Since February 1, 2016, in order to meet the requirements of market participants and improve the liquidity of the securities market, apart from lending out marketable securities to its customers, a securities company can also borrow marketable securities from its

customers, other securities companies, and securities finance enterprises. If marketable securities are borrowed from a customer, the securities company should appropriate a performance guarantee in proportion to the total amount of borrowed marketable securities to the Company.

Note B: Contract liabilities include call (put) warrant listing fees received in advance.

(16) Pensions

A. Defined benefit plans

As of December 31, 2019 and 2018, amounts recognized based on actuarial reports are as follows:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | \$ 2,442,110 | \$ 2,544,800 |
| Fair value of plan assets | (2,295,467) | (2,372,175) |
| Net defined benefit liability | <u>\$ 146,643</u> | <u>\$ 172,625</u> |

(a) Movements in net defined benefit liability are as follows:

| | <u>Present value of defined benefit obligations</u> | <u>Fair value of plan assets</u> | <u>Net defined benefit liability</u> |
|-------------------------------------|---|--------------------------------------|--|
| <u>Year ended December 31, 2019</u> | | | |
| Balance at January 1 | \$ 2,544,800 | \$ 2,372,175 | \$ 172,625 |
| Current service cost | 146,042 | - | 146,042 |
| Interest expense/income | <u>23,919</u> | <u>23,093</u> | <u>826</u> |
| | <u>2,714,761</u> | <u>2,395,268</u> | <u>319,493</u> |
| Remeasurements: | | | |
| Return on plan assets (Note) | - | 49,135 | (49,135) |
| Change in financial assumptions | 10,909 | - | 10,909 |
| Experience adjustments | <u>43,453</u> | <u>-</u> | <u>43,453</u> |
| | <u>54,362</u> | <u>49,135</u> | <u>5,227</u> |
| Pension fund contribution | - | 177,309 | (177,309) |
| Pension paid | <u>(327,013)</u> | <u>(326,245)</u> | <u>(768)</u> |
| Balance at December 31 | <u>\$ 2,442,110</u> | <u>\$ 2,295,467</u> | <u>\$ 146,643</u> |

| | <u>Present value of defined benefit obligations</u> | <u>Fair value of plan assets</u> | <u>Net defined benefit liability</u> |
|-------------------------------------|---|--------------------------------------|--|
| <u>Year ended December 31, 2018</u> | | | |
| Balance at January 1 | \$ 2,611,041 | \$ 2,432,501 | \$ 178,540 |
| Current service cost | 148,287 | - | 148,287 |
| Interest expense/income | 28,540 | 27,348 | 1,192 |
| | <u>2,787,868</u> | <u>2,459,849</u> | <u>328,019</u> |
| Remeasurements: | | | |
| Return on plan assets (Note) | - | 34,472 | (34,472) |
| Change in financial assumptions | 6,429 | - | 6,429 |
| Experience adjustments | 50,893 | - | 50,893 |
| | <u>57,322</u> | <u>34,472</u> | <u>22,850</u> |
| Pension fund contribution | - | 174,366 | (174,366) |
| Pension paid | (300,390) | (296,512) | (3,878) |
| Balance at December 31 | <u>\$ 2,544,800</u> | <u>\$ 2,372,175</u> | <u>\$ 172,625</u> |

Note: Excluding amounts included in interest income or expense.

- (b) Based on the internal policies and procedures for employees' retirement and termination of employment of the Company, the Company makes monthly contributions to the workers' pension fund and the employees' retirement fund based on certain percentages of employees' salaries. These funds are administrated by the Labor Pension Fund Supervisory Committee and the Committee of Employee Pension Fund, respectively. The contributed amounts are deposited with the Bank of Taiwan under the names of the respective committees. Employees who have retired and resigned will receive benefits from the aforementioned funds.
- (c) The Bank of Taiwan was commissioned to manage the pension fund (the "Fund") under the Company's defined benefit pension plans and the Fund is administrated by the Labor Pension Fund Supervisory Committee in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). The minimum earnings from the utilization of the Fund in the annual distributions shall be no less than the earnings calculated using the two-year time deposits interest rates offered by local banks. If the minimum earnings are less than the earnings calculated under the aforementioned rates, the government shall make up for the shortfall after being authorized by the Competent Authority. The Company has no right to participate in managing and operating the Fund and hence the Company is unable to disclose the classification of the fair value of plan assets in accordance with paragraph 142 of IAS 19. The

composition of the fair value of plan assets as of December 31, 2019 and 2018 is published in the “Annual Labor Retirement Fund Utilization Report” announced by the government. As of December 31, 2019 and 2018, the Company’s fund administrated by the Committee of Employee Pension Fund consists of bank deposits only.

(d) The principal actuarial assumptions used were as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------------------|--------------|-------------|
| Discount rate | <u>0.75%</u> | <u>1%</u> |
| Future salary increases | <u>3%</u> | <u>3%</u> |

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

The sensitivity of the present value of defined benefit obligation to changes in the significant actuarial assumptions was as follows:

| | <u>Discount rate</u> | | <u>Future salary increases</u> | |
|--|--------------------------|--------------------------|--------------------------------|--------------------------|
| | Increase <u>0.25%</u> | Decrease <u>0.25%</u> | Increase <u>0.25%</u> | Decrease <u>0.25%</u> |
| <u>December 31, 2019</u> | | | | |
| Effect on present value of defined benefit obligation | (\$ 50,235) | \$ 52,048 | \$ 49,163 | (\$ 47,703) |
| <u>December 31, 2018</u> | | | | |
| Effect on present value of defined benefit obligation | (\$ 55,186) | \$ 57,134 | \$ 54,215 | (\$ 52,643) |

The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated.

(e) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2020 amount to \$182,628.

B. Defined contribution plans

(a) Effective July 1, 2005, the Company has established defined contribution pension plans (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company makes a monthly contribution of an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. Employees will receive pension benefits based on the regulations of the Act. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2019 and 2018 were \$84,711 and \$78,836, respectively.

(17) Share capital

- A. In accordance with the resolution adopted at the shareholders' meeting on June 14, 2019, the Company issued 34,694 thousand shares of common stock by capitalizing the unappropriated retained earnings. The registration of this capital increase was approved by the Competent Authority.
- B. As of December 31, 2019, the Company's authorized and paid-in capital was \$7,285,627 with a par value of \$10 (in New Taiwan dollars) per share. All proceeds from shares issued have been collected.
- C. Pursuant to an amendment to Article 128 of the "Securities and Exchange Act" promulgated on July 19, 2000, the Company's common stocks can only be sold to authorized securities companies starting January 15, 2001.

(18) Capital reserve

Pursuant to the R.O.C. "Company Act", capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. However, capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(19) Legal reserve/Special reserve

- A. According to the R.O.C. "Company Act", the annual net income should be used initially to cover any accumulated deficit; thereafter 10% of the annual net income should be set aside as the legal reserve until it has reached 100% of contributed capital. The legal reserve shall be exclusively used to cover accumulated deficit or to issue new stocks or distribute cash to shareholders in proportion to their share ownership and shall not be used for any other purpose. The use of the legal reserve for the issuance of stocks or distribution of cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.
- B. As required under the regulations of the Securities and Futures Bureau ("SFB"), the Company shall appropriate a special reserve based on its net income annually. The rate of the appropriation was determined by the Competent Authority, which is at most 80% of the net income. Furthermore, pursuant to the regulations of the Competent Authority, the Company had reclassified the provision for the compensation reserve to a special reserve in its first financial statements prepared in accordance with IFRSs in 2013. The special reserve, as resolved by the shareholders, can only be used upon the Competent Authority's approval to offset against deficit or transferred to capital.

(20) Unappropriated retained earnings

| | 2019 | 2018 |
|--|---------------------|---------------------|
| At January 1 | \$ 4,065,842 | \$ 3,050,933 |
| Effects of retrospective application | - | 552,222 |
| Balance at January 1 after adjustments | <u>4,065,842</u> | <u>3,603,155</u> |
| Profit for the year | 3,375,060 | 3,535,071 |
| Losses on remeasurements of defined benefit plans | (5,227) | (22,850) |
| Losses on remeasurements of defined benefit plans of subsidiaries and associates accounted for using the equity method | (12,543) | (4,163) |
| Legal reserve | (353,507) | (285,425) |
| Special reserve | (1,629,668) | (1,021,820) |
| Cash dividends | (1,734,673) | (1,734,673) |
| Stock dividends | (346,935) | - |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | <u>-</u> | <u>(3,453)</u> |
| At December 31 | <u>\$ 3,358,349</u> | <u>\$ 4,065,842</u> |

- A. The annual net income should be used initially to cover any accumulated deficit; 10% of the annual net income should be appropriated as the legal reserve and the special reserve upon the Competent Authority's approval. The remaining amount can be distributed by a resolution passed during a meeting of the Board of Directors and approved at the shareholders' meeting.
- B. As approved by the shareholders during their meeting, cash dividends declared for 2018 and 2017 were both \$2.5 (in New Taiwan dollars) per share, and the stock dividends for 2018 and 2017 were \$0.5 (in New Taiwan dollars) per share and \$0 (in New Taiwan dollars) per share, respectively.

(21) Other equity items

| | 2019 |
|----------------------------|---|
| | <u>Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income</u> |
| January 1 | \$ 3,494,405 |
| Revaluation | (104,936) |
| Revaluation - subsidiaries | <u>98,062</u> |
| December 31 | <u>\$ 3,487,531</u> |

| | 2018 | | |
|--|---|---|---------------------|
| | Unrealized losses on available-for-sale financial assets | Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income | Total |
| January 1 | \$ 3,557,991 | \$ - | \$ 3,557,991 |
| Effects of retrospective application | (3,557,991) | 2,998,213 | (559,778) |
| Balance at January 1 after adjustments | - | 2,998,213 | 2,998,213 |
| Revaluation | - | 433,319 | 433,319 |
| Revaluation - subsidiaries | - | 62,873 | 62,873 |
| December 31 | <u>\$ -</u> | <u>\$ 3,494,405</u> | <u>\$ 3,494,405</u> |

(22) Trading fees

Trading fees mainly represent fees collected for the use of the Company's services for trading and settlement of securities. The fees are computed as a percentage of the value of the transactions of securities traded and the rate is 0.000065 per New Taiwan dollar for dealers and brokers. After reaching an agreement with the Taiwan Securities Association, which was approved by the Board of Directors of the Company and the Competent Authority in No. 0950156625 bulletin (December 14, 2006), the rate has been reduced by 12% from the time that the Company ceased to set it aside to the compensation reserve. Effective December 1, 2011, as approved by the Board of Directors of the Company and the Competent Authority in No. 1000058644 bulletin (November 29, 2011), the rate (0.000065 per New Taiwan dollar) has been reduced by 20%.

(23) Expenses by nature

| | Operating expenses | |
|--------------------------|--------------------------|---------------------|
| | Years ended December 31, | |
| | 2019 | 2018 |
| Employee benefit expense | | |
| Salaries | \$ 1,234,564 | \$ 1,180,203 |
| Insurance | 73,190 | 74,428 |
| Pension | 231,579 | 228,315 |
| Others | 17,989 | 11,492 |
| | <u>\$ 1,557,322</u> | <u>\$ 1,494,438</u> |
| Depreciation | <u>\$ 567,134</u> | <u>\$ 323,351</u> |
| Amortization | <u>\$ 171,445</u> | <u>\$ 143,379</u> |

A. Under the Company's Articles of Incorporation, the Company shall distribute 1%~12% of annual profit as employees' compensation for each accounting year. However, the distribution

of annual profit shall be first reserved to offset against accumulated deficit, if any.

B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued in the amounts of \$129,936 and \$130,368, respectively. The aforementioned amounts were recognized in salary expenses.

C. As of December 31, 2019 and 2018, the Company had 640 and 648 employees, respectively.

(24) Other income

| | Years ended December 31, | |
|-----------------|--------------------------|-------------------|
| | 2019 | 2018 |
| Dividend income | \$ 181,765 | \$ 175,710 |
| Rental income | 90,113 | 82,265 |
| Others | 21,669 | 11,281 |
| | <u>\$ 293,547</u> | <u>\$ 269,256</u> |

(25) Other gains and losses

| | Years ended December 31, | |
|---|--------------------------|---------------------|
| | 2019 | 2018 |
| Gains (losses) on financial assets at fair value through profit or loss | \$ 364,214 | (\$ 111,968) |
| Foreign exchange (losses) gains | (23,738) | 16,978 |
| Others | (68,937) | (91,361) |
| | <u>\$ 271,539</u> | <u>(\$ 186,351)</u> |

(26) Finance costs

| | Years ended December 31, | |
|--|--------------------------|-----------------|
| | 2019 | 2018 |
| Interest expense-lease liability | \$ 32,210 | \$ - |
| Interest expense-securities lending and borrowing collateral | 655 | 1,751 |
| | <u>\$ 32,865</u> | <u>\$ 1,751</u> |

(27) Income tax

A. Income tax expense

(a) Components of income tax expense

| | Years ended December 31, | |
|---|--------------------------|-------------------|
| | 2019 | 2018 |
| Current tax: | | |
| Current tax on profits for the year | \$ 397,756 | \$ 501,125 |
| Tax on unappropriated earnings | - | 503 |
| Prior year income tax under (over) estimation | <u>3,592</u> | <u>(24,656)</u> |
| Total current tax | <u>\$ 401,348</u> | <u>\$ 476,972</u> |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (23,764) | 12,718 |
| Effect of tax rate change | <u>-</u> | <u>(4,350)</u> |
| Total deferred tax | <u>(23,764)</u> | <u>8,368</u> |
| Income tax expense | <u>\$ 377,584</u> | <u>\$ 485,340</u> |

(b) Reconciliation between income tax expense and accounting profit

| | Years ended December 31, | |
|--|--------------------------|-------------------|
| | 2019 | 2018 |
| Tax calculated based on profit before tax and statutory tax rate | \$ 750,529 | \$ 804,082 |
| Tax on unappropriated earnings | - | 503 |
| Effect from permanent differences of income tax | (373,036) | (293,668) |
| Effect of tax rate change | <u>-</u> | <u>(4,350)</u> |
| Deferred tax assets (under) over estimation | (3,501) | 3,429 |
| Prior year income tax under (over) estimation | <u>3,592</u> | <u>(24,656)</u> |
| Income tax expense | <u>\$ 377,584</u> | <u>\$ 485,340</u> |

B. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

| | Year ended December 31, 2019 | | |
|--------------------------------------|------------------------------|---------------------------------|------------------|
| | January 1 | Recognized in profit or loss | December 31 |
| -Deferred tax assets: | | | |
| Employees' welfare | \$ 799 | \$ 714 | \$ 1,513 |
| Unused annual paid leave | 5,853 | 3,002 | 8,855 |
| Unrealized exchange loss | 9,628 | 4,947 | 14,575 |
| Lease contracts | - | 15,101 | 15,101 |
| | <u>\$ 16,280</u> | <u>\$ 23,764</u> | <u>\$ 40,044</u> |
| -Deferred tax liabilities: | | | |
| Reserve for land value increment tax | \$ 44,599 | \$ - | \$ 44,599 |

| | Year ended December 31, 2018 | | |
|--------------------------------------|------------------------------|---------------------------------|------------------|
| | January 1 | Recognized in profit or loss | December 31 |
| -Deferred tax assets: | | | |
| Employees' welfare | \$ 1,123 | (\$ 324) | \$ 799 |
| Unused annual paid leave | 12,534 | (6,681) | 5,853 |
| Unrealized exchange loss | 10,916 | (1,288) | 9,628 |
| Others | 75 | (75) | - |
| | <u>\$ 24,648</u> | <u>(\$ 8,368)</u> | <u>\$ 16,280</u> |
| -Deferred tax liabilities: | | | |
| Reserve for land value increment tax | \$ 44,599 | \$ - | \$ 44,599 |

C. The amounts of deductible temporary differences that were not recognized as deferred tax assets are as follows:

| | December 31, 2019 | December 31, 2018 |
|----------------------------------|-------------------|-------------------|
| Deductible temporary differences | <u>\$ 165,509</u> | <u>\$ 168,016</u> |

D. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

E. Under the amendments to the "Income Tax Act" which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has already assessed the income tax effects based on the new income tax rate.

(28) Earnings per share

| | Year ended December 31, 2019 | | |
|---|------------------------------|---|--|
| | <u>Amount after tax</u> | <u>Weighted-average number of shares outstanding (in thousands of shares)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to ordinary shareholders | <u>\$ 3,375,060</u> | <u>728,563</u> | <u>\$ 4.63</u> |

| | Year ended December 31, 2018 | | |
|---|------------------------------|---|--|
| | <u>Amount after tax</u> | <u>Weighted-average number of shares outstanding (in thousands of shares)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to ordinary shareholders | <u>\$ 3,535,071</u> | <u>728,563</u> | <u>\$ 4.85</u> |

The stock dividends were granted from the appropriation of 2018 retained earnings, and the effective date was on July 31, 2019. The weighted-average number of shares outstanding and basic earnings per share had been adjusted retrospectively from 693,869 thousand shares to 728,563 thousand shares, and from \$5.09 (in New Taiwan dollars) to \$4.85 (in New Taiwan dollars) per share, respectively.

(29) Supplemental cash flow information

| | Years ended December 31, | |
|---|--------------------------|-------------------|
| | <u>2019</u> | <u>2018</u> |
| Additions and transfers from property and equipment | \$ 99,190 | \$ 271,579 |
| Additions and transfers from intangible assets | 75,019 | 346,245 |
| Less: Opening balance of prepayments for equipment and intangible assets | (39,261) | (243,090) |
| Add: Ending balance of prepayments for equipment and intangible assets | <u>33,361</u> | <u>39,261</u> |
| Cash paid during the year | <u>\$ 168,309</u> | <u>\$ 413,995</u> |

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

| Names of related parties | Relationship with the Company |
|---|-------------------------------|
| Yuanta Securities Co., Ltd. (“YUANTA”) | Corporate Director |
| Land Bank of Taiwan Co., Ltd. | “ |
| CDIB Capital Group (Note 1) | “ |
| Taiwan Cement Corporation | “ |
| Fubon Securities Co., Ltd. | “ |
| SinoPac Securities Corporation (Note 1) | “ |
| YFY Inc. (Note 2) | “ |
| IBF Securities Co., Ltd. (Note 2) | “ |
| Taiwan Depository & Clearing Corporation (the “TDCC”) | Subsidiary |
| Taipei Financial Center Corporation (the “TFCC”) | Other related party |
| Taiwan Futures Exchange Corporation (the “TAIFEX”) | “ |
| Jih Sun Securities Co., Ltd. | “ |
| Taipei Exchange Corporation (the “TPEX”) | “ |

Note 1: The Company’s corporate director whose term expired on June 30, 2019.

Note 2: The Company’s corporate director appointed since July 1, 2019.

(2) Significant related party transactions

| | Years ended December 31, | |
|---------------------------------|--------------------------|------------|
| | 2019 | 2018 |
| A. Trading fees: | | |
| Corporate Directors | | |
| YUANTA | \$ 377,808 | \$ 410,668 |
| Others | 269,348 | 374,715 |
| Other related parties | 100,811 | 115,464 |
| | \$ 747,967 | \$ 900,847 |
| B. Listing fees: | | |
| Corporate Directors | | |
| YUANTA | \$ 238,784 | \$ 208,531 |
| Others | 120,274 | 141,365 |
| Other related parties | 16,301 | 30,667 |
| | \$ 375,359 | \$ 380,563 |
| C. Information processing fees: | | |
| Other related parties | | |
| The TPEX | \$ 198,896 | \$ 200,650 |

| | Years ended December 31, | |
|---|--------------------------|--------------------------|
| | 2019 | 2018 |
| D. Royalty fees: | | |
| Other related parties | | |
| The TAIFEX | \$ 254,564 | \$ 317,334 |
| Others | 300 | 630 |
| Corporate Directors | 1,500 | 1,050 |
| | <u>\$ 256,364</u> | <u>\$ 319,014</u> |
| E. Securities settlement service fees (recorded as general and administrative expenses): | | |
| Subsidiary | | |
| The TDCC | \$ 594,594 | \$ 660,172 |
| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
| F. Accounts receivable: | | |
| Corporate Directors | | |
| YUANTA | \$ 41,527 | \$ 31,617 |
| Others | 24,984 | 25,851 |
| Other related parties | 56,101 | 50,469 |
| | <u>\$ 122,612</u> | <u>\$ 107,937</u> |
| G. Payable for securities settlement services: (recorded as accrued expenses) | | |
| Subsidiary | | |
| The TDCC | \$ 57,306 | \$ 42,269 |

H. Lease transactions-lessee

(a) The Company leased buildings and structures from the TFCC, and rents were paid monthly. On January 1, 2019 (the date of initial application of IFRS 16), the Company increased its right-of-use assets and lease liabilities by \$1,360,096.

(b) Acquisition of right-of-use assets:

For the year ended December 31, 2019, the Company has no right-of-use assets acquired from related parties.

(c) Lease liabilities

| | <u>December 31, 2019</u> |
|----------|--------------------------|
| The TFCC | <u>\$ 1,237,686</u> |

For the year ended December 31, 2019, the Company recognized interest expense arising from lease liabilities amounting to \$27,386.

(3) Key management compensation

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2019 | 2018 |
| Salaries and other short-term employee benefits | \$ 32,545 | \$ 29,322 |
| Pensions | 3,759 | 3,341 |
| | <u>\$ 36,304</u> | <u>\$ 32,663</u> |

8. PLEDGED ASSETS

Refer to Note 6(7) for the information on time deposits pledged by the Company as collateral for the credit facility with banks and Note 6(13) for collaterals for operation guarantee deposits.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Future payments required for the contracts in relation to the acquisitions of computer equipments and information systems are as follows:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Computer equipment and other equipment | \$ 104,373 | \$ 33,451 |

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company's objectives of capital management are as follows:

- A. Ensuring continued operations and returns to shareholders;
- B. Supporting stability and growth of the Company; and
- C. Providing capital to improve risk management ability.

(2) Financial instruments

A. Fair value information of financial instruments

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| <u>Financial assets</u> | | |
| Fair value through profit or loss | \$ 1,939,850 | \$ 2,414,701 |
| Fair value through other comprehensive income | 3,824,315 | 3,929,251 |
| Amortized cost (Note 1) | <u>46,230,481</u> | <u>73,125,135</u> |
| | <u>\$ 51,994,646</u> | <u>\$ 79,469,087</u> |
| <u>Financial liabilities</u> | | |
| Amortized cost (Note 2) | \$ 12,461,824 | \$ 41,063,759 |
| Lease liabilities | <u>1,447,105</u> | <u>-</u> |
| | <u>\$ 13,908,929</u> | <u>\$ 41,063,759</u> |

Note 1: Including cash and cash equivalents, financial assets at amortized cost, accounts receivable, other receivables, other financial assets, settlement and clearing debit items, compensation reserve, operations guarantee deposits and refundable deposits.

Note 2: Including securities lending and borrowing collateral payable, accrued expenses, settlement and clearing credit items, security borrowing performance bond payable, deposits received for borrowing securities collateral and guarantee deposits received.

B. Financial risk management policies

- (a) The objective of financial risk management is to manage the following financial risks: market risk (including foreign exchange risk, interest rate risk and securities price risk), credit risk and liquidity risk.
- (b) The Company has sufficient mechanisms to manage and control all financial risks to which the Company is exposed. Except for market risk that is controlled by external factors, other risks can be controlled internally or eliminated and the target is to minimize the risks to zero. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to optimize the overall positions to minimize potential adverse effects on the Company's financial performance.
- (c) Risk management is carried out by a central finance department ("Finance Department") in accordance with the capital management policies approved by the Board of Directors. The Finance Department identifies and evaluates a variety of financial instruments, transaction flow, and transaction counterparties. Moreover, the Finance Department regularly proposes recommendation reports and reviews the business performance. The internal auditor is in charge of conducting the audit of the business function.

C. Significant financial risks and degrees of exposure

(a) Market risk

The market risk the Company is exposed to is caused by losses resulting from fluctuations in

exchange rates and securities prices.

Foreign exchange risk

Foreign exchange risk arises from value changes in assets and liabilities denominated in foreign currencies due to fluctuations in exchange rates. The Company provides services for securities borrowing and lending transactions, and according to the regulations, specific security borrowers can deposit cash denominated in United States Dollars or other currencies. Some funds of the Company are also denominated in foreign currencies.

| December 31, 2019 | | | | | |
|--|--------------------------|------------------|---------------------|------------------------|--------------------------------|
| (Foreign currency: functional currency) | Foreign Currency | | Book Value (NTD) | Sensitivity analysis | |
| | Amount (in thousands) | Exchange Rate | | Degree of variation | Effect on profit or loss |
| <u>Financial assets</u> | | | | | |
| <u>Monetary items</u> | | | | | |
| USD:NTD | 22,854 | 29.980 | \$ 685,163 | 1% | \$ 6,852 |
| RMB:NTD | 45,227 | 4.305 | 194,702 | 1% | 1,947 |

| December 31, 2018 | | | | | |
|--|--------------------------|------------------|---------------------|------------------------|--------------------------------|
| (Foreign currency: functional currency) | Foreign Currency | | Book Value (NTD) | Sensitivity analysis | |
| | Amount (in thousands) | Exchange Rate | | Degree of variation | Effect on profit or loss |
| <u>Financial assets</u> | | | | | |
| <u>Monetary items</u> | | | | | |
| USD:NTD | 22,667 | 30.715 | \$ 696,217 | 1% | \$ 6,962 |
| RMB:NTD | 43,484 | 4.472 | 194,460 | 1% | 1,945 |
| JPY:NTD | 50,243,192 | 0.2782 | 13,977,656 | 1% | 139,777 |
| EUR:NTD | 347,515 | 35.20 | 12,232,528 | 1% | 122,325 |
| <u>Financial liabilities</u> | | | | | |
| <u>Monetary items</u> | | | | | |
| USD:NTD | 2,729 | 30.715 | 83,821 | 1% | 838 |
| JPY:NTD | 50,243,133 | 0.2782 | 13,977,640 | 1% | 139,776 |
| EUR:NTD | 347,511 | 35.20 | 12,232,387 | 1% | 122,324 |

The total exchange gains (losses) arising from significant fluctuations in foreign exchange rates on the monetary items held by the Company for the years ended December 31, 2019 and 2018 amounted to (\$23,738) and \$16,978, respectively.

Interest rate risk

Interest rate risk arises from changes in fair value of financial instruments resulting from fluctuations in market interest rates, and the risk mainly arises from bond investments and investments in money market funds. As of December 31, 2019 and 2018, the financial assets measured at amortized cost consisted of fixed-rate products amounting to \$4,048,201 and \$4,257,741, respectively. Changes in market interest rates will result in fluctuations in the fair value of the financial instruments. However, as these financial instruments are held until maturity in order to receive returns based on the effective interest rates during the expected lives of these instruments, consequently no disposal or valuation gains or losses will arise as a result of the fluctuations in fair values.

The Company is exposed to the risk of changes in the net value of funds arising from investments in money market funds. If the net value of funds had increased/decreased by 1% for the years ended December 31, 2019 and 2018, due to the effects of the fair value movement of financial assets at fair value through profit or loss, the profit or loss for the year, net of tax, would have increased/decreased by \$0 and \$3,048, respectively.

Price risk of other equity interests

The Company is exposed to the equity price risk arising from financial assets classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income for the years ended December 31, 2019 and 2018.

The market risk of holding these equity securities includes the specific risks related to changes in market quoted prices of individual equity securities and general market risks related to changes in market quoted prices in the overall markets. In order to manage the equity price risks, investments in beneficiary certificates are made in accordance with the Company's related policies and procedures on capital management, and the Company chooses appropriate investment targets, sets maximum amounts and limitations for prudent investments practice, and prepares summaries of investment gains/losses and capital usage reports regularly. Equity investment has to be approved by the Company's Board of Directors before initialization.

Except for money market funds, sensitivity analysis of price risk of beneficiary certificates is based on calculations of the changes in fair value at the end of the reporting period. If the prices of equity instruments had increased/decreased by 1% for the years ended December 31, 2019 and 2018, due to the effects of the fair value movement of financial assets at fair value through profit or loss, the profit or loss for the year, net of tax, would have increased/decreased by \$19,399 and \$21,099, respectively.

The Company's unlisted stocks are susceptible to market price risk arising from uncertainties in the future values of the underlying investments. The fair value level of these unlisted stocks belongs to level 3. The sensitivity analysis is provided in Notes 12(3)H and 12(3)I.

(b) Credit risk

- i. Credit risk arises from the risk that a client or a counterparty defaults on its contractual obligations resulting in financial losses to the Company. The Company is exposed to the credit risks from cash and cash equivalents, other financial assets and accounts receivable for which counterparties could not repay in full based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost.
- ii. Most of the Company's counterparties of accounts receivable are securities companies, listed companies and other security peripheral organizations which have high credit quality, so it expects that the credit risk of accounts receivable is remote.
- iii. The Company adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
- iv. If the credit rating grade of an investment target drops two scales, there has been a significant increase in the credit risk on that instrument since initial recognition.
- v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) Default or delinquency in interest or principal repayments; and
 - (iii) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vi. The credit quality information of financial assets is as follows:

Cash and cash equivalents

The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, and thus, it expects that the probability of counterparty default is remote. The Company recognizes the impairment loss allowance for 12 months expected credit losses. No loss allowance was provided by the Company against cash and cash equivalents for the years ended December 31, 2019 and 2018.

Accounts receivable

- (i) The Company applies the simplified approach using the loss rate methodology to estimate expected credit loss under the provision matrix basis.
- (ii) The Company used the forecastability to adjust historical and timely information over a specified period to assess the probabilities of defaults of accounts receivable. As of December 31, 2019 and 2018, the loss rate methodology is as follows:

| | <u>Group 1</u> | | <u>Group 2</u> | | <u>Total</u> |
|-----------------------------|----------------|----|----------------|----|--------------|
| <u>At December 31, 2019</u> | | | | | |
| Expected loss rate | 0% | | 100% | | |
| Total book value | \$ 416,714 | \$ | 169 | \$ | 416,883 |
| Loss allowance | \$ - | \$ | 169 | \$ | 169 |

| | <u>Group 1</u> | <u>Group 2</u> | <u>Total</u> |
|-----------------------------|----------------|----------------|--------------|
| <u>At December 31, 2018</u> | | | |
| Expected loss rate | 0% | 100% | |
| Total book value | \$ 337,590 | \$ - | \$ 337,590 |
| Loss allowance | \$ - | \$ - | \$ - |

(iii) Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable are as follows:

| | |
|---------------------------------|---------------|
| | <u>2019</u> |
| At January 1 | \$ - |
| Provision for impairment | 169 |
| At December 31 | <u>\$ 169</u> |
| | <u>2018</u> |
| At January 1_IAS 39 | \$ 3,215 |
| Adjustments under new standards | - |
| At January 1_IFRS 9 | 3,215 |
| Write-offs | (2,215) |
| Gains on reversal of impairment | (1,000) |
| At December 31 | <u>\$ -</u> |

(iv) The aging analysis of accounts receivable that were past due but not impaired is as follows:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|----------------|--------------------------|--------------------------|
| Not past due | \$ 405,906 | \$ 329,899 |
| Up to 30 days | 5,895 | 5,258 |
| 31 to 90 days | 3,171 | 1,146 |
| 91 to 180 days | 1,742 | 1,287 |
| Over 180 days | 169 | - |
| | <u>\$ 416,883</u> | <u>\$ 337,590</u> |

Other financial assets

The Company transacts with multiple financial institutions counterparties with high credit ratings to mitigate credit risk, and thus, it expects that the probability of counterparty's default to be remote. The Company recognizes the impairment loss allowance for 12 months expected credit losses. No loss allowance was provided by the Company for the years ended December 31, 2019 and 2018.

Debt instruments at amortized cost

(i) The Company's investments in debt instruments at amortized cost were all issued by banks with high credit rating or companies with investment grade rating, and they were all classified as Group 1. As the probability of default is remote, the Company recognizes

the impairment loss allowance for 12 months expected credit losses.

| <u>Internal credit risk ratings</u> | <u>Company credit ratings by Taiwan Ratings</u> |
|-------------------------------------|---|
| Group 1 | twAAA~twA- |
| Group 2 | twBBB+~twBBB- |
| Group 3 | twBB+~twC |
| Impaired | twD |

(ii) Movements in loss allowance for investments in debt instruments carried at amortized cost are as follows:

| | <u>2019</u> | | |
|---------------------------------|------------------|---|-------------------------|
| | <u>12 months</u> | <u>Lifetime</u> | |
| | | Significant increase in credit risk | Impairment of credit |
| At January 1 | \$ 1,959 | \$ - | \$ - |
| Gains on reversal of impairment | (1,147) | - | - |
| At December 31 | <u>\$ 812</u> | <u>\$ -</u> | <u>\$ -</u> |
| | <u>2018</u> | | |
| | <u>12 months</u> | <u>Lifetime</u> | |
| | | Significant increase in credit risk | Impairment of credit |
| At January 1_IAS 39 | \$ - | \$ - | \$ - |
| Adjustments under new standards | 2,907 | - | - |
| At January 1_IFRS 9 | 2,907 | - | - |
| Gains on reversal of impairment | (948) | - | - |
| At December 31 | <u>\$ 1,959</u> | <u>\$ -</u> | <u>\$ -</u> |

(c) Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to repay financial debts with cash or other financial assets. The Company applies the expected cash flow approach to manage liquidity risk to ensure that the Company has sufficient funds to pay for all maturing debts and to meet all known capital requirements. The amounts disclosed here are the contractual undiscounted cash flows.

The Company's non-derivative financial liabilities will all mature within one year, except for non-current lease liabilities and guarantee deposits received which will mature over one year. As of December 31, 2019, the lease liabilities maturing within one year amounted to \$198,646, and the lease liabilities maturing over one year amounted to \$1,346,390.

(3) Fair value estimation

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair values of the Company's investments in beneficiary certificates are included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair values of the Company's investments in bank debentures, bonds and government bonds are included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair values of the Company's investments in unlisted stocks are included in Level 3.

B. Financial instruments not measured at fair value

Except for those listed in the table below, the carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable, net, other receivables, other financial assets, settlement and clearing debit items, compensation reserve, operations guarantee deposits, refundable deposits, securities lending and borrowing collateral payable, accrued expenses, settlement and clearing credit items, security borrowing performance bond payable, deposits received for borrowing securities collateral and guarantee deposits received) approximate their fair values.

| | December 31, 2019 | | | |
|------------------------------------|---------------------|-------------|---------------------|-------------|
| | Fair value | | | |
| Book value | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | |
| Financial assets at amortized cost | <u>\$ 4,048,201</u> | <u>\$ -</u> | <u>\$ 4,117,476</u> | <u>\$ -</u> |
| | December 31, 2018 | | | |
| | Fair value | | | |
| Book value | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | |
| Financial assets at amortized cost | <u>\$ 4,257,741</u> | <u>\$ -</u> | <u>\$ 4,313,993</u> | <u>\$ -</u> |

The methods and assumptions of fair value measurement are as follows:

Financial assets at amortized cost: If there is a quoted price in an active market, the fair value is based on the market price; if there is no quoted market price available, the fair value is determined by using valuation techniques or quotes from counterparties.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

| <u>At December 31, 2019</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------|----------------|---------------------|---------------------|
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value | | | | |
| through profit or loss: | | | | |
| Beneficiary certificates | \$ 1,939,850 | \$ - | \$ - | \$ 1,939,850 |
| Financial assets at fair value through | | | | |
| other comprehensive income: | | | | |
| Unlisted stocks | - | - | 3,824,315 | 3,824,315 |
| | <u>\$ 1,939,850</u> | <u>\$ -</u> | <u>\$ 3,824,315</u> | <u>\$ 5,764,165</u> |
| <u>At December 31, 2018</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value | | | | |
| through profit or loss: | | | | |
| Beneficiary certificates | \$ 2,414,701 | \$ - | \$ - | \$ 2,414,701 |
| Financial assets at fair value through | | | | |
| other comprehensive income: | | | | |
| Unlisted stocks | - | - | 3,929,251 | 3,929,251 |
| | <u>\$ 2,414,701</u> | <u>\$ -</u> | <u>\$ 3,929,251</u> | <u>\$ 6,343,952</u> |

D. The methods and assumptions the Company used to measure fair value are as follows:

- (a) If the Company used market quoted prices as the fair values of the instruments (that is, Level 1), the market quoted prices are the net value of funds or closing prices.
- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques. The fair value of financial instruments measured by using valuation techniques which refer to the current fair value of instruments with substantially similar terms and characteristics, discounted cash flow method or other valuation methods, including calculations based on models using market information available on the balance sheet date.
- (c) When assessing non-standard and low-complexity financial instruments, the Company adopts a valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- (d) The output of a valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial and non-financial instruments. Therefore, the estimated value derived from using a valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk, etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustments to valuation are necessary in order to reasonably represent the fair value of financial and non-financial

instruments on the balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

- E. For the years ended December 31, 2019 and 2018, there was no transfer between Level 1 and Level 2.
- F. For the years ended December 31, 2019 and 2018, there was no transfer into or out from Level 3.
- G. The Finance Department and commissioned appraisers are in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify the independent fair value of financial instruments. Such assessment is to ensure that the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the source of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating the valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to the valuation model used in Level 3 fair value measurement:

| | Fair value at December 31, 2019 | Valuation technique | Significant unobservable input | Relationship of inputs to fair value | |
|---|---------------------------------------|-----------------------------------|--|---|---|
| Unlisted stocks: | | | | | |
| Taiwan Futures Exchange Corporation | \$ 1,489,853 | Dividend discount method | Dividend growth rate (Note 1) Discount rate (Note 2) Average cash dividends over the last 5 years (in New Taiwan dollars) | 1.75% 7.62% 2.73 | The higher the dividend growth rate, the higher the fair value The lower the discount rate, the higher the fair value The higher the average cash dividends over the last 5 years, the higher the fair value |
| Taipei Financial Center Corporation | \$ 2,334,462 | Discounted cash flow method | Discount rate (Note 2) | 4.50% | The lower the discount rate, the higher the fair value |

| | Fair value at December 31, 2018 | Valuation technique | Significant unobservable input | Relationship of inputs to fair value | |
|---|---------------------------------------|-----------------------------------|--|---|---|
| Unlisted stocks: | | | | | |
| Taiwan Futures Exchange Corporation | \$ 1,339,038 | Dividend discount method | Dividend growth rate (Note 1) Discount rate (Note 2) Average cash dividends over the last 5 years (in New Taiwan dollars) | 1.75% 7.38% 2.36 | The higher the dividend growth rate, the higher the fair value The lower the discount rate, the higher the fair value The higher the average cash dividends over the last 5 years, the higher the fair value |
| Taipei Financial Center Corporation | \$ 2,590,213 | Discounted cash flow method | Discount rate (Note 2) | 4.12% | The lower the discount rate, the higher the fair value |

Note 1: Dividend growth rate was estimated based on Taiwan's long-run economic growth rate.

Note 2: Discount rate was estimated taking into consideration the capital cost structure and operational risk of Taiwan Futures Exchange Corporation and Taipei Financial Center Corporation, respectively.

- I. The Company has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in different measurements. The following is the effect on profit or loss or on other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to the valuation models have changed:

| | | December 31, 2019 | | | | |
|-------------------------------------|--|-------------------|----------------|--------------|----------------------|--------------|
| | | | Recognized in | | Recognized in other | |
| | | | profit or loss | | comprehensive income | |
| | | | Favourable | Unfavourable | Favourable | Unfavourable |
| | | Input | Change | Change | Change | Change |
| | | | Change | Change | Change | Change |
| Financial assets | | | | | | |
| Taiwan Futures Exchange Corporation | Dividend growth rate | ±1% | \$ - | \$ - | \$ 164,142 | \$ 116,157 |
| Taiwan Futures Exchange Corporation | Discount rate | ±1% | \$ - | \$ - | \$ 155,289 | \$ 109,782 |
| | Average cash dividends over the last 5 years (in New Taiwan dollars) | ± \$0.5 | \$ - | \$ - | \$ 138,290 | \$ 138,113 |
| Taipei Financial Center Corporation | Discount rate | ±1% | \$ - | \$ - | \$ 576,069 | \$ 437,712 |
| | | December 31, 2018 | | | | |
| | | | Recognized in | | Recognized in other | |
| | | | profit or loss | | comprehensive income | |
| | | | Favourable | Unfavourable | Favourable | Unfavourable |
| | | Input | Change | Change | Change | Change |
| | | | Change | Change | Change | Change |
| Financial assets | | | | | | |
| Taiwan Futures Exchange Corporation | Dividend growth rate | ±1% | \$ - | \$ - | \$ 146,499 | \$ 102,399 |
| Taiwan Futures Exchange Corporation | Discount rate | ±1% | \$ - | \$ - | \$ 138,815 | \$ 97,054 |
| | Average cash dividends over the last 5 years (in New Taiwan dollars) | ± \$0.5 | \$ - | \$ - | \$ 136,309 | \$ 136,309 |
| Taipei Financial Center Corporation | Discount rate | ±1% | \$ - | \$ - | \$ 680,046 | \$ 511,502 |

J. Changes to level 3 financial instruments for the years ended December 31, 2019 and 2018 are as follows:

| | <u>Equity instrument</u> |
|---|--------------------------|
| At January 1, 2019 | \$ 3,929,251 |
| Losses recognized in other comprehensive income | (104,936) |
| At December 31, 2019 | <u>\$ 3,824,315</u> |
| | <u>Equity instrument</u> |
| At January 1, 2018 | \$ 3,495,932 |
| Gains recognized in other comprehensive income | 433,319 |
| At December 31, 2018 | <u>\$ 3,929,251</u> |

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

In accordance with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges”, the Company’s related information of significant transactions is as follows:

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries and associates): Please refer to table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company’s paid-in capital: Please refer to table 2.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to Note 7.

(2) Information on investees

Names, locations and other information of investees: Please refer to table 3.

14. SEGMENT INFORMATION

Not applicable.

TAIWAN STOCK EXCHANGE CORPORATION
HOLDING OF MARKETABLE SECURITIES AT THE END OF THE PERIOD (NOT INCLUDING SUBSIDIARIES AND ASSOCIATES)
DECEMBER 31, 2019

Table 1

Expressed in thousands of New Taiwan Dollars
(Except as otherwise indicated)

| Marketable securities | Relationship with the securities issuer | General ledger account | As of December 31, 2019 | | | Footnote |
|--|---|---|------------------------------------|---------------------|---------------------|----------|
| | | | Number of shares (in thousands) | Book value | Fair value | |
| Beneficiary Certificates | | | | | | |
| Yuanta Taiwan Top 50 | None | Financial assets at fair value through profit or loss - current | 538 | \$ 52,159 | \$ 52,159 | None |
| SinoPac Strategies Fund No.1 | " | Financial assets at fair value through profit or loss - current | 38,820 | 505,435 | 505,435 | " |
| Mega Taiwan Blue Chip 30 | " | Financial assets at fair value through profit or loss - current | 167 | 4,046 | 4,046 | " |
| Cathay fund | " | Financial assets at fair value through profit or loss - current | 25,000 | 317,750 | 317,750 | " |
| Cathay Korea/Taiwan IT Premier ETF | " | Financial assets at fair value through profit or loss - current | 214 | 4,635 | 4,635 | " |
| Fubon FTSE TWSE Taiwan 50 ETF | " | Financial assets at fair value through profit or loss - current | 200 | 10,720 | 10,720 | " |
| Fubon TWSE Corporate Governance 100 | " | Financial assets at fair value through profit or loss - current | 258 | 6,208 | 6,208 | " |
| Fubon Taiwan Strategic No.1 | " | Financial assets at fair value through profit or loss - current | 12,983 | 214,225 | 214,225 | " |
| Fubon Taiwan Strategic No.2 | " | Financial assets at fair value through profit or loss - current | 29,105 | 527,965 | 527,965 | " |
| Fubon Interest Income fund | " | Financial assets at fair value through profit or loss - current | 29,940 | 296,707 | 296,707 | " |
| | | Total financial assets at fair value through profit or loss - current | | <u>\$ 1,939,850</u> | <u>\$ 1,939,850</u> | |
| Stocks | | | | | | |
| Taiwan Futures Exchange Corporation | None | Financial assets at fair value through other comprehensive income - non-current | 17,707 | \$ 1,489,853 | \$ 1,489,853 | None |
| Taipei Financial Center Corporation | " | Financial assets at fair value through other comprehensive income - non-current | 83,853 | 2,334,462 | 2,334,462 | " |
| | | Total financial assets at fair value through other comprehensive income - non-current | | <u>\$ 3,824,315</u> | <u>\$ 3,824,315</u> | |
| Financial bonds | | | | | | |
| Taiwan Cooperative Bank bond (G12425) | None | Financial assets at amortized cost - current | - | \$ 199,955 | \$ 200,411 | None |
| Taiwan Cooperative Bank bond(G12425)-1 | " | Financial assets at amortized cost - current | - | 300,369 | 300,617 | " |
| Deutsche Bank Aktiengesellschaft Acting Through Its Singapore Branch as Issuer | " | Financial assets at amortized cost - current | - | 172,170 | 199,218 | " |
| Taipei Fubon Subordinated Bank Bond 102-1 (G107B9) | " | Financial assets at amortized cost - current | - | 199,956 | 201,015 | " |
| Hua Nan Commercial Bank bond (G189AB) | " | Financial assets at amortized cost - current | - | 499,889 | 504,483 | " |
| | | Total financial assets at amortized cost - current | | <u>\$ 1,372,339</u> | <u>\$ 1,405,744</u> | |

| Marketable securities | Relationship with the securities issuer | General ledger account | As of December 31, 2019 | | | Footnote |
|--|---|--|------------------------------------|---------------------|---------------------|----------|
| | | | Number of shares (in thousands) | Book value | Fair value | |
| Financial bonds | | | | | | |
| Mega Bank bond (G11836) | None | Financial assets at amortized cost - non-current | - | \$ 301,765 | \$ 303,654 | None |
| Mega Bank bond (G11837) | " | Financial assets at amortized cost - non-current | - | 202,667 | 202,715 | " |
| Chinatrust Commercial Bank bond (G11469) | " | Financial assets at amortized cost - non-current | - | 199,955 | 205,278 | " |
| SinoPac Bank 101-1 Subordinate Financial Debentures-B (G11092) | " | Financial assets at amortized cost - non-current | - | 200,482 | 204,312 | " |
| Agricultural Bank of Taiwan bond (G13104) | " | Financial assets at amortized cost - non-current | - | 201,493 | 204,421 | " |
| Agricultural Bank of Taiwan bond (G13104-1) | " | Financial assets at amortized cost - non-current | - | 99,987 | 102,211 | " |
| Land Bank of Taiwan bond (G12719) | " | Financial assets at amortized cost - non-current | - | 202,141 | 204,298 | " |
| Shin Kong Bank bond (G11649) | " | Financial assets at amortized cost - non-current | - | 201,558 | 204,506 | " |
| Shin Kong Bank bond (G11652) | " | Financial assets at amortized cost - non-current | - | 102,002 | 102,213 | " |
| Cathay United Bank bond (G179C1) | " | Financial assets at amortized cost - non-current | - | 304,337 | 308,459 | " |
| Taishin International Bank bond (G19983) | " | Financial assets at amortized cost - non-current | - | 103,960 | 106,204 | " |
| 08 Taiwan Business Bank 1A | " | Financial assets at amortized cost - non-current | - | 199,968 | 199,764 | " |
| | | | | <u>2,320,315</u> | <u>2,348,035</u> | |
| Corporate bonds | | | | | | |
| Taiwan Power Company 4th Unsecured Corporate Bond-B Issue in 2011 (B903UK) | None | Financial assets at amortized cost - non-current | - | 101,296 | 101,811 | None |
| CPC Corporation 101-2 Secured C (B71872) | " | Financial assets at amortized cost - non-current | - | 100,704 | 101,655 | " |
| Taiwan Power Company 5th Unsecured Corporate Bond-B Issue in 2012 (B903V3) | " | Financial assets at amortized cost - non-current | - | 100,645 | 102,041 | " |
| | | | | <u>302,645</u> | <u>305,507</u> | |
| Government bonds | | | | | | |
| Taiwan Government Bond A097105 | None | Financial assets at amortized cost - non-current | - | 52,902 | 58,190 | None |
| | | Total financial assets at amortized cost - non-current | | <u>\$ 2,675,862</u> | <u>\$ 2,711,732</u> | |

TAIWAN STOCK EXCHANGE CORPORATION
ACQUISITION OR SALE OF THE SAME SECURITY WITH THE ACCUMULATED COST EXCEEDING \$300 MILLION OR 20% OF THE COMPANY'S PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019

Expressed in thousands of New Taiwan Dollars
(Except as otherwise indicated)

Table 2

| Marketable securities | General ledger account | Counterparty | Relationship with the investor | Balance as of January 1, 2019 | | Acquisition | | Disposal | | | Gain (loss) on disposal | Balance as of December 31, 2019 | | Note |
|-------------------------------|---|--------------|--------------------------------|---------------------------------|------------|---------------------------------|------------|---------------------------------|---------------|--------------|-------------------------|---------------------------------|-----------|------|
| | | | | Number of shares (in thousands) | Amount | Number of shares (in thousands) | Amount | Number of shares (in thousands) | Selling price | Book value | | Number of shares (in thousands) | Amount | |
| Yuanta Taiwan Top 50 | Financial assets at fair value through profit or loss - current | - | - | 7,315 | \$ 552,283 | 3,954 | \$ 323,071 | (10,731) | \$ 942,283 | \$ (942,283) | \$ - | 538 | \$ 52,159 | Note |
| Sinopac TWD Money Market Fund | Financial assets at fair value through profit or loss - current | - | - | 21,926 | 304,838 | - | - | (21,926) | 304,972 | (304,972) | - | - | - | " |
| Fubon Interest Income fund | Financial assets at fair value through profit or loss - current | - | - | - | - | 29,940 | 300,000 | - | - | - | - | 29,940 | 296,707 | " |

Note: The ending balance would not exactly reconcile to the beginning balance add/deduct the amount of acquisitions/disposals, as the fair value adjustments were included in the selling price and the carrying amount of securities.

TAIWAN STOCK EXCHANGE CORPORATION
 NAMES, LOCATIONS AND OTHER INFORMATION OF INVESTEES
 FOR THE YEAR ENDED DECEMBER 31, 2019

Table 3

Expressed in thousands of New Taiwan Dollars
 (Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held as of December 31, 2019 | | | Net profit (loss) of the investee for the year ended December 31, 2019 | Investment income recognized by the Company for the year ended December 31, 2019 | Footnote |
|--|--|--|--|---------------------------------|---------------------------------|-------------------------------------|---------------|---------------|--|--|--|
| | | | | Balance as of December 31, 2019 | Balance as of December 31, 2018 | Number of shares (in thousands) | Ownership (%) | Book value | | | |
| Taiwan Stock Exchange Corporation | Taiwan Depository & Clearing Corporation | 11F, No. 363, Fusing N. Rd., Taipei City | Custodian of securities and other services | \$ 583,107 | \$ 583,107 | 192,050 | 50.59% | \$ 13,524,205 | \$ 2,514,076 | \$ 1,271,887 | The Company's subsidiaries |
| " | Taiwan-Ca Inc. | 10F, No. 85, Yanping S. Rd., Taipei City | Online verification services | 87,720 | 87,720 | 7,557 | 30.23% | 106,142 | 50,981 | 15,668 | " |
| " | Taiwan Index Plus Corporation | 11F.-1, No.36, Songren Rd., Taipei City | Index compilation, maintenance and dissemination | 150,000 | 150,000 | 15,000 | 100.00% | 164,025 | 11,395 | 11,395 | " |
| " | Taiwan Ratings Corporation | 49F, No. 7, Sec. 5, Sinyi Rd., Taipei City | Credit rating services | 15,045 | 15,045 | 1,399 | 19.99% | 27,849 | 38,583 | 7,713 | The investee company accounted for using the equity method |
| Taiwan Depository & Clearing Corporation | Fundrich Securitites Co., Ltd. | 8F, No. 365, Fusing N. Rd., Songshan Dis., Taipei City | Sales of funds | 439,834 | 439,834 | 33,985 | 56.64% | 354,641 | (11,695) | - | - |
| " | Taiwan-Ca Inc. | 10F, No. 85, Yanping S. Rd., Taipei City | Online verification services | 9,700 | 9,700 | 4,521 | 18.08% | 61,568 | 50,981 | - | - |
| " | Taiwan Ratings Corporation | 49F, No. 7, Sec. 5, Sinyi Rd., Taipei City | Credit rating services | 13,300 | 13,300 | 1,330 | 19.00% | 26,470 | 38,583 | - | - |
| Taiwan- Ca Inc. | Taiwan Ratings Corporation | 49F, No. 7, Sec. 5, Sinyi Rd., Taipei City | Credit rating services | 4 | 4 | 1 | 0.01% | 4 | 38,583 | - | - |

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars)

STATEMENT 1

| <u>Item</u> | <u>Description</u> | <u>Amount</u> |
|---------------------------|---|---------------------|
| Cash and cash in banks | | |
| Checking accounts | | \$ 975 |
| Demand deposits | | 1,326,020 |
| Foreign currency deposits | USD 1,432 thousand, exchange rate 29.98 | 42,941 |
| | RMB 5,227 thousand, exchange rate 4.305 | 22,501 |
| | Other currencies | 382 |
| Cash equivalents | | |
| Commercial papers | Interest rate between 0.53%~0.56% | 4,832,669 |
| | | <u>\$ 6,225,488</u> |

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars)

STATEMENT 2

| <u>Item</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|---------------------------------------|--------------------|-------------------|---|
| Trading fees | | \$ 287,929 | |
| Data processing fees | | 33,954 | |
| Royalty fees | | 31,742 | |
| Others | | <u>63,258</u> | The aggregate amount of individual items included in this category does not exceed 5% of the balance. |
| | | 416,883 | |
| Less: Allowance for doubtful accounts | | (<u>169</u>) | |
| | | <u>\$ 416,714</u> | |

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

STATEMENT 3

| Name | Balance, January 1, 2019 | | Addition (Note 1) | | Decrease (Note 2) | | Balance, December 31, 2019 | | | Market Value or Net Assets Value | | Basis for Valuation | Collateral |
|--|--------------------------|----------------------|-----------------------|---------------------|-----------------------|---------------------|----------------------------|-------------------------|----------------------|----------------------------------|---------------|---------------------|------------|
| | Shares (in thousands) | Amount | Shares (in thousands) | Amount | Shares (in thousands) | Amount | Shares (in thousands) | Percentage of Ownership | Amount | Unit Price (NT\$) | Total Amount | | |
| Taiwan Depository & Clearing Corporation | 187,366 | \$ 12,822,045 | 4,684 | \$ 1,370,021 | - | (\$ 667,861) | 192,050 | 50.59% | \$ 13,524,205 | \$ 70.42 | \$ 13,524,205 | Equity method | None |
| Taiwan-Ca. Inc. | 7,557 | 102,900 | - | 15,668 | - | (12,426) | 7,557 | 30.23% | 106,142 | 13.62 | 102,922 | Equity method | None |
| Taiwan Index Plus Corporation | 15,000 | 168,755 | - | 11,395 | - | (16,125) | 15,000 | 100% | 164,025 | 10.94 | 164,025 | Equity method | None |
| Taiwan Ratings Co. | 1,399 | <u>27,780</u> | - | <u>7,713</u> | - | (<u>7,644</u>) | 1,399 | 19.99% | <u>27,849</u> | 19.91 | 27,849 | Equity method | None |
| | | <u>\$ 13,121,480</u> | | <u>\$ 1,404,797</u> | | <u>(\$ 704,056)</u> | | | <u>\$ 13,822,221</u> | | | | |

Note 1: Including investment income and other comprehensive income accounted for using the equity method.

Note 2: Including cash dividends paid by the investees and other comprehensive loss accounted for using the equity method.

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF ACCRUED EXPENSES
DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars)

STATEMENT 4

| <u>Item</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|--|--------------------|---------------------|---|
| Salary and bonus payable | | \$ 485,854 | |
| Promotion and advertisement payable | | 231,763 | |
| Employees' compensation payable | | 130,240 | |
| Electrification fees payable | | 90,838 | |
| Payables to securities settlement service fees | | 57,306 | |
| Others | | <u>152,824</u> | The aggregate amount of individual items included in this category does not exceed 5% of the balance. |
| | | <u>\$ 1,148,825</u> | |

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars)

STATEMENT 5

| <u>Item</u> | <u>Amount</u> | <u>Note</u> |
|------------------------------------|---------------------|-------------|
| Personnel | | |
| Salaries | \$ 1,102,586 | |
| Pension | 231,579 | |
| Employees' compensation | 131,978 | |
| Others | 17,989 | Note |
| | <u>1,484,132</u> | |
| General and administrative | | |
| Securities settlement service fees | 594,594 | |
| Depreciation | 567,134 | |
| Electrification fees | 401,941 | |
| Promotion and advertisement | 319,540 | |
| Amortization | 171,445 | |
| Taxes | 133,430 | |
| Others | 548,940 | Note |
| | <u>2,737,024</u> | |
| | <u>\$ 4,221,156</u> | |

Note: The aggregate amount of individual items included in this category does not exceed 5% of personnel or general and administrative expenses.

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF THE JOINT SETTLEMENT AND CLEARING FUND
DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars)

STATEMENT 6

| Securities Company | | | Securities Company | | |
|--------------------|--|-----------|--------------------|-------------------------------------|-----------|
| Code | Name | Amount | Code | Name | Amount |
| 102 | Taiwan Cooperative Securities Co., Ltd. | \$ 35,475 | 505 | TACHAN SECURITIES CO., LTD. | \$ 15,993 |
| 103 | LANDBANK OF TAIWAN | 18,488 | 511 | FULL LONG SECURITIES CO., LTD. | 10,984 |
| 104 | BANK OF TAIWAN DEPARTMENT OF SECURITIES | 44,055 | 526 | TA CHING SECURITIES CO., LTD. | 23,742 |
| 111 | TAIWAN BUSINESS BANK | 21,053 | 532 | GOLDEN GATE SECURITIES CO., LTD | 8,332 |
| 116 | JIH SUN SECURITIES CO., LTD. | 77,858 | 538 | FIRST SECURITIES INC. | 45,315 |
| 123 | CHANG HWA COMMERCIAL BANK, LTD. | 10,799 | 546 | PAO SHIN SECURITIES CO., LTD. | 4,990 |
| 126 | HORIZON SECURITIES CO., LTD. | 37,941 | 560 | YUNG SHIN SECURITIES CO., LTD. | 7,907 |
| 136 | Macquarie Capital Limited, Taiwan Securities Branch | 94,924 | 566 | FORTUNE SECURITIES CO., LTD. | 4,598 |
| 138 | CL Securities Taiwan Company Limited | 85,808 | 585 | PRESIDENT SECURITIES CORPORATION | 91,406 |
| 144 | Merrill Lynch Securities (Taiwan) Limited. | 134,532 | 586 | YING YI SECURITIES CO., LTD. | 5,315 |
| 147 | MORGAN STANLEY TAIWAN LIMITED | 146,540 | 587 | KUANG LONG SECURITIES CO., LTD. | 4,580 |
| 148 | GOLDMAN SACHS (ASIA) L.L.C. TAIPEI BRANCH | 95,641 | 592 | MASTERLINK SECURITIES CO., LTD. | 110,301 |
| 152 | CREDIT SUISSE AG, TAIPEI SECURITIES BRANCH | 132,634 | 596 | JEE MACH SECURITIES CO., LTD. | 6,457 |
| 153 | DEUTSCHE SECURITIES ASIA LIMITED, TAIPEI BRANCH | 46,949 | 601 | Primasia Securities Company Limited | 19,770 |
| 156 | NOMURA INTERNATIONAL (HONG KONG) LTD., TAIPEI BRANCH | 52,287 | 611 | TAICHUNG COMMERCIAL BANK | 15,082 |
| 157 | SG SECURITIES (HK) LTD., TAIPEI BRANCH | 29,714 | 616 | CHINATRUST SECURITIES CO., LTD. | 35,886 |

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF THE JOINT SETTLEMENT AND CLEARING FUND (Cont.)
DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars)

STATEMENT 6

| <u>Securities Company</u> | | | <u>Securities Company</u> | | |
|---------------------------|--|---------------|---------------------------|--|---------------|
| <u>Code</u> | <u>Name</u> | <u>Amount</u> | <u>Code</u> | <u>Name</u> | <u>Amount</u> |
| 159 | Citigroup Global Markets Taiwan Securities Co., Ltd. | \$ 96,550 | 621 | NEW HUNDRED KING SECURITIES CO., LTD. | \$ 5,199 |
| 165 | UBS SECURITIES PTE.LTD., TAIPEI BRANCH | 118,929 | 638 | KUANZ HO SECURITIES CO., LTD. | 9,624 |
| 218 | ORIENTAL SECURITIES CO., LTD. | 21,311 | 645 | YUNG CHUAN SECURITIES CO., LTD. | 7,097 |
| 220 | Yuanta Futures Co., Ltd. | 5,296 | 646 | DAH CHANG SECURITIES CO., LTD. | 14,553 |
| 221 | CAPITAL FUTURES CORP. | 5,799 | 648 | GRAND FORTUNE SECURITIES CO., LTD. | 14,331 |
| 662 | CHUAN TAI SECURITIES CO., LTD. | 3,752 | 856 | SHIN KONG INTERNATIONAL SECURITIES CO., LTD. | 34,280 |
| 691 | RELIANCE SECURITIES CO., LTD. | 15,095 | 858 | UNION BANK | 13,882 |
| 695 | FUSHAN SECURITIES CO., LTD. | 5,152 | 871 | SUNNY SECURITIES CO., LTD. | 8,779 |
| 700 | MEGA SECURITIES CO., LTD. | 77,800 | 877 | DA-DIN Securities Co., Ltd. | 5,804 |
| 703 | CONCORD INTERNATIONAL SECURITIES CO., LTD. | 18,179 | 884 | E.SUN SECURITIES CO., LTD. | 52,993 |
| 707 | FENG LONG SECURITIES CO., LTD. | 4,844 | 888 | CATHAY SECURITIES CO., LTD. | 102,027 |
| 708 | BRIDGE STONE SECURITIES CO., LTD. | 4,068 | 889 | Daiwa-Cathay Capital Markets Co., Ltd. | 33,699 |
| 767 | DA-DIN Securities Co., Ltd. | 4,465 | 890 | BNP PARIBAS SECURITIES (TAIWAN) CO., LTD. | 31,253 |
| 775 | PEI CHENG SECURITIES CO., LTD. | 4,916 | 896 | HSBC SECURITIES (TAIWAN) CO., LTD. | 55,400 |
| 779 | WATERLAND SECURITIES CO., LTD. | 53,567 | 910 | CAPITAL SECURITIES CORP | 89,394 |
| 815 | TAISHIN SECURITIES CO., LTD. | 39,949 | 920 | KGI Securities Co. Ltd. | 193,532 |
| 838 | ANTAY SECURITIES CO., LTD. | 6,669 | 930 | HUA NAN SECURITIES CO., LTD. | 84,924 |

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF THE JOINT SETTLEMENT AND CLEARING FUND (Cont.)
DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars)

STATEMENT 6

| <u>Securities Company</u> | | | <u>Securities Company</u> | | |
|---------------------------|---|---------------|---------------------------|--------------------------------|---------------------|
| <u>Code</u> | <u>Name</u> | <u>Amount</u> | <u>Code</u> | <u>Name</u> | <u>Amount</u> |
| 844 | J.P. MORGAN SECURITIES (TAIWAN) LIMITED | \$ 133,903 | 960 | FUBON SECURITIES CO., LTD. | \$ 110,559 |
| 845 | CONCORD SECURITIES CO., LTD. | 42,789 | 980 | Yuanta Securities Co., Ltd | 287,046 |
| 849 | WAN TAI SECURITIES CO., LTD. | 4,281 | 9A0 | SinoPac Securities Corporation | <u>112,497</u> |
| 852 | CHUNG NOURN SECURITIES CO., LTD. | 4,453 | 9A0 | Total | <u>\$ 3,413,996</u> |

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF SETTLEMENT AND CLEARING FUND AND CREDIT FACILITIES WITH BANKS
DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

STATEMENT 7

| Banks name | Credit Facilities (Note 1) | Deposit Amount (Note 2) | Interest Rate | Other conditions | Pledged time deposits recognized as settlement and clearing fund |
|------------------------------------|----------------------------|-------------------------|---|--|--|
| | NTD | | | | |
| Cathay United Bank | \$ 7,000,000 | \$ 1,543,000 | Interest is paid monthly based on the weighted average interest rate of pledged time deposits plus agreed interest rate. Other collateral (government bonds and financial bonds) are still paid monthly based on the weighted average interest rate of pledged time deposits plus an agreed interest rate. | 1. Interest is calculated under the average daily balance method. 2. Fully pledged with time deposits, government bonds or financial bonds provided. | \$ 700,000 (Note 1) |
| Yuanta Commercial Bank | 1,000,000 | - | Interest is paid monthly based on the weighted average interest rate of pledged time deposits plus an agreed interest rate. | 1. Interest is calculated under the average daily balance method. 2. The loan amount is based on 90% of the amount of time deposits provided. | - |
| Mega International Commercial Bank | 1,000,000 | 168,000 | Interest is paid monthly based on the weighted average interest rate of pledged time deposits plus an agreed interest rate. Other collateral (government bonds and financial bonds) are paid monthly based on Mega International Commercial Bank's one-year time deposits floating rate plus an agreed interest rate. | 1. Interest is calculated under the daily overdraft average method. 2. Fully pledged with time deposits, government bonds or financial bonds. 3. This credit limit is cancellable without any condition. The Bank can cancel the limit at any time without prior notice. | - |
| Taiwan Cooperative Bank | - | 179,000 | None. | None. | - (Note 3) |
| Land Bank of Taiwan | 2,000,000 | 1,522,600 | Interest is paid monthly based on the weighted average interest rate of pledged time deposits plus an agreed interest rate. Other collateral (government bonds and financial bonds) are paid monthly based on Land Bank of Taiwan's one-year time deposits floating rate plus an agreed interest rate. | 1. Overdraft interest is calculated under the average daily balance method. 2. Fully pledged with time deposits, government bonds or financial bonds. | - |
| | <u>\$ 11,000,000</u> | <u>\$ 3,412,600</u> | | | |

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF SETTLEMENT AND CLEARING FUND AND CREDIT FACILITIES WITH BANKS (Cont.)
DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

STATEMENT 7

| Banks name | Credit Facilities (Note 1) | Deposit Amount (Note 2) | Interest Rate | Other conditions | Expressed in thousands of US dollars Pledged time deposits recognized as settlement and clearing fund |
|--------------------|----------------------------|-------------------------|---|------------------|---|
| | <u>USD</u> | | | | |
| Cathay United Bank | \$ 10,000 | \$ - | Interest is paid based on 1-month LIBOR plus an agreed interest rate. | None. | - (Note 1) |

Note 1: The Company had entered into a loan agreement with financial institutions in the amount of \$11 billion and US\$10 million and provided time deposit of \$2 billion to Cathay United Bank as collateral to preempt the need of securities companies applying for advances required for fulfilling settlements and other revolving funds for emergency use as a result of securities companies defaulting on their settlement obligations or natural disaster. The loan amount has not been drawn down. The aforementioned time deposits were recorded under the compensation reserve in the amount of \$750 million, the special clearing fund in the amount of \$550 million, and the settlement and clearing fund in the amount of \$700 million.

Note 2: Deposit amount is the balance of time deposits recognized in settlement and clearing fund at each financial institution.

Note 3: As of December 31, 2019, the Company did not apply for credit renewal with Taiwan Cooperative Bank.

TAIWAN STOCK EXCHANGE CORPORATION
STATEMENT OF THE UTILIZATION OF SETTLEMENT AND CLEARING FUND
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars)

STATEMENT 8

1. Details of settlement and clearing fund for 2019 are as follows:

| | |
|---|---------------------|
| Beginning balance of settlement and clearing fund (excluding yields from settlement and clearing fund) | \$ 3,401,749 |
| Additions | 253,459 |
| Reimburse settlement and clearing fund to the securities companies | (241,212) |
| Ending balance of deposits from securities companies | 3,413,996 |
| Yields from settlement and clearing fund | 13,488 |
| Ending balance of settlement and clearing fund | <u>\$ 3,427,484</u> |

2. Utilization

| <u>Bank</u> | <u>Type of deposit</u> | <u>Annual rate (%)</u> | <u>Amount</u> |
|--|------------------------|------------------------|---------------------|
| Land Bank of Taiwan | Time deposits | 0.18~1.07 | \$ 1,522,600 |
| Mega International Commercial Bank | " | 0.1~0.59 | 168,000 |
| Taiwan Cooperative Bank | " | 0.14~0.66 | 179,000 |
| Cathay United Bank | " | 1.07 | 1,543,000 |
| | | | <u>3,412,600</u> |
| Yields receivables from settlement and clearing fund | | | 1,399 |
| Settlement and clearing fund in Cathay United Bank | | | 13,122 |
| Prepaid income tax from settlement and clearing fund | | | 12 |
| Administration fees for settlement and clearing fund | | | 351 |
| | | | <u>\$ 3,427,484</u> |